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Economic Recession and Corporate Social Responsibility (CSR) in Singapore

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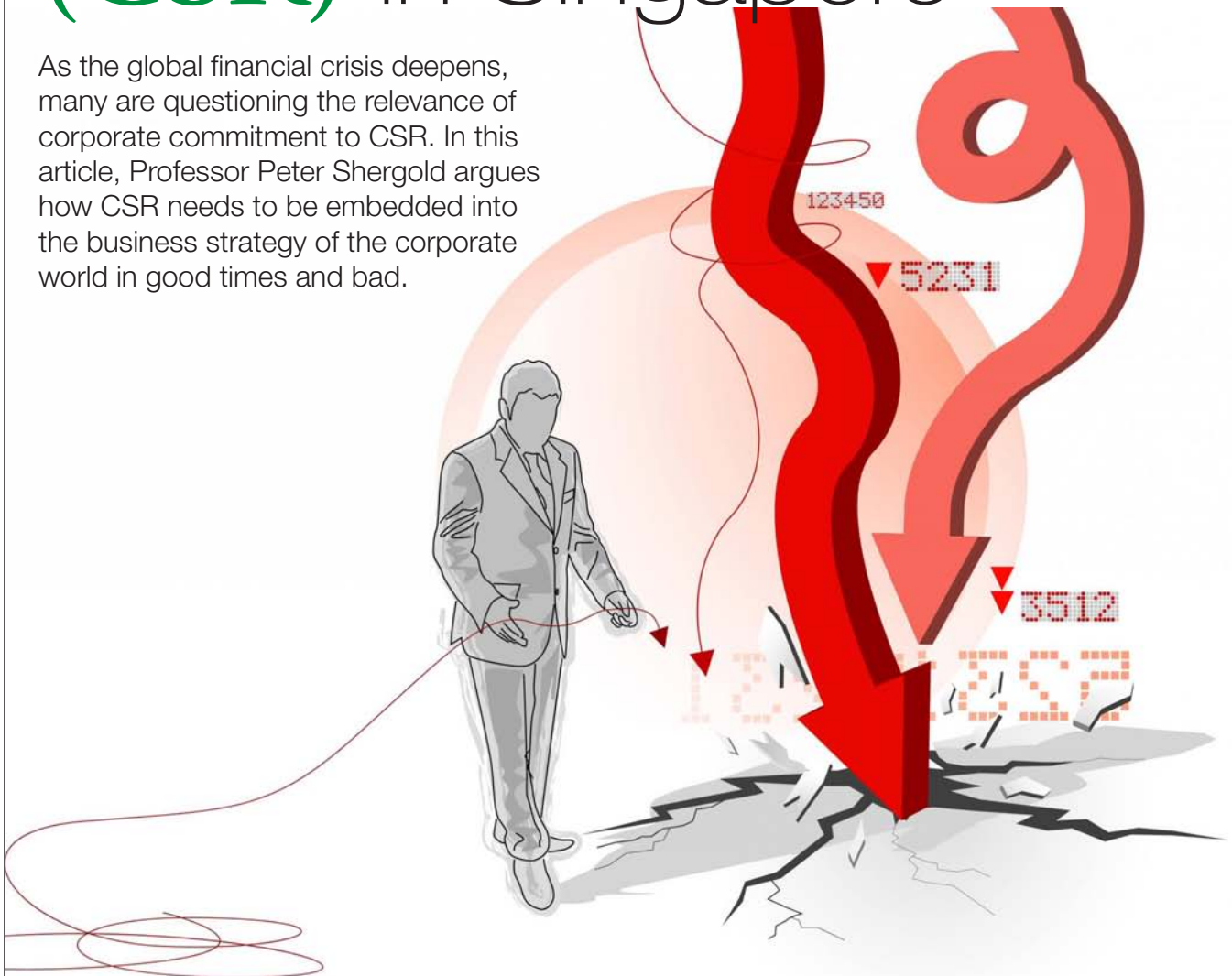
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ECONOMIC RECESSION and CORPORATE SOCIAL RESPONSIBILITY (CSR) in Singapore

As the global financial crisis deepens, many are questioning the relevance of corporate commitment to CSR. In this article, Professor Peter Shergold argues how CSR needs to be embedded into the business strategy of the corporate world in good times and bad.



The growth of corporate responsibility and sustainability in Singapore has been remarkable. In early 2004, a small survey conducted by Nottingham University Business School found that while levels of corporate social disclosure were rising in Singapore, employee awareness of CSR remained low.¹ A 2005 study of seven Asian countries confirmed a relatively low level of CSR penetration.² At the same time, a broader survey of 74 Singapore companies and 512 corporate executives in late 2004 and early 2005 revealed that while there was good understanding of the scope of CSR, actual practice revolved around philanthropy.³ A 2007 survey of Corporate Citizenship conducted by the Saw Centre for Financial Studies found that out of 482 Singapore-based companies which responded, 342 had made some contribution to philanthropy either in 2005 or in 2006 as a means of effecting beneficial social change in the community.⁴

Much has happened since that time. Singapore has sought to become a regional leader in CSR in a distinctively Singaporean way. This involves the state taking on a formative role both as promoter and practitioner. The government has brought the private sector and the labour movement together to coordinate a national approach to CSR.

In May 2004, a National Tripartite Committee on CSR was established and in January 2005 the Singapore Compact for CSR was formed as a collaborative forum between labour, business and the state. It was launched with the tagline 'Working Together, Doing Good'.⁵

The message spread. In early 2007, 41 Singapore companies signed up under the auspices of the UN Global Compact promising support for values such as human rights, fair labour standards and anti-corruption, a move portrayed as pledged commitment to CSR.⁶ By the time the inaugural issue of *Social Space* was published in 2008, Terry Alan Farris, then-UBS Head of Philanthropy Services in Asia Pacific, was able to remark that 'for multinational and Singaporean listed companies, a programme for corporate social responsibility is a must'. CSR activities had become 'a moral obligation, almost a 'license' for a company to operate'.⁷

As corporate support grew, Singapore – often through government leadership – hosted an increasing number of CSR conferences. In November 2008, the country reached a milestone when it hosted the Asian Forum on CSR, the largest and most significant conference and awards programme on CSR in the region. It was opened by Singapore's Minister of Community Development, Youth and Sports, Dr

As the scale and depth of the recession became apparent, challenges to the future of CSR were implicit in the agenda. The theme was 'Getting it Done'. The unspoken question was what exactly was 'it'?

Vivian Balakrishnan. It was a splendid occasion that exemplified Singapore's regional leadership in CSR.⁸

As the scale and depth of the recession became apparent, challenges to the future of CSR were implicit in the agenda. The theme was 'Getting it Done'. The unspoken question was what exactly was 'it'? Certainly the vision extended far beyond charity. Indeed there were five distinct award categories – best workplace practices, concern for health, environmental excellence, poverty alleviation and improvement of education.⁹

Each of these goals represents a worthwhile aspiration. The variety of things done under the name of CSR by companies has brought social benefits and public good. The initiatives often do, in the words of the Singapore conference, 'go beyond profits, compliance and form'. City Developments Limited (CDL) was a star performer. It won excellence awards in both the workplace practices category (for work-life harmony) and the environmental category (for their '1° Up' campaign and their initiatives in water recycling and silt water treatment).

Their success was not surprising. CDL had won Singapore's Corporate Citizen Award in 2006 and the President's Social Service Award in 2007. It is the only Singapore developer listed on London's FTSE4Good Index since 2002 and by 2008, was ranked top in Singapore and 7th in the region on CSR disclosure.

Are We There Yet?

However, the urgent question remains as to what exactly is being disclosed? Does the extraordinary breadth of CSR activities represent a coherent business strategy? Beyond the good public relations promoted by corporate communications, are CSR initiatives effectively integrated with the planning of companies as they grapple with falling demand, lower turnover, reduced margins and the challenges of debt in a tight

The lessons are now all too clear. The internal corporate behaviours that contributed greatly to the financial crisis can be characterised as unsustainable short-term decision-making, based on inadequate transparency, and risking enormous loss of value and reputation.

credit and equity market? It is worth remembering that interviews conducted with Singapore executives in early 2005 found that a majority 'perceived profitability as a pre-condition before their corporations would commit resources to CSR'.¹⁰ What then will happen to CSR in Singapore this year if, as predicted, the economy contracts between 2% and 5% and property prices fall by as much as 40%?

A major difficulty is that a concept that first emerged as 'corporate social responsiveness' in the 1970s still lacks definitional clarity. Certainly it is generally recognised that as 'good corporate citizens', CSR requires companies to do more than simply comply with the laws and regulations and meet the statutory requirements established by the state. The challenge is that beyond the bare minimum, there is a plethora of ways by which ethical standards, corporate values, social concern and environmental care can be demonstrated. Consequently, different companies and different stakeholder groups will emphasise different priorities.

In 2004, Singapore's Minister of State for Defence, Cedric Foo tackled the problem when he noted that the 'NTUC (National Trade Union Congress) advocates CSR from a worker's perspective while the Consumers' Association of Singapore (CASE) promotes CSR from a consumer protection perspective. The Singapore National Employers and Business Federations (SNEF and SBF) and other similarly established chambers promote CSR-related programmes to their members. The Ministry of Finance (MOF) and the MAS (Monetary Authority of Singapore) advocate CSR from a corporate governance perspective'.¹¹ And, Foo might have added, the National Council of Social Service (NCSS) and environmental groups would have their own distinctive priorities.

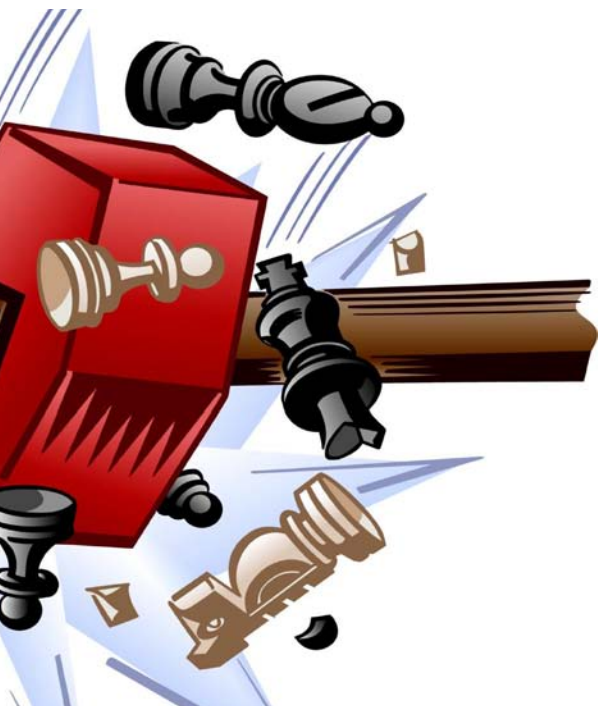
The questions are as clear as they are challenging. Is this extraordinarily diverse range of activities so inclusive that it is too vague to be conceptually useful? Is CSR merely the sum of its disparate parts?



How can one measure the social returns on corporate investment except through weighing and aggregating individual characteristics? In short, does CSR have any managerial substance and, if so, what is its character?

Corporate enterprises need to accept, in the words of Cedric Foo, that 'caring for employees, for communities and for the environment is not only politically and ethically correct, but also makes good business sense'.¹² Press releases by Singapore's companies affirm this. Singapore Press Holdings (SPH) Chief Executive Alan Chan, for example, has argued that good corporate citizenship is tantamount to good business.¹³ According to Professor Saw Swee-Hock's study of corporate citizenship in Singapore, doing 'good is increasingly being looked upon as a means of doing well by the new generation of corporate leaders'.¹⁴

The reality however is less persuasive. The 2004-2005 survey of Singapore corporations reveals a mixed picture. The well-worn rhetoric of business benefits was affirmed: 57% of companies believed CSR initiatives increased customer loyalty; 53% attested that they improved organisational culture and 35% agreed they helped attract and retain employees. Yet of the executives interviewed, nearly half – 49% – thought that CSR was largely a publicity issue and most equated CSR with philanthropic activities such as corporate donations and volunteerism. Responsibility for its oversight was firmly entrenched with executives from the areas of public affairs and



corporate communications. One frustrated employee noted 'that Singapore companies tend to see CSR as donating money to charities and putting out a statement so that people know that they have done it'.¹⁵ This is not unique to Singapore. I have heard a hard-bitten Australian businessman describe it as 'a launch, a lunch and a logo'.

As Good As it Gets?

This is not to say that what is done is tarnished. The benefits are certainly real. Rather it is to suggest that if CSR is not really perceived as a strategic benefit to business owners, then a significant reduction in their activities is to be expected. Of course, the easy argument is that doing good is good for business. But will it turn out instead that CSR is only good for business when business is good?

The expression of CSR in Singapore embraces multifarious activities. However the underlying rationale of the diversity seems to be coherent. Its economic justification appears to be built upon three pillars. First, CSR generates reputational capital (and establishes reputational advantage). Second, improved corporate performance comes from transparency of economic, social and environmental reporting. Third, good citizenship contributes to long-term corporate sustainability (by increasing loyalty from employees, customers and suppliers through creating a positive public image and enhancing relationships with governments which have the power to tax and regulate their activities).

Consider now what we already know of the origins of the global financial crisis. As the UN Global Compact office has noted, the financial markets' obsession with immediate gain served to destabilise markets and, in doing so, undermined confidence and trust.¹⁶ The structures of remuneration in many financial institutions were too often designed to reward short-term performance. Instruments were developed to bundle 'securitised' debt and equity in opaque and complex financial products that could be hedged or (most importantly) sold at grossly inflated values. Good banking practices of risk assessment were hopelessly compromised. Prudent management of interconnected risk was also significantly weakened. The complicated nature of the derivatives served to hide the lack of returns on the underlying assets.

The problem was not just that debt was cheap but that the price of risk was far too low. In that hot-house environment, leverage took the form of excessive reliance on borrowed money. The impact was extraordinarily powerful in the short-term, with corporate super-profits in the financial sector being reflected in huge individual rewards. The destruction of wealth and reputation that would accompany deleveraging was put aside as a matter for a tomorrow that might never come.

Business was conducted on the indefinite postponement of economic reality. Perverse incentives that actively encouraged and rewarded excessive risk-taking were common. Too often, salaries and performance bonuses were calculated on immediate paper profits rather than sustainable operational cashflows. Mortgage and securities brokers, together with credit analysts, had powerful financial incentives to understate risk in the shape of loan brokerage payments and financial commissions. The result was the creation of US\$600 trillion of derivatives, including credit swaps, that spread the contagion globally. Incentive payments vastly outstripped capital growth and financial institutions failed to increase their capital holdings to mediate potential risks.

The lessons are now all too clear. The internal corporate behaviours that contributed greatly to the financial crisis can be characterised as unsustainable short-term decision-making, based on inadequate transparency, and risking enormous loss of value and reputation. Greed was as much an outcome of systemic failure as a cause of it. The roots of collapse were the antithesis of the values that underpin CSR (to which, it should be noted, many of the financial institutions subscribed).



Undertaken (and evaluated) in a planned and holistic manner, interwoven CSR initiatives can build employee morale and consumer loyalty, create new markets, identify new investment opportunities and deliver cost savings (particularly through energy efficiencies).

There are two key messages to take from this. The first is that the aspirational goals of CSR have yet to be fully incorporated into the strategic planning of many businesses. For most business leaders surveyed by McKinsey on corporate philanthropy, the personal interests of the chief executive and the Board were perceived as more important (49% thought so) than alignment with business needs (only 23% agreed).¹⁷

Too often those who head the CSR units are not integrated into the top business team. Indeed, a salary survey in 2007 found that half of CSR and sustainability managers had never worked in another corporate function.¹⁸

The second message is that 'corporate responsibility' is frequently located in an organisational and conceptual silo, separated from 'business ethics' and 'ethical investment'. This is a recipe for failure. The outward-looking and internally-focused aspects of CSR need to be brought into alignment to be complementary. External engagement initiatives and internal management must be driven by the same strategic decision-making processes and corporate behaviour. Only by doing so can CSR move from superficiality to resilience.

The challenge to corporate responsibility brought by financial crisis and economic downturn, may – by putting CSR activities under the spotlight – revitalise the concept. To Wayne Visser, Founder and Chief Executive of CSR International, the challenge is analogous to that of the World Wide Web: namely for business to transform 'an old-style, philanthropy defined CSR 1.0' into a 'more revolutionary' CSR 2.0.¹⁹

A New Way Forward?

Success will depend on increased recognition of the need to align corporate responsibility initiatives with business strategy. Undertaken (and evaluated) in a planned and holistic manner, interwoven CSR initiatives can build employee morale and consumer loyalty, create new markets, identify new investment opportunities and deliver cost savings (particularly through energy efficiencies). Linked to competitive context, CSR can also add value to the company while contributing to society.

However, for 'CSR 2.0' to reach its potential more will be required. CSR needs a makeover. The question is whether reality can match rhetoric. That will require the goals of reputation, sustainability and accountability to be embedded in the organisational framework of corporate enterprise.

Can businesses link internal workplace strategies (such as remuneration; employment diversity, fairness and safety; risk management and energy efficiency) to external activities (embracing community engagement, human rights, social investment and environmental commitment)? Can they recognise the materiality of environmental, social and governance factors as long-term value drivers? Such a holistic approach may start with local philanthropy but will need to scale-up to embrace not only tier one employees but also the extended supply chain, customers and investors or shareholders. Corporate strategy needs to be integrated. Can a leadership culture be developed in which senior executives and board members are united behind goals of reputation and sustainability that are incorporated into the organisation structures, governance systems and reporting frameworks of their business?

These are important and far-reaching questions. They extend far beyond Singapore. Perhaps, beyond the dozens of ships anchored off port, waiting patiently for a cargo to transport, there lies a new horizon for CSR. ❖

⁵ Singapore Compact, "About Singapore Compact," 2005 <<http://csrsingapore.org/aboutus.php>>

⁶ "On Corporate Social Responsibility," *Channel NewsAsia*, April 21, 2007 <<http://csr.blogsome.com>>

⁷ Terry Alan Farris, "Singapore: The New Philanthropic Hub?" *Social Space*, 2008

⁸ "The Asian Forum on CSR (AFCSR) Opens in Singapore: Business Urged to Raise CSR Standards and Principles," November 20, 2008 <<http://www.asianforumcsr.com>>

⁹ "Winners of the Asian CSR Awards 2008 Announced," November 22, 2008 <<http://www.asianforumcsr.com>>

¹⁰ Krishnamurthy Sriramesh, et al., op. cit

¹¹ "Moulding the Corporate Social Responsibility Agenda," op. cit

¹² Chan Tsung Yi and Gary Sim, "Companies Urged to Play a Much Bigger Social Role," *NTUC News*, June 4, 2004

¹³ Alan Chan, "Outpouring of Support for Channel U's Ren Ci Charity Show," *SPH Press Release*, January 8, 2003

¹⁴ Saw Swee-Hock, op. cit

¹⁵ Krishnamurthy Sriramesh, et al., op. cit

¹⁶ UN Global Compact Office, "The Global Economic Downturn. Why the UN Global Compact and Corporate Sustainability are Needed More than Ever," October 17, 2008 <<http://www.unglobalcompact.org>>

¹⁷ McKinsey and Company, *Business's Social Contract: Capturing the Corporate Philanthropy Opportunity*, 2008

¹⁸ *Ethical Performance*, Financial Crisis Special, November 2008

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¹ Bala Ramasamy and Hung Woan Ting, "A Comparative Analysis of Corporate Social Responsibility Awareness: Malaysian and Singaporean Firms," Spring 2004 <<http://www.AllBusiness.com>>

² Knowledge @ SMU, "Moulding the Corporate Social Responsibility Agenda in Singapore," February 4, 2008 <<http://knowledge.smu.edu.sg>>

³ Krishnamurthy Sriramesh, Chew Wee Ng, Soh Ting Ting and Luo Wanyin, "Corporate Social Responsibility and Public Relations: Perceptions and Practices in Singapore," Paper presented at the International Communication Association, Dresden, Germany, reprinted in S. May, G. Cheney, J. Roper eds., *The Debate Over Corporate Social Responsibility*, Oxford, 2007

⁴ Saw Swee-Hock, *Corporate Citizenship in Singapore*, Saw Centre Financial Studies No. 4, Singapore, 2008



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