

Asia Business Council
Business Responses to Global Challenges
Tokyo – May 16, 2008

Introduction

Thank you for the opportunity to be with you today.

It is an honor and privilege to speak with you about a topic that is of central importance to our common future: sustainability, and the role of business in shaping and delivering a sustainable future.

When BSR got started in the early 1990s, the question we heard from companies most often was why sustainability is a business issue.

Today, we hear “why” much less often than we used to.

Business faces increasing scrutiny from everyone from bloggers to NGOs to governments. And, as companies expand globally or sell their goods into demanding export markets they find that the old ways of doing business don't work as well.

As importantly, companies are increasingly finding that meeting global challenges can spark innovation that creates market opportunities.

So the question for business today is how to make CSR an asset that strengthens business and also meets global challenges.

First, what is CSR? As many of you will know, it is NOT philanthropy. CSR is how companies make their money, not how they spend it.

All companies, to one degree or another, depend on government and public support for their right to do business. Sometimes this is obvious, as in the case of regulated utilities. Sometimes it is not so obvious, as it was for Nike, Monsanto and Shell, each of which had major consumer, employee and regulatory problems when they misjudged how new products, business models, and operations would be received.

CSR, then, is a comprehensive management approach that integrates consideration of social and environmental questions into business strategy, process and operations.

And CSR is now viewed as a fundamental measure of business leadership.

What are the leaders doing?

In my view, CSR should be viewed as a way to secure and extend business success.

Every industry sector has clear examples of how sustainability or CSR questions have often been a critical factor in determining success, from water for food and beverage companies, to access to medicines for the pharmaceutical industry; product safety and integrity for all consumer products, and the shift to a low-carbon economy for everyone.

What are leaders doing?

- Focusing on the sustainability matters most relevant to their companies' strategy. Beginning in the mid-1990s there was a tendency to take on every issue under the sun in the name of CSR. Now, to take just one example, China Mobile's CSR strategy is tied to new market development, focusing on products that serve rural villages, and being welcomed in Pakistan, where it made a major acquisition.
- Making sure that sustainability is integrated into core business functions – with accountability. Effectively done, CSR is thoroughly integrated into all aspects of a company's operations, rather than being added on to the PR department's functions. Here in Japan, Nissan has developed a comprehensive CSR management system that provides is integrated into unit and individual goals.
- Looking at sustainability as a driver of innovation. Zhang Yue, head of Broad Air Conditioning in China, has busily been developing air conditioning units that require less energy. ICICI Bank in India has developed banking services that push it into new markets and expanding its customer base. [I understand that later in this session Toshio Arima of Fuji Xerox will talk about how focused sustainability initiatives have led

to more than 200 patents for his company, an excellent example of this trend.] CSR emerged initially as risk avoidance – it has now matured into a way to identify and secure opportunities.

- Sustainable supply chains. We see companies in multiple industry sectors looking at the social and environmental conditions in their supply chains. Today, we see partnerships involving international buyers, local suppliers, and increasingly, local governments, in Cambodia, Jordan, Vietnam, and elsewhere.
- Building new coalitions and partnerships. Neville Isdell of the Coca-Cola Company is extending a partnership with the global NGO Greenpeace in Greenpeace's initial China Business Lecture later this month in Beijing. Just two weeks ago, Kleiner Perkins, one of Silicon Valley's leading venture capital firms, formed a relationship with Environmental Defense, asking the NGO to assess the environmental impacts of its investments.

Each of the examples I gave illustrates a shift away from CSR as risk management, or CSR as philanthropy, to CSR as a driver of sustainable business advantage.

Successful companies are aiming to build products and services that deliver sustainable value – and this imperative will only grow in the years ahead.

From “CSR in Asia” to “Asian CSR”

Asia has half or more of the world's population, and many of the fastest-growing economies in the world. We cannot and will not have a sustainable world without a sustainable Asia.

Two very important implications flow from this basic fact.

First, there is a need for more Asian voices to shape the global sustainability debate.

The modern concept of CSR arose in North America and Europe. Many of the companies most closely associated with CSR have been from those two

regions. But this is changing fast – and it should. New champions are emerging to make this a truly global phenomenon.

Second, Asian CSR should reflect Asian needs, principles, and social contracts.

While CSR is based on a set of common principles – sustainable use of resources, transparency, respect for people and communities – these principles should be applied in a manner appropriate to distinct operating environments.

There is a great deal of evidence to suggest that this transformation is taking place – we see it from Japan to Pakistan – and this is a highly welcome development.

Climate

No discussion of sustainability is complete without mention of climate change.

There is little doubt that this will reshape several aspects of the business environment.

As we move into the post-Kyoto world, it seems likely that regulatory and market schemes will emerge that will reward those who de-carbonize, and penalize those companies that don't.

Shell recently released its latest Energy Scenarios, which I recommend highly. They pose two scenarios, and the more optimistic vision still falls short of preventing what many scientists believe to be catastrophic effects.

This is no academic exercise.

This puts a new premium on the design of products and buildings. It means that the viability of supply chains may be re-assessed, and that significant negotiations will develop over who owns carbon emissions within those supply chains. Incentives will change concerning the material inputs to all aspects of business. And the risk of catastrophic events, and potentially social disruption, will raise the stakes on continuity planning.

This also means that business will need to wade into public policy dialogues over how climate change will be addressed. This happened at last winter's Bali Summit, there will be input into the Hokkaido G8 summit here in July, and there will be even more activity in the run-up to next year's UN Climate Conference in Copenhagen.

And it is a near certainty that the next American administration will take a different approach than the Bush White House has, meaning that the obstacle to movement from China and India is likely to be removed, or significantly lowered.

Business is playing a role through a variety of fora, and it is likely that business will be assessed not only based on their contribution to technological innovation, but also its role in shaping a low-carbon future.

Conclusion: the leadership challenge for business

The path towards significant economic growth, made possible by globalization, technological innovation, and rising productivity, co-exists, as always, with the potential for significant disruptions.

In addition to the usual potential for market dislocations, social and environmental questions can either be hurdles to progress or elements of success.

In this context, new forms of business leadership are needed to create sustainable value. CSR, done right, can be a key step in that direction.

As business leaders shaping the future of the most economically dynamic part of the world, you are defining where the engine of economic growth is taking us.

You also have the chance to leave a legacy that leverages business to reduce poverty, marshal our resources, and provide for healthy communities and societies.

That is true business leadership, and as the insert from *The Economist* says, "it's just good business."

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