Corporate Responsibility in Singapore

The new competitive advantage

CORPORATE CITIZENSHIP
Part of The Good Relations Group

Contents

Introduction

Many companies in Asia have a long history of playing an active role in society. Philanthropic donations are a common way of giving back to communities. Many businesses have employee volunteering programmes and environmental initiatives such as energy saving and recycling.

Pioneering businesses are taking the bold step of linking corporate responsibility to competitive advantage.

Today we are witnessing a seismic shift in what responsible business practices mean in countries around the world, including Singapore. Pioneering businesses are taking the bold step of linking corporate responsibility (CR) to competitive advantage. They are managing their social, environmental and economic impacts to create value for different stakeholders in society. We are also detecting increasing evidence that well-managed CR programmes can create real value for businesses too.

The benefits of CR include stronger relationships with key stakeholders and enhanced reputations with customers for many companies. But some elaborate on a wider range of opportunities.

Our study reveals that half of the largest companies in Singapore link CR to competitive advantage. They articulate how CR helps to manage risks, build resilience, realise financial savings, and provide a springboard for innovation. We compare this emerging trend with global best practice, drawing on our experience of working with leading companies around the world over the last 15 years.

Different companies use words such as "sustainability", "CSR" and "shared value". We use the term corporate responsibility to refer to how organisations voluntarily manage environmental, social and economic issues to reduce their negative effects and maximise their positive impacts.

Responsibly-run companies provide a wealth of benefits to society. We suggest that the future of CR in countries like Singapore may lie in benefits to the business being built-in. This powerful win-win combination provides the opportunity to make a long-term commitment to create a positive impact. We outline the four steps that any business can take to realise the maximum value from a CR strategy today.

The Asian Century

Asia could account for half of the world's output and have an additional 3 billion people with high living standards by the middle of this "Asian Century", according to the Asian Development Bank.[1]

If this dream is realised, the growth in the size and power of many companies in the region will be profound. Most stakeholders accept that businesses have a key role to play in solving some of the big issues facing the region. Climate change, poverty, governance, product safety, human rights and corruption have been cited as some of the most significant topics for companies in Asia to address.[2]

Asia is a hugely diverse region and CR practices vary dramatically from country to country, as well as between businesses. In this paper, we focus on the experience of Singapore – often regarded as the crossroads of East-West trade and a melting pot of cultures - to shed light on the shape of CR in the region today.

Previous research suggests that CR in Singapore is characterised by a central role for government, but in collaboration with unions and employers. It has also been suggested that CR has a "somewhat ambivalent, if not patchy, presence in Singapore".[3]

This could be changing. The institutional drivers have been shifting and creating new pressures on businesses to respond. Philanthropy has traditionally been a central part of CR, particularly for many family-owned businesses. But new approaches have emerged in recent years that make it timely for a study to compare Singapore's experience with global benchmarks.

With any fast-growing economy, expectations of global standards in products and services often rise, accompanied by an increased desire and ability to challenge and expect more from businesses. This presents multiple opportunities for companies, but also clear risks if firms do not keep up with expectations.

Governments and other institutions are promoting CR through a variety of guidelines and mechanisms. A barrage of different environmental and social standards, platforms and indices are emerging. The Dow Jones Sustainability Index launched an Asia Pacific Index in 2009. This now includes around 20% of the top 600 companies in developed Asia Pacific markets.[4] In Singapore, incentives such as the Green Mark Scheme for the construction industry, or Grant for Energy Efficient Technologies (GREET), serve to bring about greater CR efforts from businesses.

The booming number of CR and sustainability reports is another clear indicator of the development of the field. According to a recent study, the number of companies producing CR reports in Singapore jumped 77% in 2012.[5] Increasingly, Singaporean companies are undertaking reporting based on best practice guidance such as the Global Reporting Initiative (GRI).

All these trends point towards CR playing a more significant role in the internal processes of Singaporean businesses. But with any change, there are also new challenges. From our experience of helping companies approach these issues strategically, we are often asked the same questions:

1. **Which are the most important stakeholder concerns for my business to address?**
2. **How do we identify our biggest business impacts – both negative and positive?**
3. **Where should we focus attention and what metrics should we set?**
4. **How is it best to communicate and explain what we are doing?**

Some of the world's most successful companies are answering these questions through viewing CR as a driver of competitive advantage.

The Competitive Advantage Approach

Corporate Citizenship's Competitive Advantage approach sets out to simplify things. We explain the four key areas that any business can focus on in order to realise the commercial benefits of CR.

We like to think of CR as a bit like a ship: there are the visible benefits 'above the surface' that can be shown to the outside world. But the hidden value lies beneath the surface.

1 REPUTATION AND RELATIONSHIPS

are the visible effects of CR programmes that lie above the surface. Companies are engaging with key audiences as part of a dialogue on CR, producing reports, winning awards, and communicating CR initiatives to customers. Employees are also a key audience for many companies: effective CR can help to attract, motivate and retain the best employees.

There are many examples of companies in Asia using CR to enhance their reputation. Our research indicates that this is by far the most popular 'business benefit' for corporate responsibility today (see: page 6, The Singapore Study).

EXAMPLES:
Singapore Airlines, OCBC Bank and **DBS Bank** support a number of community initiatives through high-profile sponsorships as part

2 FINANCIAL SAVINGS

are the monetary benefits from reducing inefficiencies, tackling waste and minimising hazards. Cutting energy and greenhouse gas emissions, improving worker safety and reducing waste in production can improve the bottom line. Sometimes these benefits can be realised quickly, but often the payback periods can take years.

EXAMPLES:
Chinese electronics factories that invest in responsible worker conditions can improve productivity, raise profit margins and reduce employee turnover – with a payback period of 4-20 months, according to a study by **KPMG.**[9]

CapitaLand announced in July 2013 that operational efficiencies through energy and water reduction had provided cost avoidance in excess of S$35 million for utilities since 2009.[10]

City Developments expects to save $712,000 per year after installing infrastructure upgrades at one of Singapore's largest skyscrapers. The company anticipates a payback period of five years or less.[11]

3 RISKS AND RESILIENCE

refers to how businesses minimise vulnerabilities and anticipate upcoming issues. For example, because Asia is particularly exposed to natural disasters,[12] understanding the dynamics of the supply chain can make companies more resilient to shocks and disruptions. Engaging with governments and not-for-profits can help to prepare for upcoming regulations (perhaps ahead of competitors) or respond to campaigns that risk harming reputation.

EXAMPLES:
Golden Agri-Resources uses stakeholder engagement to identify and respond to new issues from governments, customers, not-for-profits and local communities.[13]

of their CR programmes. These provide the opportunity for their brand to be associated with their community efforts.[6]

Standard Chartered sought to restore trust following the financial crisis among clients in the region through launching a "new brand promise" called "Here for good" that promotes its role in the community through an advertising campaign.[7]

Starhub, Singapore's local telecom , recently entered into the global rankings of the Top 100 Most Sustainable Corporations. Starhub has made a public pledge to 'Go Green' in the long haul. This follows a 6-Point Commitment Policy made in 2009 – regarded as a formalisation of its commitment.[8]

The deeper, 'below the surface' benefits are more strategic. They are harder to measure but provide the depth and stability for the company and ensure a smooth ride in the long-term. The Competitive Advantage approach identifies four areas to realise the value for both the business and society from corporate responsibility.

It has an excellent track record of working with the Forest Trust in addressing palm oil production issues of concern to international customers. Furthermore, in June 2013, when Singapore, Malaysia and Indonesia saw haze pollution reach hazardous levels, Golden Agri-Resources responded quickly to say that they were "working very closely with the Indonesian government and all relevant parties such as civil society organisations, local communities and other growers to put out the fires".[14]

HSBC has developed a series of risk policies for investment in sensitive sectors such as defence, mining and forest products. Customers of the bank are monitored for compliance levels as part of a programme to reduce sustainability risks that are faced around the world.[15]

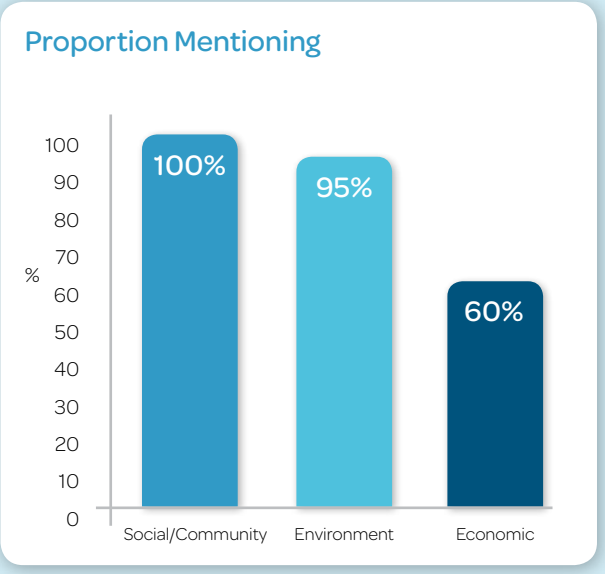
4 **INNOVATIVE INSIGHTS** are the benefits that accrue from developing new processes, business models, products and services through the lens of corporate responsibility. For example, some companies are sourcing raw materials or distributing products in ways that enhance worker livelihoods. Others sell products that provide safe drinking water, affordable housing or low-cost renewable energy. These bring tangible benefits to society as well as financial benefits to the business. Innovative insights can be the hardest for the company to spot, but they provide the most transformational opportunities and genuine evidence for a strong and trusted brand in the long-term.

EXAMPLES:
SingTel, Southeast Asia's largest telco company, has set targets as part of its sustainability programme to engage with its customers through social media and pioneer better e-services. The company launched a suite of ICT solutions in November 2012 to help corporate customers and governments to "improve productivity and lower their operating costs effectively."[16]
Unilever has recruited and trained a network of women entrepreneurs in poor, rural areas of India, Bangladesh, Sri Lanka and Vietnam. They have expanded the consumer goods company's sales whilst doubling the household incomes of the 'Shakti' entrepreneurs.[17]

The Singapore Study

We undertook a detailed review of the 20 largest companies in Singapore (according to the Forbes Global 2000 list). The aim was to understand their current strategies, targets and reporting on CR – and compare this to a global benchmark.

The scope of CR and the targets set varied quite markedly. All of the companies included some social or community aspects in their CR programme. This included initiatives on health and safety, HR, labour rights and community partnerships.



95% also mentioned the environment, covering everything from small-scale recycling initiatives through to strategic plans to develop low carbon fuels.

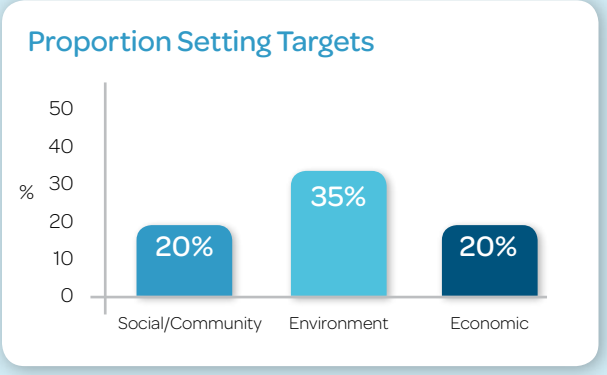
But the economic component noticeably lagged behind the other dimensions of sustainability. 60% mentioned activities such as job creation, enhancing livelihoods or supporting the economy in other ways. Others, such as **SingTel**, identified sustainable business growth and new market opportunities as the economic component of their strategies.

Target Setting

The setting of targets was much less widespread. We looked for whether there were any published quantitative or qualitative targets in each of the three areas. The majority of large firms had set no targets. One in three had set environmental targets. Social and economic targets were only evident in one in five of all the companies in the sample.

Conversely, global best practice companies publish robust targets so that stakeholders can hold them to account. For example, **Walmart** reports against 42 short, medium and long-term metrics in its 2013 Global Responsibility Report.

Critics may allege that an absence of targets means CR is not a priority for the company.



Compared with global best practice, the analysis suggests Singaporean businesses are less likely to have published measurable goals for their CR programmes. The risk of this approach is that critics may allege that an absence of targets means that CR is not a priority for the company. By making a public commitment to targets, companies can show that their commitment to CR is for the long-term.

One potential solution will be for companies to set targets on CR issues that are intended to drive business performance as well as social outcomes. Companies that undertake a systematic approach to impact assessment often find that the greatest benefits the business brings to society are in the economic sphere. There are a number of different approaches to understanding this impact, but a credible system of metrics can help with effective target setting. By overlooking the positive economic impacts of the business – in areas such as job creation, salaries, local procurement and tax contributions - businesses in Singapore are potentially underrepresenting the role that they play.

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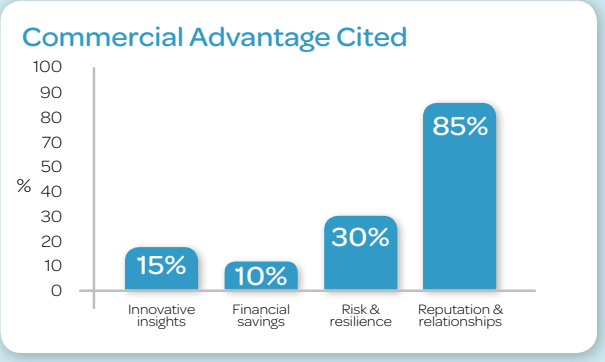
Commercial Advantage

Whilst many companies focus on community involvement and environmental initiatives, some have

begun to link CR to the commercial goals of the firm and articulate how it is contributing to business success.

For example, 35% of large Singaporean companies included an aspect of their CR as part of the commercial strategy of the business. For example, **Keppel Corporation** has a mission statement to "execute our business profitably, with Safety and Innovation, guided by our three key business thrusts of Sustaining Growth, Empowering Lives and Nurturing Communities."

We used Corporate Citizenship's Commercial Advantage framework (see pages 4-5) to identify which potential benefits were stated as motivators for Singaporean companies' CR programmes.



The vast majority (85%) provided evidence that **reputation** and **relationships** are a reason for doing CR. This includes prominent sponsorships, winning awards and building relationships with employees through activities such as volunteering.

In total, half of the companies cited evidence that CR was intended to create some other type of commercial advantage. The most popular was **risk** and **resilience**: 30% mentioned that this was a significant component of CR, meaning that it was either expressed as an objective or a benefit from the programmes.

Fewer mentioned **financial savings** or **developing innovative insights** such as products and services that meet social needs.

Some global companies provide evidence of a wider range of commercial advantages. For example, **General Electric** has reported that its 'Ecomagination' line of sustainable products has resulted in revenues of over $105 billion since its launch.[18]

It is notable that companies in Singapore place emphasis on different areas of competitive advantage, but there appears to be variation between sectors. For example, cost savings can be easier to calculate in manufacturing and property, whilst risk is a more pressing priority for agricultural companies. It is likely that further examples of competitive advantage could emerge in the coming years as the evidence for linking CR to commercial success becomes more widespread.

Engagement

Stakeholder engagement is a popular way for companies to understand what different organisations expect them to address and report on. Just under half of the companies (45%) referred to engagement in some form. But only 30% of the companies explained how this engagement had shaped their programme or reporting, such as through a materiality matrix.

This indicates that the real value of engagement is not always being realised and communicated back to stakeholders who may have given input. For example, from the global benchmark, **Royal Dutch Shell** presents a materiality matrix in their reporting, illustrating the role of stakeholders in prioritising issues and shaping their reporting.

Just under half of Singaporean companies have produced a separate, stand-alone CR report in the last 2 years.

Reporting

Unsurprisingly, integrated reporting is very popular amongst the largest companies in Singapore due to the guidance for listed firms. 95% dedicated a substantive section of their most recent annual report to CR (100% of listed firms). But there is a large degree of variation in how CR is integrated into financial reporting.

Conversely, just under half of the Singaporean companies (45%) have produced a separate, stand-alone CR report in the last 2 years.

This is in sharp contrast to the global benchmark. We found that 65% of the largest 20 companies in the world undertake some form of integrated reporting.[19] However, a full 85% produce a stand-alone report - including **Volkswagen, Apple, JP Morgan, Citi, HSBC, BP, Samsung** and **PetroChina.**

This means that large global companies are twice as likely as Singaporean ones to produce a CR report that provides detailed information to specialist audiences. It illustrates how, perhaps as a result of the push towards integrated reporting, many companies in Singapore have not yet capitalised on the opportunity to report on CR to audiences other than investors.

Singaporean companies are also slightly less likely to engage in major global initiatives. We found that 35% were signatories to the UN Global Compact (compared to 40% of global benchmark) and 20% are listed in the Dow Jones Sustainability Yearbook 2013 (compared to 25% globally).

A Guide to Managing CR for Competitive Advantage

Whether just starting out or ready to make a step-change to the next level, we advise companies to follow a four-step process to capture the most value for business and society from CR:

1 **Know your stakeholders and understand their issues.** Stakeholder engagement should identify what the expectations are of the business today as well as spot upcoming risks and opportunities. Representatives of governments, employees, not-for-profits and customers can provide valuable contributions to shape CR programmes and reporting. Many companies find that an independent assessment of their most recent CR report can provide crucial insights into potential gaps as well as fresh ideas for new focus areas.

2 **Assess your impacts.** What are the most significant risks and opportunities from the perspective of the business? How do you create value for society? Understanding the most important social, environmental and economic impacts can help to answer these questions. Corporate Citizenship's audit tool and impact assessment frameworks are designed to deliver tangible outcomes and help focus attention on where it matters. This can also help to prioritise investments to make the most effective business case for a strategy.

3 **Develop a strategy.** A strategic approach to CR means prioritising the external and internal issues as part of a materiality assessment. Effective strategies are driven by business priorities, focus on material issues and are aligned with external expectations. Performance indicators should be set to drive progress forward. An implementation plan makes a strategy more than just a piece of paper – it gives a roadmap to improve performance, monitor the right metrics and enhance company impacts.

4 **Communicate and engage.** Regular reporting in a transparent manner is crucial to building trust, enhancing reputation and explaining to stakeholders how CR benefits society and is a real commitment of the business. Engaging the right audiences – whether corporate stakeholders, employees, shareholders or government – can be enhanced through credible reporting and independent assurance. Corporate Citizenship has reviewed and assured hundreds of reports for leading companies and provides detailed recommendations on how to improve the effectiveness of CR programmes.

Where Next for Corporate Responsibility?

Corporate responsibility in South-East Asia is undergoing a period of dynamic evolution. Ambitious companies want to be global players. That means global standards in all aspects of their business operations, whilst remaining true to their heritage and unique culture. By understanding global CR standards and best practice, businesses can ensure that they act as global citizens. It means their programmes can create the most value for everyone involved.

The future of corporate responsibility will also involve the world learning from Asia. Companies in the region will bring their own experiences to the global stage of how to marry a responsibility to society with the opportunities of commerce. Companies in Asia often have a particularly nuanced understanding of how to build strong stakeholder relations. Asian values such as reciprocity, harmony with nature and respect for others are highly relevant cultural frameworks for sustainability.

For Singapore, the lessons learnt from integrated reporting can no doubt provide a wealth of knowledge for other companies now grappling with these challenges. As the world's centre of gravity shifts east, a massive and powerful new audience of consumers will have their own views on the responsibilities of companies. So the future flows of knowledge will be two-way and we should all consider the role that we can play in sharing those insights.

In the long-term, the big issues facing the region like climate change, income inequality and community cohesion can only be tackled effectively if companies are part of the solution. Globally, the role of wealth creation and distribution is becoming increasingly shared between governments, businesses and other civic organisations. Companies are here to stay and so the onus is on businesses to demonstrate the value that they bring to society.

The future of corporate responsibility will also involve the world learning from Asia.... Asian values such as reciprocity, harmony with nature and respect for others are highly relevant cultural frameworks for sustainability.

Commerce can be a powerful force for change: providing jobs, new skills and investment. Useful products and services can create real social value. For the companies powering the Asian century, success lies in demonstrating that they meet society's needs in a way that creates value for all. By demonstrating a commitment to responsible business, they can provide the strongest foundations for the rest of the world to admire their contribution.

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About Corporate Citizenship

Corporate Citizenship is one of the longest standing specialist sustainability consultancies, working with corporations around the world to achieve their commitments to being responsible businesses, built on sustainable practices.

Founded in 1997, we're proud to be working with a huge variety of companies, large and small. Our highly experienced 35-strong team bring practical and pragmatic solutions to often complex challenges. Faced with the big issues confronting the world today, we passionately believe that companies are part of the solution, and we help make it happen. Corporate Citizenship is part of The Good Relations Group, owned by Chime Communications Plc and listed on the London Stock Exchange (CHW.L).

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