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GREATER COMPETITIVE ADVANTAGE  
"THE ROLE OF CSR IN ACHIEVING VISION 2020" SECURITIES  
COMMISSION**

Let me begin by first thanking the British High Commission and the Securities Commission for inviting me to deliver this morning's opening address of the Corporate Social Responsibility Conference.

The two organisers deserve to be congratulated for their efforts to host this conference. Corporate social responsibility, or CSR in short, is fast gaining prominence and is beginning to have profound effect on the conduct of business not only in Malaysia but across the world.

As you will no doubt be hearing from the many experts present, CSR is a subject that covers a wide spectrum of issues such as business ethics, corporate governance, socially responsible investing, environmental sustainability and community investment. CSR is perhaps best defined as a concept whereby enterprises integrate social and environmental concerns in their business operations and in their interactions with stakeholders, usually on a voluntary basis.

#### CSR and Vision 2020

Adoption of CSR entails a paradigm shift from the industrial-age notion that economic, social and environmental goals are always and invariably in conflict with one another. Underpinning CSR is a realisation that creating a more equitable society and promoting economic growth are not mutually exclusive goals.

Vision 2020 offers the perfect foundation for marrying these two seemingly conflicting objectives. Its aims go beyond just the attainment of material wealth and economic advancement. Tun Dr. Mahathir Mohamed, when presenting his groundbreaking paper *The Way Forward*, cautioned us all against making economic development the "be-all and end-all" of our national endeavours.

The ultimate aim of Vision 2020 is to establish a nation that is united, a Malaysian society infused by strong moral and ethical values, democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous. All these goals are of course underpinned by an economy that is competitive, dynamic, robust and resilient.

This holistic approach to modernization under Vision 2020

has been underscored and given additional impetus by our Prime Minister, Yang Amat Berhormat Dato' Seri Abdullah Ahmad Badawi. The recent launch of the National Integrity Plan (Pelan Integriti Nasional) and the Malaysian Integrity Institute (Institut Integriti Malaysia) demonstrates the Government's commitment to achieving economic progress that is consistent with good personal values and corporate ethics.

As part of this plan, the Government has outlined five strategic objectives to be achieved within the next five years. Among the key objectives is the need to enhance the standards of corporate governance and business ethics as well as improving the quality of life and the well being of the citizens. I believe these are the areas where the concept of Corporate Social Responsibility can and must play a significant role. I am certain that the introduction of the National Integrity Plan brings us closer to realizing Vision 2020's goal of creating a moral and ethical society, by addressing pressing fundamental challenges facing the Nation today.

It is interesting to note that three out of the nine challenges of Vision 2020 - a moral and ethical community, a fully caring culture and an economically just society - perfectly reflect the principles of CSR. To achieve the first challenge of a moral and ethical society, enterprises should embrace CSR best practices that help to maintain and raise ethical standards in business decision-making. Enterprises that are conscious of CSR will not just consider their own economic well-being, but also that of the society and environment in which they operate. This demonstration of caring and benevolent behavior on the part of the business sector reinforces the community spirit of the nation, and will help us to overcome the second challenge of building a fully caring society and culture.

CSR is also concerned with the mechanism by which wealth is distributed within society. Enterprises that make significant contributions to the communities in which they operate - whether in the form of funds, skills training, employment or knowledge transfer, are in fact contributing to equitable wealth redistribution. This helps to address the third challenge of an economically just society where there is a fair and equitable distribution of wealth, with full partnership in economic progress.

It is clear that CSR practices are important elements in achieving our national development goals. The need to nurture such practices among Malaysian corporates is obvious. As business leaders, it is incumbent upon you to drive the adoption of good CSR practices. Global developments show that large companies have been at the fore front of good corporate social responsibility. I believe that with our emphasis on balanced development of growth with equity, things should be no different here in Malaysia. On the contrary, we should be in fact leading the way.

## CSR and Corporate Performance

We should not mistake CSR practices as acts of charity or philanthropy. On the contrary, effective adoption of CSR has the twin effects of improving both short term and long term corporate performance.

Companies that have embraced CSR have found real and significant competitive advantages in the form of improved financial performance, enhanced brand image and reputation, an increased ability to attract and retain quality workforce, more effective risk management, reduced long term cost and attractiveness to increasingly sophisticated institutional investors.

CSR efforts also allow companies to distinguish themselves from competitors, and add value to their brand. Better brand value proposition translates to better client and customer satisfaction especially in a world where consumers, employees and investors are becoming more discerning. Brand reputations can be enhanced if the causes that such companies support and represent are ethically or socially laudable. The perception of the brand as socially responsible can often influence customer loyalty, lender and investor scrutiny, and ultimately reduce the cost of capital. From a national stand point, strong brands will also allow Malaysian companies to compete effectively in the global market.

Practising CSR has profound and far reaching impact within an organisation in terms of employee relations and talent management. Employees are also beginning to demand that their work and the organisations that they work for are aligned with their personal values. Employers who are unable to accommodate this will find their employees leaving for more compatible settings. Issues such as investing in human capital, promoting health and safety, empowering managers and achieving the ideal work-life balance all become central to good CSR practices. Vision 2020 regards the human capital as the ultimate and most important national resource. It requires us as a nation to focus on the development of our people as a matter of great urgency.

Again, companies that adopt CSR practices that benefit their employees, stand to gain in performance. Superior human resource management can have positive effects of raising a company's market value<sup>1</sup>. A recent study of 400 public companies by a global HR consulting firm found that a well managed workforce can contribute up to 30% of a company's market value. Other studies have shown that improving employee satisfaction can also enhance the financial performance of companies<sup>2</sup> by up to 40%.

## Role of the Stakeholders in Enhancing CSR

The participation of multiple stakeholders is essential to

bringing about an environment where CSR can thrive. Government policies and regulations can and do play an important role. As an example, there are minimum standards set down in law for environmental protection and health and safety, and enterprises are rightly compelled to comply with them. While the Government does play an important role in encouraging the development of CSR in the corporate sector, such practices and changes in corporate behaviour cannot be legislated into being by Acts of Parliament alone.

Beyond putting in place laws that promote CSR, the Government also acts as a facilitator. For example, the Ministry of Domestic Trade and Consumer Affairs and the Companies Commission of Malaysia have placed significant emphasis on CSR with the introduction of the Malaysian Business Code of Ethics and the Company Directors' Code of Ethics. Companies which are serious about CSR should consider the adoption of such codes of conduct as a good starting point.

The role of NGOs and professional bodies is also important to complement the Government's efforts to spur CSR. Through self regulation and raising public awareness and expectations, NGOs and professional bodies can place pressure on companies to go beyond their minimal statutory duties and legislative requirements. Efforts taken by bodies such as The Malaysian Accounting Standards Board to encourage greater disclosure of environment-related financial disclosures and the ACCA's findings on the State of Corporate Environmental Reporting should be applauded and continuously encouraged.

It is encouraging to note that the Malaysian corporate sector is beginning to embrace CSR in earnest. And Malaysian companies have shown that they can truly distinguish themselves in CSR when they are truly committed. The current list of 310 component companies on the Dow Jones Sustainability World Index (DJSI) includes two Malaysian companies<sup>3</sup>. This is an indication that there are Malaysian companies that have successfully adhered to some of the highest CSR standards for their particular industries benchmarked globally<sup>4</sup>. The Government would like to see more Malaysian companies included in the list, especially among major public-listed companies present here today.

I am pleased to recognise some of the many examples of commendable CSR initiatives undertaken by Malaysian companies. BAT Malaysia for instance, produces its annual Social Report highlighting critical issues of concern raised by the stakeholders and measures to overcome them. BAT Malaysia is also helping other BAT companies around the world to enhance their stakeholder engagements. This disclosure-based approach has also been adopted by Shell Malaysia with its Sustainable Development Report.

Government-linked companies have also been active in pursuing CSR initiatives. Tenaga Nasional, Telekom Malaysia,

Petronas and Sime Darby have all demonstrated great commitment to developing our nation's human capital through scholarships, educational funds and the establishment of major private universities.

On the environmental front, 26 Malaysian companies including Golden Hope Plantations Berhad and its subsidiaries have adopted the Malaysian Chapter of the Global Forest and Trade known as the "Kumpulan Khazanah Hijau". By subscribing to this, these companies have shown their commitment to responsible forest resource management through minimum certification standards.

These fine examples of CSR practiced by Malaysian companies should encourage others to take stock of current business practices and identify areas that would benefit from a CSR approach. Companies should assess whether they are doing enough to make voluntary disclosures to shareholders and other stakeholders. We hope that with more and more companies coming forward to make public their CSR track record, many others will be encouraged to follow suit. Apart from the Government, NGOs, professional bodies and companies, we should not forget the role of investment community in enhancing CSR. Globally, there is an increasing recognition that capital markets will be central to establishing the incentives that drive corporations towards CSR in the future. The power and clout of investors in enhancing CSR is best illustrated by the growing trend of Socially Responsible Investing (SRI).

SRI investments compel investors to take into account wider concerns, such as social justice, economic development, peace, healthy environment along with other conventional financial considerations. Good SRI funds should also be able to contribute towards social and environmental rewards that go beyond the direct financial return to the investors.

For Muslims, the concept of SRI is not something new as responsible investment is a religious duty rather than choice. The principles of responsible investing form important pillars for the 61 syariah-compliant funds available in the Malaysian market today. I believe over time, there will be a greater demand among both retail and institutional investors in Malaysia for public companies to practice CSR in all their activities, and ensure that companies combine their bottom line objectives with the needs and concerns of wider society.

The promotion of CSR is a long-term task that requires the collective support of all. The Government, NGOs, companies, investors, and other stakeholders have just started on this effort to raise the standards of corporate behaviour, accountability and action. Events such as this one today serve to provide a helpful primer on the issues, challenges and approaches we can and should adopt in pursuing greater corporate social responsibility. There is currently a great

surge of interest in this area globally as companies come to terms with greater expectations from their stakeholders.

I note that there will be various experts, both local and international, who will be addressing this conference over the next one and a half days. I would urge all of you to tap into the wealth of experience and expertise assembled. It is not just vital for the future of your enterprises but also if Malaysians are to succeed in addressing the social, cultural, environmental and economic challenges that lay in the way of achieving Vision 2020. I wish you a successful conference.

Thank you.

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1 Amernik, Jerry. Drake Business Review. Watson Wyatt Human Capital Index study (1999). A study of 405 public companies found that a well managed workforce can up to 30% of the company's market value.

2 Low, Jonathan & Kalafut, P.C. "Invisible Advantage" Perseus Press (2002). A study of 29 professional service firms in 15 countries highlighted that raising employee satisfaction by 20% can boost financial performance by more than 40%

3 Sime Darby and BAT Malaysia.

4 DJSI World comprises a total of 310 companies and screens stocks on the basis of a best-in-class approach. Categorized into 59 DJSI industry groups, companies are assessed in line with general and industry-specific criteria. They are compared against their peers and ranked accordingly. The leading companies in each industry globally are included in the DJSI.