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## INTRODUCTION

1. The title of this tripartite round-table meeting is “New paradigms for overcoming financial and economic crises in the Asia-Pacific region: Enterprise and society partnerships”. The Technical Report means to contribute to the achievement of the Round Table’s objectives by providing a number of critical inputs. The Round Table’s overarching objective is that participants – through their active contributions and against the backdrop of globalization and the Asian crisis – will learn more about innovative enterprise-level initiatives in each of three focal areas covered by the Round Table. It is expected that this knowledge will later be translated into strengthened regional practice in three interrelated areas:

- i) more effective and equitable **human resources management practice**, with special attention to progressive practices under conditions of enterprise restructuring;
- ii) strengthened and extended **corporate citizenship practice**, with focus on achieving improved community and skills development; and
- iii) improved realization of the **employment potential of small businesses** in the context of conditions emerging as a result of globalization and the Asian crisis.

2. This consultation aims at i) achieving a better and deeper understanding of newly emerging lessons of best practice within each of these areas and ii) learning how best to translate these lessons into concrete follow-up actions, policies and practice either individually or collectively by participants and their respective national institutions. In order to contribute most effectively to achieving these objectives in the context of all other papers and activities to be implemented in the Round Table, this Technical Report has been prepared according to the following criteria:

- i) it contains a summary that can be read and receive the active consideration of all participants;
- ii) it is comprehensive: all essential points and topics relevant to each section of the paper (see below) are identified and treated to an appropriate level of breadth and depth; and
- iii) details of enterprise level initiatives and specific case study materials provided elsewhere in the Round Table are not duplicated. This experience is brought into the Round Table’s process by a) the presentation and discussion of country and enterprise-specific case studies and b) by those fresh up-to-date experiences imported into the meeting’s deliberations by presentations made by participants themselves. This Technical Report will assist and encourage the understanding, presentation, discussion, and assimilation of these other Round Table inputs strengthening the effectiveness of the overall learning and application process. It also focuses on ways to inform individual and collective practice of participants and their institutions with the lessons of case-related experience.

3. The paper has the following four sections:

- ❖ **Background** – the context and background needed to understand better the genesis and purpose of this Round Table;
- ❖ **The broader context** – an explanation of the broader trends and context within which the three particular focal areas have emerged;
- ❖ **Discussing practice** – conceptual and analytic frameworks designed to better understand and focus discussion in each of the three main areas of the Round Table in more detail, including the structure and composition, origins, and past and current development of each area: a) human resources management; b) corporate citizenship practice; and c) small business development practice; and
- ❖ **Advancing practice** – guidelines for considering the advancement of national and enterprise practice in the three focal areas.

# 2

## BACKGROUND

4. This regional Round Table provides a tripartite setting in which to review, against the backdrop of rapid globalization and the Asian crisis, enterprise-level experiences in the main areas of human resources management, corporate citizenship, and the employment potential of small business. In this context it is vital that enterprises contribute to efforts to contain the social impact of the crisis, at the same time meeting their own challenges of survival in an increasingly competitive market place. While enterprise restructuring is generally dictated by pressures and trends related to globalization, the crisis has shown that some enterprises have been able to manage their restructuring processes relatively more efficiently and equitably within difficult conditions. As the region's economies begin to recover from crisis, a pressing need is also being felt to promote longer-term competitiveness and employment, areas in which small businesses can play an important role.

5. This specific meeting should be seen in the context of three convergent longer-term efforts being undertaken by the ILO. The first is the launching and continuation of a series of ILO Enterprise Forums. The second is a series of follow-up meetings related to the implementation of the Copenhagen Social Summit. And the third is a series of regional and headquarters meetings and other actions aimed at developing appropriate policy responses to the Asian crisis. The present Round Table is intended to advance the purposes and processes inherent in each of these areas of effort.

### Enterprise forums

6. Enterprise forums are an important component of overall ILO enterprise strategy. This strategy recognizes that enterprises are among the most important institutions of modern society. There are multinational enterprises that command resources as large as or greater than those of many national economies. In many developing economies, small-scale enterprises and vast numbers of informal sector units are the major generators of employment. Enterprises are important repositories of resources and knowledge, and are primary creators and distributors of wealth, value added, and employment. In fact, enterprises taken in their totality can be viewed as major agents of economic, social, and cultural change. It is thus essential for all other social and economic development actors to work with them in constructive partnership, more surely tapping and enhancing the realization of this potential. The economic and social significance of business has become even more pronounced with the currently deepening and extending trends towards deregulation, widespread privatization, and broad market-based reforms.<sup>20</sup>

7. The first ILO enterprise forum, conducted in 1996, was designed and implemented in keeping with the foregoing perspective. It was grounded in the principal objective of ILO enterprise strategy: "... to promote effective collaboration between the ILO and enterprises for economic and social development in the key areas of employment creation, human resources development, improved working conditions, and labour management relations based on enterprise growth, performance, and social

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<sup>20</sup>. Paragraphs 6 to 8 are drawn/adapted from ILO Enterprise Task Force: *ILO enterprise strategy*, a working paper (International Labour Office, Geneva, 1996).

equity in accordance with the basic principles of the ILO.” This strategy is also implemented on an ongoing basis by systematic work with the ILO constituents – governments and employers’ and workers’ organizations – to influence and help raise the awareness of all key social and economic development actors regarding how enterprises can become more involved and effective in meeting development challenges.

8. Within this overall strategy, the first enterprise forum broadly covered the important topics of enterprises and globalization, enterprises and jobs, increasing productivity and competitiveness, training for employability, job generation by micro and small enterprises, and social initiatives by enterprises. The overall theme of the second forum, scheduled for November 1999 in Geneva, Switzerland, will build on this previous work but extend coverage and sharpen focus to provide more in-depth treatment of enterprise competitiveness, corporate citizenship, and the employment challenges of the twenty-first century. More precisely, the themes of the 1999 enterprise forum include Human resources-based enterprise competitiveness, corporate citizenship, and social initiatives in tapping the employment potential of small business. The regional enterprise Round Table, being conducted in September 1999 in Bangkok, Thailand, is a precursor to this global meeting, and should be considered an important input to this broader event and the ongoing series of ILO enterprise forums. Primarily, however, it is an important regional event in its own right, advancing the foregoing enterprise agenda within the Asia-Pacific region in the context of the current crisis.

## **Social Summit follow-up**

9. In addition to constituting a vehicle for advancing the ILO’s enterprise agenda, recognizing the potential benefits achievable through better tapping the role of enterprises in the development process, the Round Table also represents an additional step by the ILO in the region to implement follow-up activities to the Copenhagen Social Summit. In this respect an Asian Regional Consultation on Follow-up to the World Summit for Social Development was held in Bangkok, Thailand, 13-15 January 1999. This was the first of a series of regional meetings held in preparation for a tripartite international meeting scheduled to take place in Geneva, 2-4 November 1999. This meeting will review action taken in response to the Copenhagen Declaration on Social Development, particularly Commitment No. 3 of the Declaration concerning full employment and the results achieved so far at the national level.<sup>21</sup>

10. The Bangkok consultation of January 1999 was attended by representatives of the ILO’s tripartite constituency and the ministry or agency in charge of economic planning from 12 countries and one special administrative region, as well as by several international and regional multilateral institutions. It comprised four technical sessions with the following themes: i) towards full employment in the Asia-Pacific region in times of financial crisis; ii) enterprise promotion and Human resources development; iii) the relationship of social dialogue to employment; and iv) how to integrate employment concerns into development planning. This consultation recognized that the financial crisis could be viewed as evidence of just how much certain aspects of globalization could impact the region, and that the Copenhagen Summit had clearly called for proper management of the process of globalization and mitigation of its negative impacts. As a consequence, recent experiences in Asia were considered particularly important for assessing the implementation of the Copenhagen Declaration. The Asian crisis clearly highlighted the importance of sound labour market institutions and safety-net systems, independent workers’ and employers’ organizations, and international commitment to fundamental human rights.

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<sup>21</sup>. Paragraphs 9 to 12 are drawn/adapted from ILO: *Report of the Asian Regional Consultation on Follow-up to the World Summit for Social Development*, Bangkok, 13-15 January 1999.

11. This consultation also recognized that a major positive step in support of these needs had already been taken. The 86th Session of the International Labour Conference in June 1998 adopted the ILO Declaration on Fundamental Principles and Rights at Work. This Declaration provides the ILO and its tripartite constituents with an important new instrument to promote the objectives of social progress adopted in Copenhagen, of which the goal of full employment is one crucial element. The reaffirmation of this goal was an endorsement of the ILO's earlier position that freely chosen productive employment must be the cornerstone of any strategy to combat poverty, inequity, and social exclusion.

12. The current tripartite round table will continue a general exploration of these four important themes which the Bangkok regional consultation considered as a follow-up to the social summit. But since the Round Table takes place in the context of the implementation of an enterprise strategy, it will sharpen the focus of these social summit concerns and look more specifically at what has and can be done by enterprises themselves as major actors in development to i) advance human resources management practice in the context of restructuring; ii) strengthen corporate citizenship initiatives and practice in terms of community development and the development of skills for employment in the context of the crisis; and iii) generate employment through improved small business development practice by larger enterprises and other development actors.

## **Responses to the Asian crisis**

13. In response to the Asian crisis, the ILO has conducted a substantial amount of analytical work that can facilitate the learning efforts contemplated by this Round Table. The 274th session of the Governing Body of the ILO in March 1999 reviewed a report entitled "Evolution of the Asian financial crisis and determination of policy needs and response"(GB274/4/2). Prepared by the ILO Secretariat, it outlines the evolution of the crisis, the framework of its causes and various impacts, and analyzes its social impacts and the specific effects on employment, wage rates, poverty, women workers, child labour, and migrant workers.

14. In considering criteria for appropriate ILO policy responses to the crisis, this document recognizes that the existence of strong social safety nets and mechanisms of social protection, such as unemployment insurance, would not alone have eliminated its economic and social hardships. They could have mitigated these, however. In addition, if the past period of virtually uninterrupted growth in the region were to prove to have been the exception rather than the rule, then there certainly will be an increasing need for institutional means to weather the social costs of future downturns.

15. The crisis also underscored the need to find ways by which to better forge social consensus. Many ILO constituents in East and South-East Asia have taken practical steps to activate or reactivate mechanisms for social dialogue, and tripartite approaches to difficult economic and social issues have visibly increased since the crisis. Their starting point, however, is low. In many countries of the region, the legal and behavioural climate for freedom of association needs to be improved, employers' and workers' organizations are conspicuously weak, and, where they exist at all, so are channels for social dialogue. This has resulted in an unequal distribution of the social costs of crisis. And weak social dialogue has played a part not only in the effects of the crisis, but also in its causes: the lack of dialogue allowed a negative climate in which crony capitalism and "moral hazard" could thrive to undermine economies and their potential to respond to internal or external shocks.

16. In general terms, it can thus be argued, “the strengthening of democratic institutions is central to the post-crisis economic model required. Free and fair electoral processes, freedom of expression and public debate, the rule of law, and the accountability of elected officials are among the attributes of democracy considered essential for preventing the harmful distortion of market processes by arbitrary government intervention and corruption. The recent crisis has shown that such arbitrariness has not only high economic but also high social costs. Thus, socio-economic considerations strongly reinforce the intrinsic value of democracy.”<sup>22</sup>

17. Enterprises and the business community can benefit from and contribute to these societal goals through good corporate citizenship in the broad sense. The implementation of this Round Table is intended to contribute to the development of stronger enterprise competitiveness and corporate citizenship culture by providing a better understanding of the context in which these can develop, and by providing concrete examples of ways to improve practice. This will support and strengthen the overall ILO response to the social crisis in the Asia region by making a general contribution to socially responsible corporate governance. It will also contribute to the specific efforts and initiatives undertaken by enterprises to protect and generate employment and to develop local communities and skills for increased employability in times of crisis.

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<sup>22</sup>. Paragraphs 13 to 16 are drawn or based on ILO Governing Body paper GB274/4/2: “Evolution of the Asian financial crisis and determination of policy needs and response”.

**Box 1****The ILO's new strategic orientation**

Following the ILO Governing Body meeting of November 1998, the ILO Director-General has set in motion a process of institutional strategic reorientation. The ILO is moving away from its previous structure, based on 39 major programmes, to a new one centred on four strategic objectives and a number of corresponding operational objectives.

Under each strategic objective, a number of international focus (InFocus) programmes of high priority and relevance have been identified. These cross-sectoral programmes concentrate efforts and attention on key ILO issues. Each of the eight InFocus programmes serves as an umbrella under which activities that serve a common objective are brought together to achieve greater focus and coherence in presentation and in the achievement of related operational objectives. The programmes will concentrate and integrate activities already underway, while responding to new needs and demands for maximum impact and coverage.

Development and gender are two cross-cutting issues within this new strategic orientation. Over the years, the ILO has contributed to a deeper understanding and enrichment of the concept of development, as well as to the processes necessary for attaining it. The 2000-01 programme activities will therefore have development as one central thrust. In formulating policies and programmes, the ILO also aims to combine principles of gender equality and equity in order to better combat persistent problems of discrimination and gender inequality. Gender issues and concerns will comprise a key element of all programme designs related to those of development.

The four strategic objectives and their eight associated InFocus programmes:

i) to realize fundamental principles and rights at work by

1. promoting the ILO Declaration on Fundamental Principles and Rights at Work
2. working for the progressive elimination of child labour

ii) to create greater opportunities for women and men to secure decent employment and income by

3. reconstruction and employment-intensive investment programmes
4. investing in knowledge, skills and employability
5. boosting employment through small enterprise development

iii) to enhance the coverage and effectiveness of social protection for all by promoting

6. safe work and security and productivity through safety and health at work
7. better economic and social security in the twenty-first century

iv) to strengthen tripartism and social dialogue by

8. strengthening the social partners.

Within those areas comprised by the strategic objectives and InFocus programmes, the ILO aims to be a centre of excellence providing valid knowledge, grounded advocacy, and quality services to its constituents.



# 3

## THE BROADER CONTEXT

18. This Round Table has been designed to examine emerging new paradigms of enterprise and society partnership within the effects of the financial and economic crisis in the Asia-Pacific region. As stated above, the Round Table fits into three major efforts currently undertaken by the ILO. But in what broader context of *global* trends should we view these three important ILO efforts and the forces that drive them?

19. The final decades of the twentieth century have brought momentous political, economic, and social changes that continue to redefine the fundamental concepts of national economic and social development. Recent years have seen profound economic and social transition for all countries, and the early years of the twenty-first century are likely to deepen and accelerate this. Rapid changes in the world economy have pushed towards global integration, requiring governments around the world to rethink strategies of economic development and job creation, and to establish new institutions and partnerships through which to build economically viable and socially equitable societies.

20. To maintain economic growth, increase employment, raise standards of living, and better weather crises related to either external or internal shocks, countries have to base national economic development strategies on engaging more successfully in international trade and investment, at the same time extending and deepening local economic development and social and economic equity, together with the national partnerships that make this possible. In order to better accomplish this, countries are continually adjusting, updating, and making more effective the respective roles played by the three major actor groups in society able to shape political, economic and social development. These three groups are government, the private sector, and civil society. Employers' and workers' organizations can be considered key components of civil society as well as important parts of and players in the private sector. Belonging to both categories of main social actors gives them a distinctive role in relation to the world of work.

### Globalization trends

21. The overarching task of these main societal sectors is efficient and equitable market and societal development through the injection of this broad objective in practical ways in the myriad national initiatives, policies, and actions required to address the challenges posed by the main globalization trends. These are:

- i) the growing importance of trade and investments, including both export-driven growth, foreign direct investment, and improved domestic investment;
- ii) integration of the world economy, freer international trade, financial transactions and investments across national borders that intensify the need for national competition and cooperation; at the micro-economic level, enterprises expand across national borders through equity investments, mergers, and acquisitions and through non-equity strategic alliances that integrate the activities of independent firms; at the macro-economic level, trade barriers weaken, and goods, services, and factors of production flow more freely;

- iii) regionalization of world trade is weakening the role of the nation state in international economic transactions and is increasing the importance of both supranational and sub-national regions in trade and investment;
- iv) there is increasing mobility in factors of production, with labour, capital, ownership of land, and technology moving ever more rapidly and easily across national borders;
- v) the importance of services in the economy is increasing as all countries undergo structural transformations and diversify from agriculture and low-wage industrial production toward higher-technology manufacturing and services;
- vi) there is an increasing and pervasive driving force of technology as reflected in new production techniques, products, communication, transportation, and energy systems that are both shaping and creating new global markets;
- vii) there is a rapid emergence of knowledge industries reshaping the world economy and the bases of national economic and social development, as both the mobility of factors of production and the driving force of technology alter the structure and location of employment, the use of these technologies, and economic opportunities in and among countries;
- viii) the crucial role of market-size requires small countries, in particular, to continue to develop markets that extend beyond their national and regional borders;
- ix) the mobility of production factors is leading to growing similarity in production capabilities, requiring policies that allocate resources effectively to those activities that contribute to the competitiveness of their business and industries;
- x) all the preceding trends in the international economy oblige firms to organize and operate in a more flexible manner and to become more attuned to the changing and diverse needs of their customers, while rapidly adjusting their systems of suppliers, distributors, workers, and managers;
- xi) in response to such trends, there is a pressing need for firms, governments, and civil society to enter into various simple or complex partnerships for six main reasons: a) to learn from each other; b) to take advantage of partners' advantages; c) to leverage resources; d) to create operational linkages; e) to overcome existing constraints; and f) to become better competitors; and
- xii) there is also a need for these partnerships to develop sufficiently to build the national capacities necessary to develop the institutional factors that contribute to a country's international competitiveness (*World competitiveness report*):
  - a) domestic economic strength – the strength of the domestic economy overall;
  - b) internationalization – the extent to which the country participates in international trade and investment flows;
  - c) government – the extent to which public policies are conducive to competitiveness;
  - d) finance – performance of capital markets and quality of financial services;

- e) infrastructure – the extent to which resources and systems are adequate to serve the basic needs of the private sector;
- f) management – the extent to which enterprises are managed in an innovative, profitable and responsible manner;
- g) science and technology – scientific and technological capacity together with the success of basic and applied research; and people – the availability and qualifications of human resources.<sup>23</sup>

22. All these globalization trends have both necessitated and accelerated the ongoing gradual adjustments in the roles of government, the private sector, and civil society. Major shifts in these complementary roles set the broader stage for development efforts conducted by each of these principal actors. To understand the specific themes of this Round Table – how corporate social responsibility with respect to communities and skills development is practised and how human resources are/can be managed in times of restructuring and crisis, or how large enterprises can develop small businesses – it is essential to understand how the changing roles of government, the private sector, and civil society are creating new conditions and possibilities for collaborative development work as they adjust to globalization. For a more comprehensive listing of other current world trends please see Box 2: “Major world trends: Economic, social, political and environmental”, from the ILO informal paper “Some thoughts concerning the introduction of strategic planning at the ILO”, M. Iacono, October 1994.

## The evolving role of government

23. Governance and development are currently viewed as intertwined. Good governance is both a means and a precondition of development and a development objective, bringing a better quality of life. Development or economic growth is no longer solely a matter of economics that can be achieved by pulling a few economic levers. In many countries, development efforts are undertaken in the context of strategies seeking to achieve political stability, institution-building and popular participation, and promoting human rights. While the goals of development, democracy and political stability may appear conflicting at times, there is a widespread desire among most people around the world for participation in government, just treatment, and a fair share of the benefits of economic progress.<sup>24</sup>

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<sup>23</sup>. Paragraph 22 is drawn from ILO Interdepartmental Action Programme for Privatization, Restructuring and Economic Democracy (IPPRD), paper No. 14.

<sup>24</sup>. Paragraph 24 is drawn from UN Secretariat paper ST/SG/AC.6/1993/L.2: “Eleventh meeting of experts on the United Nations programme in public administration and finance, Geneva.

## Box 2

### Some major current world trends

#### *Economic trends:*

- \* globalization and economic internationalization; worldwide trade liberalization
- \* regional integration and the formation of regional trade blocs such as the ASEAN Free Trade Agreement (AFTA), APEC, the European Union (EU), the North American Free Trade Agreement (NAFTA), and the Southern Cone Common Market (Mercosur).
- \* the mainstreaming of market-economy models
- \* the implicit recognition of ongoing economic growth and output as necessary, desirable, or inevitable
- \* economic structural adjustments and transitions to market economy forms
- \* increasing international competition and cooperation
- \* new business operations paradigms
- \* new labour market institutions
- \* structural unemployment and underemployment
- \* intra-regional and inter-regional migrations and unemployed/refugee problems
- \* accelerating technology development, diffusion and application
- \* instant worldwide telecommunications and ease of transport
- \* development of global capital markets
- \* application of agricultural genetic engineering and other technology trends
- \* need to protect intellectual property rights.

#### *Social/cultural trends:*

- \* continuing poverty, marginalization, exclusion, and unemployment
- \* inter-regional cultural differences -e.g. oriental vs. western values and approaches
- \* intra and inter-religious differences and the resulting politics e.g. fundamentalism vs. mainstream religious beliefs
- \* increasing gender equality resulting in changes in gender economics and politics
- \* continuing growth in populations and demographics
- \* continuing and accelerating urbanization worldwide.

#### *Political trends:*

- \* continuing spread of democracy and democratic systems of governance
- \* continuing increase in popular pressures for accountable and transparent government to create economic opportunities
- \* reform of national public administrations and public sectors
- \* privatization of national economies and sectors
- \* need for (and absence of) various kinds of more effective global regulatory and conflict-resolution frameworks
- \* updating and reforming of the UN system and its agencies
- \* continuing internationalization of various kinds of criminal activities
- \* the continuing proliferation and increase in armaments
- \* continuing rise in the politics of identity and corresponding increase in inter-ethnic, linguistic, regional, or religiously based conflict within national borders.

*Environmental trends:*

- \* continuing major environmental degradation of various kinds in biodiversity, ozone, pollution, toxic wastes, global warming, and consumption of primary materials
- \* energy, raw materials, water and habitat conservation needs and efforts unsustainable models of industrial development and consumption patterns.

What can be done about these trends? How can national, international and local responses best be developed for global progress as opposed to global deterioration?

**Source:** ILO informal paper: “Some thoughts concerning the introduction of strategic planning at the International Labour Office”, by M. Iacono. October 1994.

24. Among the most important tasks governments face at the present time, in view of the preceding trends, is to create a political environment conducive to market and societal development by redefining the roles of the State, private sector, and civil society in the economy, creating political commitment to economic, social, and political restructuring, providing infrastructure, decentralizing and democratizing government, and strengthening the financial and administrative capacities of local, urban, and national levels of government. Many of the structural adjustment programmes of the 1980s and early 1990s called for cutting back drastically the role of government in the economy. But, in the rush to reduce the size of government, the critical roles that governments need to play in economic growth and in the structural reform process were often overlooked. Experience suggests the long-term success of economic adjustment and development requires strong political will and determined political leaders to set the direction for development and establish strong social institutions.<sup>25</sup>

25. In Asia, for example, previous political leaders in the Republic of Korea and Singapore were able to guide economic development through a combination of political controls and economic incentives that built supporting political coalitions. They were able to increase the size and dynamism of the private sector; distribute ownership of assets more widely; and attract foreign and domestic private investment. Few of the most successful industrializing Asian countries relied entirely on free operation of the market. The Republic of Korea and Singapore depended heavily for their economic growth on the export production envisioned by structural adjustment policies, but the government played a catalytic role in providing the public services and infrastructure needed for economic production – breaking the bottlenecks to economic expansion, investing directly in production activities during the early stages of economic growth, and creating favourable conditions for private enterprise development in later stages.

26. More generally, if market development is to be equitable, efficient, and broadly successful, the role of the State must be well-defined and government must play an active role in creating the conditions that allow the private sector to develop and participate effectively and equitably in international trade and investment and in local economic development with equity.

27. National constitutions on which the practice of governments rest are also of critical importance for market and social development. They promote accountability by ensuring that basic procedures exist to hold political leaders accountable to citizens and provide stability by assuring that basic human and work rights are protected and cannot be easily undermined. Constitutions offer predictability by protecting citizens against capricious changes in laws and regulations. They also allow consistency by precommitting the State to protect the basic rights of both individual and corporate citizens.

28. In addition to the broad framework for government operations that national constitutions provide, governments should also work to improve their efficiency and responsiveness. Market development and international economic competitiveness require effective public administration and civil service systems. Such systems must be able to attract qualified, competent, honest, and realistically paid individuals into public service. Many Asian countries have begun to restructure their administrative and civil service systems to meet the economic and social challenges of the twenty-first century.

29. Under Vision 2020, the Government of Malaysia is shifting its civil service and administrative systems from “a rule bound bureaucratic tradition to a more proactive, flexible and adaptable style...” in order to facilitate economic development, support “the private sector as the engine of economic growth, and provide

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<sup>25</sup> Paragraphs 25 to 28 are drawn or based on ILO Interdepartmental Action Programme on Privatization and Restructuring and Economic Democracy (IPPREDE), paper No. 14).

high quality and efficient services to citizens”. The head of Malaysia’s civil service system has further noted that “in the past, the public-private sector relationship, for example, was characterized as arms length dealings. Under the Malaysia Incorporated Concept, the stress is being placed on the public and private sectors as partners in development.” Malaysia reclassified 574 service categories as 19 and adopted a performance-based pay system with criteria related to targets and goals set for each programme. The civil service also adopted total quality management (TQM) principles that require agencies to mobilize resources to meet customer needs with the highest quality services in the most efficient and effective manner.

30. In order to achieve similar goals and make the Government more responsive to changing needs and demands, Australia created a senior executive service with common selection criteria, appointments based on merit, and protection from inappropriate political influence. Senior officials were given greater authority to manage their responsibilities for delivering services and for providing policy advice to political leaders. Managers were given greater authority to make more decisions without central approval; to create and abolish positions; to appoint, promote and transfer staff; and to deal directly with most other personnel management issues in their departments. All departments were required to develop corporate plans, individual work programmes for staffing units, performance appraisal criteria for performance-based pay increments, and improved information systems. As part of its administrative reforms, the Australian Government began estimating expenditures over a three-year period instead of annually, simplified budgeting by consolidating programme costs and adopted an “efficiency dividend” requiring an automatic annual percentage reduction in agencies’ running costs. All programmes must be evaluated every three to five years. Inter-agency services must be paid for by the requesting agency so that the real costs of those services become more transparent.

31. Many countries also require more decentralized administrative and political systems in order to perform their functions more effectively and to ensure the implementation of structural adjustments. The ability of enterprises and industries to compete successfully in international trade and investment, to generate profits in domestic markets, and to act as good corporate citizens depends on the availability and quality of support services and physical infrastructure. Highly centralized governments may be less effective in creating a conducive business environment than more decentralized governments that are able to respond quickly to changes in local needs and conditions. Governments in industrial, transitional, and developing countries all face challenges in determining the allocation of functions and responsibilities among central governments, local governments, and the private sector. In transitional and developing countries especially, governments must decide how far to go in promoting administrative decentralization.

32. In most countries that seek to create an efficient, competitive, and equitable market economy that promotes corporate social responsibility, small business creation and development, and progressive human resources management, the government must strengthen the administrative, financial, and legal status of local governments, especially those of cities. This may require devolution, another form of decentralization. When governments devolve functions, they transfer authority for decision-making, finance, and management to autonomous units of local government with corporate status. Devolution involves transferring responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions.

33. Local governments can also play an important enabling role, facilitating participation by other public and non-governmental organizations in providing services and infrastructure and promoting more efficient decisions. They can create enabling conditions by encouraging non-governmental organizations to support self-help activities and by using participatory processes to review decisions about the construction, location, and operation of facilities providing important services such as health care and education. By working with na-

tional planning groups and professional associations, they can also ensure some objectivity in such decisions. They can train volunteers and paraprofessionals to help deliver education services in low-income areas.

34. Bangkok, Thailand and Shanghai, China are two examples illustrating the crucial roles that metropolitan areas play in international trade and investment and in the creation of enabling environments for corporate social responsibility and national economic and social development in the Asia-Pacific region. (See Boxes 3 and 4 for details. The importance of public-private partnerships in development is discussed later.) Local governments in particular have an important role to play in creating the conditions within which a competitive and responsible private sector can flourish and expand to create skills, employment, and community benefits.

**Box 3****Role of the local government of Bangkok in the city's economic and social development**

The Bangkok Metropolitan Authority (BMA) and municipal agencies, in cooperation with national ministries, play a crucial role in creating a business climate in the Bangkok metropolitan area that not only benefits the central region of Thailand but the country as a whole. The rapid concentration of industry, commerce, and services makes Bangkok the economic engine of Thailand and the primary source of its growing international competitiveness. The BMA and the national Government are attempting to increase the metropolitan area's contribution to economic development by investing heavily in infrastructure. New expressways and mass transit systems are being built or are planned to relieve the city's notorious traffic congestion. Plans are underway to extend the expressway system throughout Bangkok and its surrounding areas and to connect them with 19 adjacent provinces by the end of 1999. The fragmentation of government agencies with control over various aspects of the metropolitan area's administration has delayed the implementation of some infrastructure plans and the widespread political conflicts over large construction projects has delayed others.

The BMA is also seeking to make the city more internationally competitive by investing heavily in other types of infrastructure such as flood control projects, sewer and drainage systems, waste-water treatment plants, and waste disposal facilities. Contracts have been let for the construction of Bangkok's second international airport and for expansion of the existing airport. The Thai Government seeks to make Bangkok a transportation hub for the entire south-east Asian region by upgrading inter-provincial highways, improving rail lines connecting the country's four regions, and building three new railways. Nearly US\$5 billion has been allocated to construct superhighway links with Myanmar and Laos. In addition, substantial investments are being made in the expansion and improvement of telecommunications. Both land networks were being developed in the Bangkok metropolitan area to provide 10 telephones per 100 people by 1997 and to expand satellite communications systems.

Bangkok is an example of a city that plays a crucial role in a nation's economic development; but it is also an instance of a city that can limit growth if not well-managed. The educational system in Bangkok remains rather weak, and managerial capacity in the private and public sectors is limited. In addition, Bangkok's competitive weaknesses include a poor telecommunications system, high levels of environmental pollution, and moderately high cost of operation due in large part to traffic congestion.

**Source:** *Institutions and market development: Capacity building for economic and social transition*, by D. Rondinelli, 1996.

35. But Bangkok's problems are not unusual – local governments typically face many difficulties. In most other developing countries in Asia, as in India, Indonesia, the Philippines, and Thailand, municipal and local governments are among the weakest administrative units, and few fulfill their potential. Myriad problems undermine the critical role of local governments in federal or unitary-decentralized systems to provide the systemic enabling environment for the emergence and development of the crucial private-public-civic partnerships and accompanying institutional development that can foster competitiveness, corporate social responsibility, community development, human resources development for employability, and small business development for employment.

36. The urgent need in most transitional and developing countries to develop these systemic and institutional environments within which, for instance, ethics and value-inspired corporate social responsibility movements can develop onward from corporate philanthropy towards full corporate citizenship, is for programmes that strengthen the administrative and financial capabilities of municipal and local governments so they can fulfill their potential as decentralized units of good governance in partnership with the private and civic sectors and as efficient providers of local services and infrastructure. Among programmes urgently needed by municipal governments are those that:

- i) upgrade the planning capability of local government to anticipate and deal with physical, economic and social changes as economic development occurs, and to formulate and implement policies and programmes for coping with those changes;
- ii) improve personnel management capabilities by developing job descriptions, effective operating procedures, salary and wage guidelines, transfer and promotion policies, and performance evaluations;
- iii) develop efficient procedures for identifying revenue collection potential and improving tax collection performance;
- iv) establish and improve methods of record-keeping and billing to implement revenue enhancement programmes;
- v) develop and implement cost-recovery programmes for capital investment projects;
- vi) improve methods for capital budgeting and accounting that identify and track the full costs of operation and maintenance in order to provide full cost recovery; and
- vii) establish methods for measuring the performance of service provision in order to maximize benefits and minimize unnecessary resource expenditures.

**Box 4****Role of the local government of Shanghai in the city's economic and social development**

Since 1990, the municipal government in Shanghai has taken the lead in re-establishing the metropolitan area to its former role as China's premier trade, finance, and manufacturing centre. The Shanghai government has strongly embraced national economic reforms and the opening of trade and investment. It is using these and local policy reforms to strengthen the metropolitan area's functions as a competitive world trading city. Implementation of those policies has already had a favourable impact. By 1994, Shanghai had attracted more than 6,600 foreign-based enterprises and more than 10,000 foreign-invested projects with a contracted value of more than US\$21 billion.

The Shanghai municipal government is building on Shanghai's favourable geographical location to increase its international competitiveness. Its strategic position on the East China Sea has made it an important global seaport and its location at the head of the Yangtze River has allowed it to become a critical distribution centre for an extensive region along the East China coast and westward to Nanjing. Shanghai has also strengthened its position as a transport hub in east Asia. It has opened navigation routes to over 400 seaports, railroads links to all parts of China, and domestic and international airlines connect it to leading cities in China and the world.

Shanghai is re-establishing its international competitiveness through a combination of policies. First, it is constructing large-scale economic and industrial zones. Shanghai's Minhang Economic and Technological Development Zone (ETDZ), which is about 30 kilometres south of the city, provides infrastructure, reliable power, and administrative arrangements to facilitate foreign investment. Other important development zones include the Hongqiao ETDZ, the Caohejing High Tech Park, and the Xing-Huo Development Zone for spillover industries from the Jinshanzui port and the Jinshan petrochemical town.\*

Second, Shanghai has invested heavily in modern physical infrastructure both within its special economic zones and in other parts of the metropolitan area. New bridges and tunnels, six major thoroughfares, an elevated highway and a 90-kilometre ring road have either been completed or are underway in order to relieve congestion in central Shanghai. Other important infrastructure projects have included two subway lines, container shipping facilities at the Shanghai port, and expansion of Shanghai's Hongqiao International Airport.\*\*

Third, the Shanghai municipal government is streamlining decision-making to facilitate trade and investment. The Shanghai Municipal Foreign Economic Relations and Trade Commission was established to advise foreign firms on doing business in the metropolitan area and to coordinate government approvals. The municipal government has also made substantial changes in economic policies aimed at encouraging foreign banking and financial institutions to expand in the Bund area of Shanghai.\*\*\*

Fourth, together with the central Government, the Shanghai municipal authorities have strongly supported policies for human resources development. Shanghai has three well-known universities, over 700 research institutions, and more than 100 scientific and technological associations.

All of these policies seek to increase Shanghai's level of international competitiveness over the next decade, lay the groundwork for corporate social responsibility, human capital development, and small business development, and in so doing contribute to regional and national economic growth and social development.\*\*\*\*

**Source:** International Labour Office Action Programme on Privatization, Restructuring and Economic Democracy, publication # 14: *Institutions and market development: Capacity building for economic and social transition*, by D. Rondinelli.

\* Liao Ye, "Shanghai attracts more foreign capital", *Beijing Review*, (19-25 December 1994), pp. 26.

\*\* Chen Qingbai and Shi Wei, "Reestablishing Shanghai as an international finance center", *Beijing Review*, (15-21 August 1994), pp. 14-17.

\*\*\* Wu Yunpu and Xu Tongfu, "Shanghai replays role as an Oriental metropolis", *Beijing Review*, (2-9 May 1993), pp. 12-18.

\*\*\*\* Ken Barrett, "Thailand's infrastructure", *Institutional Investor*, Vol. 28, No. 10 (1994), pp. 23-25.

37. Although local governments can play an important role in decentralized governance-in-partnership for national economic and social development, the success of devolution depends in large part on strengthening their managerial and financial capacity and on the willingness and ability of national governments to grant them the revenue-raising authority and administrative autonomy to provide services and infrastructure effectively. This in turn depends on an efficient, effective, equitable, honest, and accountable national governance framework based on the establishment of similar variables at national level. For this reason Singapore's highly successful experience, described in detail in Box 5, below, cannot be considered a truly representative experience, inasmuch as Singapore is a city-state rather than a nation state. It is instructive, however, to review its history as a singularly successful government that has achieved excellent international competitiveness.

**Box 5****Singapore's economic development and competitiveness strategies**

Singapore's strong national competitiveness and compliance with international world trade standards ranks it among the most successful countries in adjusting to global economic changes. As a national economy, Singapore ranks high on national competitiveness indicators, including ability to export. It is strong on most indicators of efficient use of factors of production and natural resources resulting in increased productivity. Its strong human development and overall quality of life indicators make the city-state an attractive location for international businesses, as does its exceptionally strong ranking on political and economic risks. Singapore's international competitiveness is strongly enhanced by its low tariff and non-tariff protection barriers and by its laws protecting intellectual property rights.

As a city-state, Singapore is increasing its international competitiveness through strategies that position it as a gateway for trade and investment in southeast Asia. Between 1993 and 1995, Singapore increased its exports of goods to S\$221,000 billion. Principal exports include machinery and equipment, mineral fuels, manufactured goods, chemicals, food, and crude materials. Singapore's main export markets are Hong Kong, China (about 9 per cent), Malaysia (19 per cent), and the United States (19 per cent). Singapore increased its exports of services from S\$29,747 billion to S\$35,504 billion from 1993 to 1995, and 1995 forecasts estimated service exports to grow to S\$37,092 in 1996.

Singapore began developing its international competitiveness in the 1960s, and has adopted policies that keep it competitive in foreign trade and investment. Singapore's economic development strategy evolved through four stages. First, in order to offset declines in its traditional entrepôt trade and low-wage processing industries in the late 1950s, the Government adopted an import substitution policy from 1959 to about 1965. Singapore joined the Malayan Federation to expand its domestic market, adopted tariffs and quotas to protect its infant industries, set up industrial estates to attract manufacturing activities, provided generous tax holidays to foreign industrial investors, and offered substantial incentives for establishing petrochemicals as a core industry. The Government placed strong emphasis on Human resources development and skill upgrading for workers.

A second phase of Singapore's economic development came in 1966 and lasted until about 1973. By the mid-1960s, the city-state's relatively small domestic market could no longer absorb all of the output of protected industries and its industries could not reach economies of scale producing only for the domestic market. The Government switched to a set of export-oriented development policies that sought to make the city an international centre of trade and investment.

It reduced tariffs, removed quotas and provided attractive incentives for foreign investment in manufacturing for export. Singapore invested heavily in modern infrastructure, adopted outward-oriented development policies and recruited skilled labour-intensive and processing industries such as electronics assembly, petroleum refining, and ship repair. The strategy transformed Singapore into a relatively high-wage, full employment, export-oriented urban centre.

The third phase of Singapore's strategy for international competitiveness began in 1973 and lasted until the mid-1980s. This phase signalled the transformation of Singapore from a labour-intensive economy to a knowledge-based economy grounded in high-technology products for the world market. The strategy focused on developing core industries that encouraged labour skill development and

technology-intensive production such as computers, electronics, machinery, and pharmaceuticals, while continuing to strengthen competitive advantages in distribution, finance, and services.

The most recent development phase has been in operation since 1985. Singapore is strengthening its international competitiveness through economic diversification. In 1991, Singapore announced a Strategic Economic Plan that would coordinate development efforts by focusing on high-priority core industries or “industrial clusters”. While strengthening its existing core industries, Singapore seeks to move up the technological ladder by attracting new core industries in biotechnology, computer peripherals, aerospace, and environmental technology.

Singapore has invested heavily in creating an attractive environment and quality of life. To enhance its international competitiveness, the city focuses on maintaining its cleanliness, orderliness and low crime rate, and on improving environmental conditions. The city offers attractive tax incentives and financial assistance to local enterprises and small industries to adopt green technologies at the same time the Government is enforcing strict affluent, air emission, and odour control requirements.

To enhance its international competitiveness, Singapore is offering substantial incentives for locally based, lower-wage assembly industries to invest more heavily abroad and to keep their skill and knowledge-based headquarters in Singapore. Many Singapore firms are moving their low-wage manufacturing and assembling components to low-income countries including China, India, and Viet Nam. Singapore has continued to upgrade its transportation and telecommunications infrastructure, to invest heavily in human resources development, and to improve environmental conditions and quality of life in order to sustain economic growth and attract foreign investment. Recognizing the need to have a highly educated and well-trained labour force in order to develop a competitive advantage in higher-technology industries, the Government spends almost 24 per cent of its annual operating budget and 20 per cent of its development expenditures on education.

Although the city-state has some competitive disadvantages – a highly interventionist government, high wage rates, expensive business operating costs, and an appreciating Singapore dollar among them – its international competitiveness remains strong because of an excellent infrastructure, a consistent economic policy, and a strategic geographical location.

**Source:** International Labour Office Action Programme on Privatization, Restructuring and Economic Democracy, publication #14: *Institutions and market development: Capacity building for economic and social transition*, by D. Rondineli.

38. The preceding sections of this report have dealt with some of the major current trends, adjustments, and developments necessary in the roles and structures of government in order to develop the systemic and institutional environment necessary for competitiveness, corporate social responsibility, and human development to flourish. The following sections will look at some similar adjustments and trends in the private sector.

## The evolving role of the private sector

39. In the introduction to his recent book *Good Corporate Citizenship: Community-minded Management for the 21st Century* (1996), Mr. Nobuo Tateisi, Chairman and Executive Director of Japan's OMRON Corporation states:

One conclusion I have drawn from my experience overseas is that corporate management around the world is facing the need for reform. I believe that this reform requires an approach from two perspectives. In the first place, whereas past programs of reform were aimed at improving corporate performance, and were therefore essentially inward looking, the new round of reform will have to be outward looking and proceed from the public side of the corporate nature. The days of social systems that accord precedence to economic activities and are company-centered are coming to a close. In the second place, the reform must have a global outlook. In production, international divisions of labour are on the rise, and transnational ties of mutual interdependence are becoming increasingly close. The movement of capital of course now knows no national borders. Today, Japan's companies are busy with restructuring to overcome the lingering effects of the collapse of the economic "bubble" around 1990. Indispensable to this effort is an approach incorporating the two aforementioned themes, i.e. that is both "outward-looking" and "global"... [T]he second chapter takes up Omron's development of business in other Asian countries; issues in China, which is attempting to build a "socialist market economy"...and topics discussed at the Pacific Business Forum (PBF), an advisory organ of APEC. Asia is currently in the process of internationalization and globalization spearheaded by APEC. China presumably holds the key to the advancement of the region as a whole and to the success of APEC. As such, Sino-Japanese relations for the future must be viewed not in a merely bilateral context but in one encompassing the whole of the Asia-Pacific region, and indeed the rest of the world... The fourth chapter deals with prerequisites for good corporate citizenship. Relationships between consumers and companies and between employees and employers are definitely changing. These changes appear clearly in the findings of a survey conducted by the planning subcommittee of Keidanren's Committee on the Quality of Life and Consumer Affairs. Companies cannot expect to grow without recognizing these changes and striving for consumer-oriented management... Some may dismiss the kind of community-minded management advocated here as mere preaching or unrealistic idealism. However, Omron has managed to continue moving forward even though avowedly remaining guided by idealistic principles. Indeed, I think that its progress has been made possible precisely because of these principles.<sup>26</sup>

40. A similar line of reasoning, but at national and sub-national levels rather than at regional and global levels, is pursued by Ms. Aurora Francisco-Tolentino, Executive Director of the Philippines Business for Social Progress Foundation in a special September 1998 edition of *Compact*, PBSP's monthly publication, marking the 9th anniversary of its Mindanao office. Generally, *Compact* deals with commu-

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<sup>26</sup> Paragraph 40 is quoted from Nobuo Tateisi: *Good Corporate Citizenship ...*, op cit.

nity partnerships and actors in development, but this special edition focuses on “being a corporate citizen amidst the Crisis”. With respect to Mindanao, an important sub-national region in the southern part of the Philippines, this is what Ms. Tolentino writes:

The PBSP member companies in Mindanao have, in the past two years, been moving towards partnering with government and civil society groups. Relations between business groups and local governments in Saml Island and Cagayan-Iligan Corridor have been made harmonious with projects planned out. Significant gains have been made by the Saml Island Business Club and the CIC business sector, both working in partnership with their respective Local Government Units (please note this, in relation to the enabling role played by local governments suggested by the Shanghai and Bangkok mini-cases in the preceding section). These experiences have provided a platform for more effective partnerships between local government and PBSP member companies. PBSP immediately provided a safety net program for those who will be most directly affected by the economic crisis, primarily laid-off employees and their families. It is a call to action to collaborate with government on alternative livelihood projects, skills training, and basic services support. PBSP member companies being part of the moving spirit behind Mindanao’s transformation, will exercise leadership in this effort.<sup>27</sup>

41. Additionally, at a broader national level the PBSP has recognized that the effects of the Asian economic crisis are sending tremors throughout the country. Gross domestic product in the Philippines dropped by 1.2 per cent in the fourth quarter of 1998, and 4.5 million Filipinos are jobless. This environment has brought drastic changes to the way business conducts itself. In an effort to be austere, corporations began implementing reforms – reduced perks, layoffs, retrenchments, hiring freezes – to keep themselves afloat. Many companies undertook right sizing, retrenchment, or transition programmes. As a result, says Oscar Reyes, Shell Group of Companies CEO and President, and PBSP Chair of Membership and Resource Development, “we thought it might be timely to go back to what interventions have been used and have worked in the past, and share these with the business community.”

42. Thus was conceived a resource book entitled *Being corporate citizens amidst the crisis*. The book aims to assist PBSP member companies and its employees who undertook or are now implementing career transition programmes in the light of these changes. It contains a listing of organizations and individuals who can assist employees who suddenly find themselves out of jobs or face situations where they need to be retrained. “Nobody knows how long this crisis will last,” Reyes says. “We hope that companies who have to undertake transition programmes will find this resource book of valuable assistance in providing, even as they undertake some difficult options, a more humane, compassionate way of dealing with their stakeholders and employees.”

43. The book offers three broad options or interventions that companies may consider in implementing a transition programme. These are tested options on i) psychosocial preparation; ii) enterprise or business management; and iii) retooling or skills upgrading. The psychosocial preparation content is designed for retirees or displaced employees and their families to better prepare for their lives after the employee’s services have been terminated. Among the components of this intervention are exercises on family budgeting that help the family manage its new economic status.

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<sup>27</sup>. Paragraphs 41 to 46 are drawn or based upon: “Community partnerships ...”, op cit.

44. The second part of the book explores entrepreneurship as a career option for retrenched employees who have good business sense. The Enterprise and Business portion helps affected employees assess their business acumen and guides them in preparing business plans and strategies. It may also include a session with the employer on possible business opportunities that retirees can consider either as subcontractors or suppliers. The last intervention aims to ensure the affected employees continued productivity through employment with another company or industry although it will require them to acquire new skills. In *Retooling or Skills Upgrading*, the intervention focuses on the identification of particular skills that need to be developed or enhanced.

45. The PBSP states: “Profits are decreasing in fact, according to the Securities and Exchange commission of the Philippines, most of the top 5,000 corporations have suffered as much as 20 per cent income losses. But it is also during these challenging times that the PBSP Board of Trustees and member companies vividly demonstrate their commitment to social responsibility. The PBSP membership support and its leadership in the practice of corporate citizenship will remain PBSP’s strongest asset in the years to come,” says PBSP Trustee Robert Romulo, Chair and CEO of Philippine Long Distance Telephone company. The economic situation of the country may remain unstable for the next year or, worse, for years to come. In PBSP, however, the commitment to be socially responsible is not measured by how difficult the times are. In the words of Romulo, “Time and again, I have stood witness to companies and their chief executives’ expression of generosity to secure the role of business in social development.”

46. Going back again now to a broader regional and historical level it should be explained that the notion of philanthropy and concern for humanity is hardly alien to the Asian psyche. In a 1996 overview of east and south-east Asian philanthropy, M.A. Velasco of the Center for the Study of Philanthropy at the City University of New York wrote:

Early Chinese civilization (Sung Dynasty, 960-1279) had already displayed philanthropic practices in line with the Confucian teachings of family and then proper relationship between family and state. In Japanese society in the eighth century, historical records reveal the practice of individual philanthropy by the nobles or senior monks toward the poor and the sick. In Korea, although helping the poor during periods of famine was considered a government concern, lineage groups were traditionally the next most important resource for helping the poor. Buddhism played a vital role in Thailand throughout the country’s 700-year history, serving as the center of community social welfare and inspiring believers to attain merit through giving. In Indonesia and in the Philippines the concept of mutual aid pervades both countries’ rural traditional communities. The notion of “gotong royong” in Indonesia involves contribution of goods and services in case of disasters, sickness or accident, and cash donations for marriages, burials and other forms of celebration. Similar to this is the “bayanihan” concept in the Philippines which denotes mutual assistance and is rooted in a deep sense of mutual respect.<sup>28</sup>

47. Aside from historical traditions, several other factors have shaped the various types of philanthropy and corporate citizenship that currently exist in each country in the region, including: i) the impact on the traditional philanthropic practices of economic and social changes that swept the region for the last three decades; ii) the structure of east and south-east Asian wealth and widespread perceptions within Asia of economic insecurity; iii) the changing nature of government-business relations in the region; iv) the nature of decision-making in corporate foundations, especially the relationship of corporate philanthropy to corporate marketing strate-

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<sup>28</sup>. Paragraphs 47 to 49 are drawn or based upon M.A. Velasco: “Overview of East and Southeast Asian Philanthropy”, Center for the Study of Philanthropy, City of University of New York, 1996.

gies; v) the legal and regulatory context affecting the establishment and operations of philanthropies; and vi) the perceptions of the NGO sector in each country and its relationship to the state and to the business community. The interplay of the above factors has resulted in various approaches and styles to corporate philanthropy and corporate citizenship in Asia. Corporate citizenship, moreover, has been additionally shaped by systemic factors related to globalization, discussed in detail further below:

- i) Individual philanthropy exists, but remains informal and undocumented. This can be partly attributed to the absence of favourable incentives such as tax benefits and a structure of wealth creation that is largely corporate based. The cultural context contributes, inasmuch as for wealthy individuals family and kin remain the primary targets of assistance, followed by the home community before the wider community and society.
- ii) While corporate philanthropy remains small and limited in scope, the sector is rapidly growing in terms of numbers and asset size, and has the potential to become a significant resource base for non-profit activities. In the Republic of Korea, corporate foundations are still focused mainly on scholarships or research grants, with small grant-making operations and often close control by the owners of the parent company. In Indonesia, despite the absence of tax incentives, some corporations are becoming engaged in social development activities. (Please refer to the case of the Astra corporation presented in this Round Table.) Japan has the most organized corporate philanthropy movement, with several of its corporate foundations engaged in overseas grant making.
- iii) The region is witnessing a rise in innovative funding mechanisms. Fund-raising events for nonprofit work are slowly gaining success in the region, and community development foundations have been pioneered in Japan both on local and on regional bases – e.g. Osaka Community Foundation and Asian Community Trust, respectively. A more recent trend, however, is the establishment of endowed grant-making foundations whose funding comes from public sources but are managed by semi-autonomous boards of trustees.
- iv) Regional cooperation within the philanthropic sector is further strengthening the sense of community. The sense of regional community in east and south-east Asia is a recent phenomenon, driven mainly by economic rather than political processes. While the process has been difficult due to cultural, linguistic, and historical differences, the high level of interest among governments and the private and non-profit sectors points to increasing support in the future. This recognition came about as government diplomatic efforts proved inadequate in providing solutions to complex social problems, particularly those interrelated with problems in other countries. For example, the lack of adequate child-care services in Singapore has led to the hiring of Filipino women workers, who have had to leave their own families in order to earn higher wages. This calls for concerted action to examine the situation in both countries.
- v) Within the philanthropic sector, many mechanisms for in-country cooperation have also emerged. In Thailand, for example, the Thai Business Initiatives for Rural Development (TBIRD) facilitates the flow of corporate resources for rural development. Through the mechanism of adopting a Thai village, corporate funds and volunteers are channeled into economic development projects. In the Philippines, the Philippines Business for Social Progress has pioneered the collective pooling of funds to support the non-profit sector in that country. In

allocating 1 per cent of their pretax profits for social development, these companies have not only reached a greater number of people but have transferred their management expertise to help professionalize the sector as well. Aside from in-country programmes, regular exchanges and visits between and among corporate and nonprofit representatives within the region have helped to begin a process of dialogue toward cooperation.

48. “Building on these initiatives and the results of two international symposia on private philanthropy in east and south-east Asia,” says M. A. Velasco (1996), “four institutions that have long been involved in promoting philanthropy in the region – the Asia Foundation, the Japan Center for International Exchange, the Institute for East and West Studies in Yonsei University in Seoul, and the Philippines Business for Social Progress – have formed the Asia-Pacific Philanthropy Consortium (APPC). The Consortium was launched in December 1994 with the following objectives: i) to promote the role of philanthropy in addressing critical issues in the Asia-Pacific region; ii) to increase the flow and effectiveness of philanthropic giving within and to the region; iii) to respond to the institutional needs of existing and emerging Asia-Pacific philanthropies through networking, Human resources development, and research; iv) and to facilitate efforts by philanthropic organizations in the region to identify and collaborate in addressing issues of mutual concern”. Although corporate philanthropy is an older tradition and is not synonymous with corporate social responsibility and corporate citizenship, this Consortium could also become an effective institutional vehicle for promoting and advancing the latter at regional and national levels.

49. It is worth placing this difference in historical context. Philanthropy is a complex, value-driven set of practices and, as indicated above, rooted in deep cultural and religious traditions. Corporate citizenship and broader corporate social responsibility behaviour is grounded on these same values, but it has also further emerged and developed in relation to more recent strategic management challenges and general global trends (discussed at length earlier).

50. Furthermore, geopolitical transformation together with this increasing integration of the world economy is creating new threats, opportunities, and challenges for business that did not need to be considered just 10 years ago. In Asia, the crisis has further heightened and brought immediacy to these challenges. The recent book *Business as partners in development: Creating wealth for countries, companies and communities*, by Jane Nelson of the Prince of Wales Business Forum, in collaboration with the World Bank and the UNDP, identifies two major challenges for corporate managers: i) increased pressures on corporate competitiveness; and ii) increased pressure on corporate governance.<sup>29</sup>

51. These challenges place intense pressure on companies to increase their efficiency, their productivity, their ability to innovate, their customer responsiveness, and the quality of their products and services. In many cases, this has been accompanied by corporate restructuring, re-engineering, downsizing, layoffs, and the emergence of what many see as leaner and meaner organizations offering good short-term returns on economic capital but poor social returns.

52. The latter, partly in response to the above, but also as a result of more participatory political systems promotion of social dialogue and the flourishing of civil society, is putting systemic pressure on companies to be more accountable to a wider group of stakeholders, a group which in many cases is growing in power and sophistication. Private enterprise is thus being called upon by both governments and the public to play a more active role in tackling the increasingly obvious social and ecological downside of global economic

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<sup>29</sup>. Paragraphs 51 to 55 are quoted or based upon Nelson: *Business as Partners...*, op cit.

competition. More fundamentally, people both within and outside the business community are asking questions about the wider impacts of business and the accounting methodologies used to measure corporate performance. This, in addition to traditional ethics and values, is driving business in the transition from corporate philanthropy to corporate citizenship and social responsibility.

53. An analysis of the current research and debate between these two tendencies and tensions for improved corporate competitiveness and improved corporate governance illustrates the importance of cooperation between companies and their primary stakeholders – employees, customers, investors, and suppliers. It also illustrates a growing awareness of the need to develop new types of consultation and partnership between companies and their secondary stakeholders – communities, governments, non-governmental organizations, and the general public.

54. The Prince of Wales publication draws on research by highly regarded management experts such as Rosabeth Moss Kanter, Michael Porter, John Kay, Keinichi Ohmae, Gary Hamal, C.K. Prahalad, and Sumantra Ghoshal. It illustrates the point that cooperation and competition are not mutually exclusive management strategies, and that the former is increasingly necessary for creating the value-added core competencies that determine competitiveness in a complex global marketplace. However, there is a need for further research on the specific linkages between corporate competitiveness, corporate governance, and good corporate citizenship.

55. In the introduction to this report's main section on "The broader background" to ILO efforts to pursue an enterprise strategy, to implement follow-up to the Copenhagen Social Summit, and to respond to the Asian crisis – within which this Regional Round Table on paradigms for enterprise-society partnership should be viewed – we identified the need to adjust and develop the roles of the three major actor groups in society (government, and employers' and workers' organizations in particular, the private sector and others in civil society in general) in order to better jointly manage national and local responses to current global trends in ways that foster corporate citizenship, good human resources management, and good small business development practices. The preceding subsection has reviewed region-specific national and international trends in the adjustment and developing role of the private sector. The earlier subsection reviewed how government continues to play an important and revamped enabling role for the development of both employers' and workers' organizations, and civil society. These actors also play an important role in their own right in developing government and the private sector, and are similarly undergoing transformation in this broader adjustment within globalization, including the transition from what can be considered a more values- and ethics-inspired corporate philanthropy movement towards a more mature notion of corporate citizenship and corporate social responsibility also driven by systems, laws, policies, institutions, public expectations, and trends in the global market economy.

## **The role of the social partners and broader society**

56. Shifts in the global development terrain in the past several years have challenged civil society organizations (CSOs) all over the world to re-examine external realities and internal capacities towards redefining roles for themselves in an era of increased globalization of political, economic, and social life. CSOs have been variously defined. In *Policies and institutions for managing privatization* Iacono and Rondinelli characterize them as follows:

An equitable market economy depends not only on a strong private sector and government institutions but also on a wide range of civic institutions that facilitate economic, political and social interaction and that mobilize various groups in society to participate in economic and political activities. Among the most important institutions of civil society that must be created or strengthened are the following:

- i) employers organizations, industry associations, and commercial associations that can mobilize resources to assist their members, engage government, represent the interests of their members with government and businesses, and develop markets and commercial relationships;
- ii) workers organizations, trade unions and employee groups who can represent the interests of their members, obtain protection for workers' rights, mobilize resources for mutual benefit, and participate with employers in the efficient and progressive operation of enterprises.

Other institutions of civil society include:

- iii) professional associations that supply problem-solving and policy advice and support applied business research, and that provide business and industry with assessments of the impact of their actions on the public;
- iv) policy and advisory groups that can provide the government with public policy recommendations, review government operations and evaluate the impact of their actions on the public;
- v) media such as a free press, television and radio that can report information and interpret events independently, and provide the public with the means of holding government and business leaders accountable;
- vi) gender-based, language, religious, or politically-oriented interest groups that can create the foundation for a pluralistic political system, articulate and advocate the interests of their members within the political system, and support democratic values and procedures;
- vii) local community and neighbourhood groups that can articulate and represent local geographical interests and work together to solve social, economic and political problems on a self-help basis;
- viii) consumer groups that provide members with information about goods and services, and help maintain and improve standards of quality and service; and
- ix) charitable and philanthropic organizations that can mobilize private resources to assist the poor and support education, the arts, and scientific and humanistic endeavours.<sup>30</sup>

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<sup>30</sup>. Paragraph 20 is drawn from M. Iacono and Rondinelli: *Policies and institutions ...*, op cit.

## Actors and actions of civil society: A general view

57. More general reflections on the nature and concept of civil society can be found in many other sources. Although “civil society” is often a contested term, a level of consensus exists within the broad development community as to its core concept: “the aggregate of civil institutions and citizens’ organizations that is distinct and autonomous from both State structures and private business”. CSOs refer to the whole range of non-state, non-profit organizations and groups, including socio-civic organizations, academia, the media, religious groups, development non-governmental organizations (NGOs), cooperatives, and people’s organizations (POs). POs can be considered to be membership-based organizations that function as community, sector, or issue-based primary groups at the grassroots level, and which come together largely on a voluntary basis, though they may develop secretariats when they expand in size or scope. NGOs, on the other hand, are intermediate agencies and institutions that tend to operate with a full-time complement of staff and provide a wide range of services, usually for primary organizations.<sup>31</sup>

58. In the Philippines, for example, estimates of this entire nonprofit sector vary from 60,000 to a high of almost 96,000 registered non-profit, non-stock corporations. Apart from these entities 35,000 cooperatives are registered with the Cooperative Development Authority. This does not include a large and undetermined number of unregistered organizations. The “density” of civil society in the Philippines is clearly high. This density is not as great in Indonesia, where government or government-sponsored organizations largely dominated civil society over the past three decades. These different quantitative and qualitative starting points have significant implications for the potential of civic-private-public partnerships for economic and social development.

59. The level of development, past history, and future prospects for the development of civil society vary greatly from country to country. The case of the Philippines is interesting because the Philippines has one of the most liberal and open legal and policy environments for CSOs among all the countries of the region. The Aquino government codified a great deal of this openness through constitutional and policy reforms, and the Ramos government extended it by providing venues where it could be operationalized. NGO leaders admit that the present Estrada administration is indeed publicly an NGO-friendly one, and that the existing legal and regulatory environment has generally worked to the advantage of CSOs. Hence many NGO leaders, although often wary of dealing with government, have viewed the State as a terrain for strategic intervention worthy of principled participation.

60. Many NGOs, however, still mistrust the motives of private companies engaging in social development work. A carry-over of the more ideological analyses of earlier years regarding the true interests of the business sector still casts doubt on business social development efforts as mere projects to enhance the profitability of the business, to market certain consumer products, or to buy industrial peace within their area of operations. Some CSOs are trying to go beyond this and take a more pragmatic view, especially in recognition of the stake business itself has in development. However, many from the business sector themselves remain hostile to certain types of development efforts and to CSOs branding some NGOs as anti-profit and therefore anti-business. Moreover, competitive business culture, which is results-oriented and tends to expect concrete financial returns in the shortest possible time, contrasts with the prevailing culture of most CSOs, which is more process-oriented and geared towards transformational goals that do not necessarily yield quick results. This can lead to tensions when the two try to work together.

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<sup>31</sup>. Paragraphs 58 to 62 are drawn or based upon Alan de Guzman Alegre: *Civil Society Resource Organizations and Development in Asia: The case of the Philippines* (New York, the Synergos Institute, 1997).

61. Because of these gaps, which merely highlight the different traditions and ideological orientations of both sides, relations between business and the development community are often relatively underdeveloped. This can be detrimental to both, since each can potentially learn from the other. For example, CSOs can benefit from the managerial, marketing, and financial skills of the business sector. The latter can learn a great deal from the more sustainable paradigms and participatory processes of civil society. Any lack of practical interfacing mechanisms and joint action ignores the strategic potential of both working together in development work. This is increasingly being realized by both sides, and there has been a growing orientation to strengthen collaboration. The context of dwindling development funds from external sources also provides a concrete impetus for cooperation. More and more CSOs are now looking at the possibilities of market-oriented operations to source income, while the business sector also has concrete experiences, knowledge, and services to offer civil society.

62. More broadly, then, strengthening the enabling environment for economic and social development depends not only on a State that governs well nationally and locally and on a private sector that provides jobs and income and takes social initiatives, but also on civil institutions that facilitate political and social interaction and that can mobilize various groups in society to participate in economic, social, and political activities. Civil institutions not only support the private sector and maintain a check on government power, but also contribute to economic development, help distribute the benefits of economic growth more equitably within society, and offer opportunities for individuals to improve their standards of living. Clearly, employers' and workers' organizations are the frontrunners among civil institutions exercising the above roles.

63. In general, civil institutions channel people's participation in economic and social activities and organize them into more potent forces in influencing public policies. Institutions of civil society have an important role in mitigating the potentially adverse impacts of economic instability, in creating efficient mechanisms for allocating social benefits, and in providing a voice for the poorer groups in political and governmental decision-making. Organizations of civil society can also help people to overcome market failures and weaknesses. They have been especially powerful throughout the world, for example, in dealing with market failures resulting in environmental pollution and degradation. Market failures, according to economists Anderson and Leal, "result when any benefits are not captured or costs are not borne by decision makers. The existence of these externalities or third party effects means that either too little of a good is produced in the case of uncaptured benefits or too much in the case of unborne costs."<sup>32</sup>

64. Because market decision-makers often still respond primarily to costs and profits, the failure of the market to assign adequate or full costs to environmental pollution, or natural resource degradation, or for that matter to social deterioration and exclusion, results in insufficient or inappropriate actions. In Asia, for example (especially in China, India, Indonesia, the Republic of Korea, Malaysia, the Philippines, Singapore and Hong Kong, China), there has been a fundamental conflict – which policy-makers largely ignored during the 1970s and 1980s – between economic development policies that successfully promoted industrialization and urbanization and those that were designed to protect the physical environment and human health.<sup>33</sup>

65. In response to increasing threats from industrial pollution, environmental and consumer groups have organized public protests against polluting factories and against the location of environmentally hazardous activities in towns and urban neighbourhoods in several Asian countries. For example, the student federation

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<sup>32</sup>. Terry L. Anderson and Donald R. Leal: *Free Market Environmentalism* (Boulder, Colorado, Westview Press, 1991), p. 14.

<sup>33</sup>. Paragraphs 65 to 67 are based upon ILO Action Programme on Privatization, Restructuring and Economic Democracy. publication No. 14: *Institutions and market development: Capacity building for economic and social transition*.

of Thailand and the Project for Ecological Recovery mobilized other environmental groups to demonstrate against the more visible aspects of pollution and environmental degradation in Bangkok. In Indonesia several organized groups – including the Environmental Forum (WALHI), the Skephi forest preservation group, and Skrepp, an antipollution group associated with the Legal Aid Institute – have also emerged to mobilize public opinion and organize protests against environmental hazards. Similarly protests by public interest groups in India were able to pressure the Government to impose a large penalty on the state-run Oil and Natural Gas Commission for violating environmental protection regulations.

## **Special roles for employers' and workers' organizations**

66. With respect to the area of employment and micro and small enterprise development, among the most difficult conditions to develop in some developing countries is an “entrepreneurial milieu” – that is, a social environment in which the individual and social values that are essential for entrepreneurship and micro and small enterprise development, and market development more broadly can thrive. Trade unions, employers' associations, industry associations, and chambers of commerce have important roles to play in creating and sustaining such an entrepreneurial milieu for market development and employment generation. Groups such as chambers of commerce promote commercial enterprises, attract new industries and business to their communities, promote laws and regulations assuring competitive trade, and undertake surveys and promotion campaigns to assure that business leaders are aware of the advantages of their communities as locations for business activities. Trade, labour, and workers' unions can play important roles in facilitating economic and social transactions.

67. Although frequently featuring in general terms in the international debate on economic and social development, employers' and workers' organizations in fact play specific and special roles, especially in relation to the World of Work. Within the context of enterprise development, employers' and workers' organizations are different from other actors of civil society who are external to the enterprise. Employers and workers are important internal stakeholders. As such, employers' and workers' organizations participate in enterprise management through line and top management and through joint consultations and collective bargaining.

## **Evolving private-public-civic partnerships**

68. In the preceding sections we have reviewed how the roles of government, the private sector and civil society each have adjusted and become more integrated in response to emerging globalization trends in favour of better helping to create economic efficiency with social equity. “One of the major challenges facing the world community as it seeks to replace unsustainable development patterns with environmentally (and socially) sound and sustainable development, is the need to activate a sense of common purpose on behalf of all sectors of society. The chances of forging such a sense of purpose will depend on the willingness of all sectors to participate in genuine social partnership and dialogue, while recognizing the independent roles, responsibilities and special capacities of each”.<sup>34</sup>

69. The key to realizing more fully this broad potential of general trends and role adjustments on the part of the major social actors, however, also involves learning how to work together practically. From a societal perspective, and in general terms, it is clear that public-private partnerships can be powerful catalysts for change and valuable mechanisms for delivering efficient, effective, and equitable solutions to the challenges of development.

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<sup>34</sup>. Paragraph 69 is drawn from Chapter 27 of Agenda 21, UNCED Conference, Rio de Janeiro, 1993.

70. And, from a corporate perspective, multi-stakeholder partnerships are perhaps one specific answer. Corporate stakeholder partnerships can range from those that are i) commercially driven ventures such as management contracting, out-sourcing, cross-licensing, or research and marketing alliances or consortia aimed at harnessing commercial opportunities and minimizing the costs of entering new markets, and developing new products and technologies; and ii) social responsibility-driven alliances and joint ventures aimed at tackling broader societal issues such as unemployment, poverty alleviation, environmental degradation, education, youth development, health, urban renewal, and rural development, all of which also impact the corporate economic (and social) bottom line, although perhaps less directly or immediately than market factors.<sup>35</sup>

71. Three general areas in which public-private-civic partnerships offer particular potential include

- i) capacity-building partnerships for leveraging resources for specific programmes or projects – where these can be either commercial or social or hybrid, and where resources are not only represented by financial capital but also by physical, technical, and managerial resources;
- ii) advisory structures to inform, debate, and help to shape the national or local policy agenda; and
- iii) joint campaigns to inform, educate, motivate and, in some cases, mobilize the general public around specific public interest issues.

72. Capacity building and the strengthening of civil society to work together with government and the private sector are widely seen as central pillars of sustainable development. Not surprisingly, the definitions of capacity building are diverse. But whatever the definition, there is still much to learn about realizable objectives and effective strategies. Findings from studies completed in 1996 and supported by the British Overseas Development Agency (ODA) and its Economic and Social Committee on Overseas Research (ESCOR) shed light on how NGOs, together with government and private sector groups, are approaching the challenge of capacity building. Whether in base organizations, other NGOs, civil society more broadly, or inside their own organization, stronger collaboration between government organizations (GOs), NGOs, and economically active people has long been advocated as a means of enhancing the responsiveness, efficiency, and accountability of both NGOs and GOs. A range of arguments and evidence have been proposed for different types of collaboration. For instance, in India large sums are becoming available through Indian government agencies for various types of collaboration with indigenous NGOs in agricultural development and wasteland rehabilitation, inspired partly by earlier collaboration successes in primary health care. Experience of collaboration in agricultural development in Udaipur District also has yielded valuable lessons for the development of Human resources capacity (HRD) among government organizations, NGOs, and farmers. Examples of public-private, private-civic, and public-private-civic partnerships, cooperation and specific action mechanisms abound throughout the region.

73. In the following sections of this Technical Report, we examine how more fundamental concepts of participation, dialogue, partnership, and cooperative action can assist social and economic development efforts both nationally and at the enterprise level. If tripartism represents and embodies the benefits of communication and dialogue between the ILO's social partners – governments and employers' and workers' organizations – in bettering industrial relations and other World of Work goals, then public-private-civic partnerships, in their

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<sup>35</sup>. Paragraphs 71 and 72 are quoted from or based upon Nelson: *Business as Partners...*, op cit.

myriad forms and mechanisms in the service of social and economic development, can be seen as a similar parallel concept in promoting broader national economic efficiency and competitiveness with social equity at societal level.

74. The specific focus of this Round Table with respect to the preceding line of analysis and empirical developments is on how to improve human resources management, corporate citizenship practice, and small business development practice on the part of enterprises, in partnership and cooperation with various institutions and organizations of the public or civil society sectors, in the specific context of the Asian crisis. But before proceeding from this section of the paper – which has dealt with the broader context for this Round Table by summarizing current and evolving trends in the roles of government, the private sector, and civil society in development – it is useful to describe in broad terms how the private sector and business may contribute to giving a human face to the global market. Indeed, UN Secretary General Mr. Kofi A. Annan did so in a speech at the 1999 meeting of the Davos World Economic Forum in Davos, Switzerland. Selected excerpts from this speech are reproduced in Box 6 as a conclusion to this section and by way of introduction to the areas of emphasis of the Round Table itself in the context of the Asian crisis, the next section of this paper.

**Box 6****Giving a human face to the global market**

“In the two years since I became Secretary-General of the United Nations, our relationship with the private sector has taken great strides forward. We have shown through cooperative ventures – both at the policy level and on the ground – that the goals of the United Nations and those of the world business community can be mutually supportive. Now, I want to challenge the leaders of that community to go a step farther. I am asking them to join me in a global compact of shared values and principles which can give a human face to the global market.

“Globalization is a fact of life. But I fear we may have underestimated its fragility. The spread of markets far outpaces the ability of societies and their political systems to adjust to them, let alone to guide the course they take. And history teaches us that such an imbalance between the economic, social and political realms can never long be sustained. The industrialized countries learned that lesson in their bitter and costly encounter with the Great Depression. To restore social harmony and political stability, they adopted social safety nets and other measures designed to limit economic volatility and compensate the victims of market failures. That consensus made possible successive moves towards liberalization, which in turn brought about the long postwar expansion.

“What we need today is a similar compact on the global scale, to underpin the new global economy. If we succeed in that, we could usher in an age of global prosperity comparable to that enjoyed by industrialized countries in the decades after World War II. With that in mind, I am asking corporate leaders to embrace, support and enact a set of core values in the areas of human rights, labour standards, and environmental practices. Why those three? First, they are all areas where the private sector can make a real difference. Secondly, they are areas in which universal values have already been defined by international agreements, including the Universal Declaration of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration of the 1992 United Nations Conference on Environment and Development...

“How can we promote these standards? Essentially in two ways. One is the public policy arena. Business can encourage states to give the multilateral institutions the resources and authority they need to do their job. The United Nations as a whole promotes peace and development, which are prerequisites for successfully meeting social and environmental goals alike. The International Labour Organization, the United Nations High Commission for Human Rights and the United Nations Environmental Programme strive to improve labour conditions, human rights, and environmental quality. We hope in future to count business as our partners in these endeavours.

“The second way they can promote global values is by taking action in their own sphere. Many of them are big investors, employers and producers in dozens of countries across the world. That power brings with it great opportunities – and great responsibilities. They can uphold human rights and decent labour and environmental standards directly, by their own conduct of their own business. Indeed, they can use these universal values, which people all over the world will recognize as their own, as the cement binding together their global corporations. They can start by making sure that in their own corporate practices they uphold and respect human rights, and are not themselves complicit in human rights abuses. Firms do not need to wait until every country has introduced laws protecting freedom of association and the right to collective bargaining before making sure that their own employees, and

those of their subcontractors, enjoy those rights... In doing so, firms may find it useful to interact with us through our newly created website, [www.un.org/partners](http://www.un.org/partners) -- a “one-stop shop” for corporations interested in the United Nations... What I am proposing is a genuine compact, because neither side of it can succeed without the other.”

**Source:** The UN Secretary General, Mr. Kofi A. Annan, speaking in Davos, Switzerland, at the 1999 meeting of the Davos World Economic Forum.

# 4

## DISCUSSION FRAMEWORKS FOR THE PRACTICE AREAS

### Human resources management practice

75. One specific focus of this Round Table is progressive human resources management (HRM) practice on the part of selected corporations in the region during times of restructuring prompted by the crisis. The purpose of this focus is to permit learning and extended application of best practice by enterprises in the present, and to build a solid base of understanding for improving and advancing regional HRM practice at the enterprise level in future. But to understand what is progressive HRM practice in this context, and for these particular purposes, it is essential we trace the history of HRM, describe its basic structure and components, and place it in the context of other advancing trends in the broader field of management.

76. One of the traditional concerns of the ILO's Enterprise Department in the area of enterprise development, management development, and productivity improvement has been in improving the quality of human resources, the effectiveness of their utilization, and the employees' own satisfaction in their jobs. Sound industrial relations also have a substantive role to play in these areas, as they are often the subject of dialogue or negotiation between employers and employee representatives. HRM at the enterprise level includes three main components: the human work environment, human resources development, and human resources utilization. HRM has for some time been one of the most important issues in social and economic development.

77. The ILO response has been to focus its research components, advisory services, and technical cooperation programmes on describing worldwide trends, methods, and techniques for effective human resources management, designing packages to transfer this information to our constituents and – through technical cooperation projects and workshops and advisory services – helping to introduce the best experiences in recipient country practices. In the early 1990s, more than half of our technical cooperation projects in southeast Asia and the Pacific were concerned with human resources development and training, promoting workers participation and improving human resources utilization. The present Round Table continues to build on this previous tradition in the current context.

78. But what is human resources management? The coming on the scene of HRM can be viewed in two ways: i) as a variant emerging in the late 1970s and early 1980s to improve on earlier personnel administration; and ii) as an attempt to introduce a much more comprehensive concept and practice to address the human factor in business. HRM has a central strategic theme comprised of four dimensions: i) the use of planning; ii) a coherent approach to the design and management of personnel systems based on a clear employment policy and a human resources strategy underpinned by an explicit management philosophy; iii) the matching of HRM activities to an explicit business strategy; and iv) viewing the people of the organization as a strategic resource for achieving competitive advantage.

79. This concept of HRM took concrete form in the early 1980s. In *Managing human assets: The groundbreaking Harvard Business School program* (1984), a landmark book by Michael Beer, Bert Spector, Paul Lawrence, D.Q. Mills, and Richard Walton, these distinguished researchers summarized, conceptualized, and helped formalize what was then only an emerging concept. HRM regarded people

as a competitive asset to be led, motivated, deployed, and developed along with the firm's other resources in order to contribute directly to the attainment of the firm's strategic objectives. HRM was also concerned with the development of all aspects of an organization's environment that influence the way employees are managed, and called for an integrated view of the way a firm manages its people ensuring that personnel issues are acknowledged and addressed at the highest level. But HRM was viewed as more than just an improvement on personnel management along the preceding lines. It was viewed as a paradigm shift, a more comprehensive way of understanding the management of people and the total management of empowerment of the human factor in business to more effectively accomplish various economic and social purposes.

80. By way of summary, the Harvard model described below involved a number of HRM policy choices regarding Human resources flows, work systems, reward systems, employee influence systems, and industrial relations practices that determined HRM outcomes regarding commitment, competence, cost effectiveness, and congruence of individual and organizational goals which in turn shape the longer-term consequences for individual, organizational, and societal well-being. Having reviewed this definitional territory from this relatively more abstract perspective, let us now also look at HRM from a more operational and practical point of view. In any given organization, HRM means "comprehensively managing people".

81. This involves creating an overall "people management environment" that encompasses and integrates five fundamental policy-choice areas:

i) *human resources flows*, including

- a) inflow – recruitment, assessment, selection, orientation, and socialization;
- b) internal flow – evaluation of performance and potential, internal placement, promotion and demotion, and education and training; and
- c) outflow – secondment, cross-posting, overseas assignment, termination, outplacement, and retirement.

ii) *work systems*, including

- a) broadly defined jobs, job rotation, career development plans, payment by skills mastered, developmental organizational systems, methods and procedures;
- b) team assignments, team operation, organization development, evaluation by peers, and self or peer supervision; and
- c) concern for learning and growth, minimum status differentiation, broad employee participation, and a learning organization.

iii) *reward systems*, including

- a) extrinsic rewards, pay and benefits, advancement, and job security;
- b) intrinsic rewards, authority, accomplishment, and job challenge; and
- c) interpersonal climate, supervisory style, organizational culture, and employee satisfaction and motivation.

iv) *employee influence*, including

- a) employee, trade union participation and organizational democracy;
- b) autonomous working groups, quality circles and job enrichment; and
- c) representative participation, works councils, co-determination, producer cooperatives, and self-determination.

v) *employer-employee employment relations* of a progressive nature, which include fair employment contracts, employment flexibility, effective dispute settlement mechanisms, and equitable industrial relations practices.<sup>36</sup>

82. As with any other development practice, the more restricted operational notion of HRM is best understood within a broader context. A more complete framework for HRM also should take into account local cultural values and practices, and those managerial practices and styles that are embedded in and appropriate to the culture. But, apart from these culturally specific factors and the previously mentioned trends and requirements that result from the broader setting of globalization – economic internationalization, technological progress, various types of structural adjustments, and transitions to market economies – HRM must also deal with the proximate and immediate internal effects that these external factors generate at enterprise level operationally.

83. These external changes prompt internal changes in products and processes and an increase in flexibility requirements vis-à-vis products, technologies, and labour markets. They place an increasing importance on speed, variety, convenience, timeliness, and quality of products and services as perceived by customers, accompanied by cost-cutting and productivity improvement requirements. These changes in products and processes in turn prompt changes in organizational structures towards flatter, matrixed, fragmented, and more task/project-oriented as well as profit-oriented organizations. Hence, large companies are becoming leaner and decentralizing, while small and medium enterprises and contractors are forming or developing inter-firm linkages among themselves and with large enterprises.

84. These changes in organizational structure brought about by changes in products and processes prompted by new conditions in the external marketplace in turn further necessitate changes in managerial practice that favour the promotion of innovation, creativity, self-direction, cross-cultural skills, risk-taking, results-orientation, long-term orientation, and a shift from bureaucratic to entrepreneurial styles of management. Horizontal management is also becoming more important than vertical management, and human resources and talent are increasingly considered the most important productivity factors and investment items.

85. But who is to manage this complex and multi-faceted transition task? Effective HRM requires reform or improvement in the delivery of the basic HRM functions on the part of top management, line management, personnel management, and employees themselves. This involves developing a new perspective and orientation to HRM based on a sufficient understanding of the preceding major trends and their practical implications. It will also involve these groups in working more closely together to better manage and develop all levels of the workforce so that it can face the range of strategic and operational challenges posed by these trends.

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. Paragraph 82 is based on Michael Beer et al, op cit.

86. In summary, at the enterprise level HRM is the responsibility of top management, line management, the personnel department, and employees. It is their responsibility to create appropriate human resources flows, work systems, reward systems, employee influence systems and sound industrial relations. At the national level, HRM is also a complex endeavour involving a range of government agencies, public and private education and training institutions, and enterprises working in partnership. It also involves workers' organizations and employers' organizations at both national and enterprise levels to assist in creating appropriate educational and training systems, institutions, and programmes; a well-functioning system of industrial relations; cooperation and matching between national education and training system outputs and employers' requirements; and a well-functioning labour market and institutions.

87. The various external trends and factors impinging on the enterprise call for managerial responses of different scopes and kinds not only in the area of HRM. Possible policy responses include:

- i) organizational restructuring of various kinds and forms – financial, human, product profile, organizational, and corporate governance;
- ii) improved or reformed general management and strategic management in terms of management values and the vision, strategy, structure, practices, and systems that flow from them;
- iii) improved or reformed functional management, based on those values outlined above, in each of the main functional areas of management – planning; research and development; production; technical; marketing; finance, costing, and pricing; purchasing and logistics; administration; environment-safety-quality; and public relations; and
- iv) improved or reformed management and development of HRM for all employees including leaders, managers, supervisors, professionals, technicians, and various types of operational staff.

88. The above managerial responses form a clear framework within which to view enterprise responses in times of economic or financial crisis. These will depend on all the above factors. Pre-existing values, strategies, practices, and systems will clearly influence how enterprises as systems respond in times of crisis when the need for survival is paramount. The preceding model can help us understand how HRM policy choices and the HRM philosophy, strategy, systems, programmes, and methods that both drive them and derive from them can variously be implemented. It is important to bear in mind that such choices and decisions are always made by the relevant actors on the basis of a combination of both proactive and deterministic influences of a rational-analytical, political, emotional, value-driven, and situational contingency nature. Which will prevail and result in manifest practice is a complex and highly contextually specific process. Hence, one must be cautious about viewing best practice (or poor practice) as easily replicable.

89. To understand which HRM policy choices and practices are most appropriate in specific countries or enterprises, it is important to analyze in substantial depth the preconditions and the environment for these choices at the national and enterprise levels. The preconditions and main determining environmental factors that should be taken into account are: i) global and national conditions and trends; ii) national and organizational situational factors; and iii) stakeholder interests and their relative strengths. The elements of these will vary greatly from country to country, sector to sector, enterprise to enterprise, and period to period.

90. Here we can only try to summarize what general main issues these different types of preconditions have tended to create for three broad categories of countries: i) industrialized countries including Europe, Japan, the USA, and certain NIEs; ii) developing countries in Africa, Asia, and Latin America; and iii) economies in transition in Africa, Asia, or Europe. It is considered more appropriate to view the broad experience with HRM practice from these three perspectives, rather than from the perspective of a region as vast and diverse as Asia. In addition, to specify HRM policy choices or courses of HRM action that are appropriate to a given country or enterprise requires in-depth analytical work that can only be performed by those directly involved to provide the required specificity, particularity, and ownership to each of the generic elements of this model.

### **HRM issues in industrialized countries**

91. The main HRM and HRD issues in the USA are more speed, variety, convenience, timeliness, and quality of products and services for customers requiring more flexibility and innovation. These objectives call for reorganized and re-engineered organizations for higher performance, HRD for greater quantity and more diverse information technology, and HRM oriented to managing workforce diversity and equal opportunity for women and minorities. Increasing interest in creating “high-performance work organizations” will continue to increase. These are organizations in which work is reorganized, redesigned, or re-engineered to improve performance. Organizations will take many new forms. The ability to redesign organizations and to manage their change remains vital. Digital electronics, data storage, ever more powerful and portable computers, and distributed computing and communication networks including the Internet are changing the way information is created, stored, used, and shared.

92. Many of these same issues are true for Australia, Europe, and Japan. In Europe, however, a traditional view of personnel management often persists, and there is a pressing need to achieve higher workforce productivity. European CEOs acknowledge that HRM has a more strategic contribution to make, meriting its higher status within the organization, but many retain the traditional view that the human resources function should be concerned primarily with the recruitment, retention, and deployment of staff. The demand for an increasingly skilled and qualified workforce for the information age is not being fully satisfied in the 1990s. Problems with recruitment and retention still present major difficulties, as does the development of a fully appropriate skills base. In Japan, on the other hand, there is a need to develop a new type of senior and mid-level manager who can operate beyond the important traditional coordinator and communicator roles, and apply greater innovativeness and capacity to pursue strategic ideas. The introduction of merit as an alternative to seniority as an organizing principle of personnel administration can also be further reinforced.

### **HRM issues in developing countries**

93. In a wide range of developing countries with different economies and levels of development there is a fundamental need to professionalize further and increase competence in delivery of the basic personnel functions of recruitment, selection, performance appraisal, training and career development and employee relations. Management styles also need to be modernized in culturally appropriate fashions. The importance of both HRD and HRM need to be raised within company structures and line management needs to become much more involved. Moreover, approaches such as strategic business units, quality circles, total quality management, re-engineering, etc. from industrialized nations should be seen as tools, not as solutions, and should be carefully adapted to local needs and conditions.

94. In Africa, there is an additional need to overcome favouritism and nepotism in the selection, placement, promotion, transfers, training opportunities, and discipline of staff. Training also needs to be extended beyond senior levels to cover supervisory and lower-level cadres. This is particularly urgent, given that the African labour force is becoming more enlightened, diversified, and critical in its needs and demands for training, advancement, working conditions, health and safety, protection from redundancy, etc. In both Africa and Latin America, gender is also an important workforce management issue requiring enterprise as well as national initiatives. In fact, gender and diversity management are issues that cut across the basic functions of HRM (HRM-ABCDE, further discussed below in Paragraph 98), and they are important in different ways in most regions of the world. It is useful to adopt basic guidelines to improve the gender management performance of enterprises. These guidelines are summarized in Box 7: “Some basic guidelines for improving the management of gender objectives within human resources management”.

**Box 7****Some basic guidelines for improving the management of gender objectives within human resources management**

In the area of HRM at the enterprise level, four basic approaches that also cover gender have been developed and adopted to tackle discrimination and inequality in the workplace: i) establishing equal employment opportunity policies and programmes; ii) affirmative action programmes, iii) diversity management programmes; and iv) programmes linking equality and quality (E-quality programmes). These different approaches vary country by country, and have entered enterprise practice to various extents. They are based either on voluntary initiative by companies – as embodied in company personnel policies – or on national legislation, or on both, depending on countries and/or enterprises.

In general, experimentation with these approaches has made a contribution to the development of more gender-sensitive HRM functions and practices. But it has also highlighted the need for further comparative information and research on the effectiveness and effects of the different policies and programmes and of the alternative possible modalities for their improved design, implementation, application, and enforcement.

Specific actions that companies can take to help women to achieve equal opportunity in the more special issue of climbing the corporate career ladder include i) improving women's access to company training programmes, in particular to technical and management training; ii) reviewing Human resources development practices to better recognize the potential value of non-conventional career paths and facilitate women's access to managerial positions; iii) placing more women in strategic sectors and in positions that provide good career prospects; iv) advocating improvements in labour laws to eliminate sex discrimination; v) providing more flexible or reduced working hours as well as adequate child-care and care for the elderly; vi) better mentoring for women; vii) sensitizing policy-makers, employers, and managers to gender issues; and viii) raising the awareness that investing in women makes good economic sense.

**Sources:** ILO: *Breaking through the glass ceiling: Women in management* (Geneva, 1997); and ILO: *ABC of women workers' rights and gender equality* (Geneva, 1999).

## HRM issues among economies in transition

95. In eastern Europe and the countries of the former Soviet Union, in the early stages of transition, there was an urgent need for short-term programmes to retrain practising managers to move enterprises into the market economy, restructure them, and learn new functions. A similar need exists in Asia, in the countries with economies in transition, such as China, Mongolia and Viet Nam. Apart from enterprise managers, top-level administrators were also trained in deregulation, privatization, market creation, and HRM. Local management training and institutional mechanisms and capacities were created and improved training centres established to support in-house enterprise management development efforts. A major effort was also conducted to decentralize training capacity and training efforts. In certain east European countries, these efforts have been successful. In the former Soviet Union republics, in view of the ongoing financial, economic, social and political crisis in Russia, efforts have been more problematic and have had difficulty taking hold systematically. Many of the same issues regarding the professionalization of personnel management that apply to developing countries also apply here, as does the issue of gender.

## HRM issues in Asia

96. And what about in Asia? Asia includes a diverse mix of large and small, developing and developed, and transitioning and non-transitioning economies in federal and unitary systems of government with varied cultural and administrative traditions. The trends and issues described above for industrialized, developing, and transitioning economies all apply to various degrees in the different and internally diverse countries of the region. One significant general aspect worth highlighting in the context of the crisis: in the wake of corporate downsizing in the United States in the late 1980s and early 1990s, HRM became increasingly highly regarded and America's biggest companies often elevated it to the vice-president level. In Asia, on the other hand, although the role of human-resource professionals has grown in the last few years, it remains centred on traditional administrative functions. It will be more productive to engage in a case-by-case discussion of specific HRM issues and needs in each country.

## General issues

97. Once the main HRM issues in a country are identified, appropriate medium-term HRM strategies can be developed and put in place by its enterprises. Against the backdrop of these medium-term strategies, short-term strategies in response to the specifics of a crisis can more easily be adopted.

98. To assist in developing enterprise specific medium-term HRM strategies, it can be useful to employ the following model, developed by this author, using a simple mnemonic device to view HRM as the sum and interaction of five subsidiary functions: i) HRA stands for human resources *allocation*, selection, assignment, and redeployment; ii) HRB represents human resources "*best-utilization*" on the job and in the work context; iii) HRC stands for human resources *commitment-building*; iv) HRD represents human resources *development* and workplace competence acquisition and application in the broadest sense; and v) HRE stands for human resources employer-employee *employment relations* in the context of "good employment practices" including industrial relations and personnel administration. Effective HRM is the sum total of effective and equitable practice in HRA, HRB, HRC, HRD, and HRE. Viewed in this fashion, HRM and its outcomes are the result of policy choices and decisions made in each of these basic functional "ABCDE" areas.

99. Effective and equitable human resources allocation (HRA) means developing appropriate company human resources planning, staffing, selection, recruitment, deployment, orientation, redundancy, retirement, and outplacement functions based on equitable processes and values.

100. Effective and equitable human resources best-utilization (HRB) means developing work systems, methods and structures, work assignments and task definitions, and supervisory styles, interpersonal relations, social norms, performance expectations, and workplace cultures that embody an effective, developmental, and motivational substance.

101. Effective and equitable human resources commitment-building (HRC) means putting in place extrinsic and intrinsic reward systems and employee participation and influence systems that motivate and release the creativity, responsibility, and commitment of employees.

102. Effective and equitable human resources development (HRD) means developing orientation, socialization, training programmes, training systems, facilitation of on-the-job learning methods, and other specific developmental tasks, assignments, activities, and company career development systems and practices that build the knowledge, skills, attitudes, values, and societal citizenship of employees.

103. Effective and equitable human resources employment relations also rely on the quality of collective labour - management relations, or (HRE), which means i) developing a good enterprise industrial relations culture and its related institutions and progressive practices at the enterprise level, including appropriate employment contracts and practices whether these are of a permanent, full-time, or part-time nature; and ii) ensuring the linkage of these to effective, modern and equitable personnel administration systems and practices in the key areas of recruitment, selection, training, career development, compensation and benefits, safety and health, and employee relations and communications.

104. The planning and implementation of these functions by company leaders, line managers, personnel departments, employee representatives, and employees themselves will ensure a contextually appropriate HRM policy and practice that reflects the current and future needs of employees, managers, consumers, communities, the public, and other relevant stakeholders. HRM and its internal (company) and external (community and public) outcomes is the result of policy choices and actions by the four actor groups above, as reflected in the strategies, structures, and systems flowing from their workplace philosophies, values, and norms. In this model, HRM is the sum total of five interactive categories: HRA, HRB, HRC, HRD, and HRE, aiming to achieve the development of dynamic, competitive, and cooperative human systems within the enterprise, including employees and managers as well as labour and management to address and adjust to globalization for productivity, competitiveness, and equity.

105. The theoretical premise is that if these related categories of managerial philosophy, policy, and practice are coherent and well-adapted to the series of internal and external factors that shape the organizational environment in any given contingency (e.g. economic crisis) requiring particular actions with respect to allocation, best-utilization, commitment-building, development, or employer-employee relations, the organization will perform well both economically and socially, internally, and externally. However, if these categories are not coherent or appropriate to the contingency's immediate external and internal forces or to the medium and longer-term evolution of these factors, then the organization will not be successful according to various performance criteria of productivity, adaptability, innovation, equity, or broader societal acceptance and legitimacy.

106. But what kinds of operational HRM policy choices should top management and other stakeholders make in these four conceptual areas, and how should they make them? What should be the HRM policy content and policy development process and the resulting practice? The choices and decisions to be made in these areas are affected by many factors, and in turn influence and shape many formal and informal aspects of organizational life, culture, and management. How can these choices best be approached? Different kinds of situational or contingency factors will always need to be reckoned with, but this should be done in close connection with the political, economic, and social interests of various proximate and other stakeholder groups.

107. The preceding conceptual introduction to HRM has attempted to i) describe the historical development of HRM practice; ii) describe the field's structure and composition; and iii) provide a conceptual and analytical model within which to consider HRM policy and practice in the long, medium and short terms. To bring to life the preceding analytical territory it is useful to consider some concrete case examples in the context of the current Asian crisis. In the learning effort, the reader can readily relate the concepts and frameworks above to diagnosing, understanding, and drawing lessons from these cases. To recapitulate, globalization and external contingencies determine trends and the business environment that impinge on an enterprise. These forces and conditions may require restructuring or other measures. How such restructuring is handled and managed will depend on the values and strategies adopted by management and employees of the organization and their HRM policy choices. The following case (see Box 8), presented by Mr. Dong Delos Reyes, Information Specialist of Pilipinas Shell, in a recent article for the PBSP monthly magazine illustrates the HRM experience of a well-managed and well-endowed multinational firm in response to certain effects of globalization.

**Box 8****Re-engineering at Shell Oil Philippines**

“Rapidly changing market conditions stemming from the inevitable deregulation of the downstream oil industry necessitated a re-engineering programme that was established as a two-year project. In mid-1995, Shell Oil fitted out a 30-man business process re-engineering team supported by consultants to conduct an analysis of the existing business process and recommend changes with a view to making the organization more agile and competitive. By November 1996, Shell management communicated to staff a re-engineering road map involving several organizational changes. Management stressed that such changes were required to keep the company competitive. Job positions in the envisioned new organization were drawn up, and a selection process intended to fit the right person to the job positions followed. This sensitive staff selection process heavily involved views from a panel composed of senior line managers. In February 1997, the new organization was finalized. A total of 120 staff and job positions were declared redundant. As part of the company’s concern for its displaced staff a redundancy programme based on studies of industry standards was announced. This provided for lump-sum payment based on age and years of service, six-month hospitalization insurance, training on setting up one’s own business, and employment agency assistance for staff still interested in employment. One employee who had worked 17 years for the company characterized his years with the company as fruitful and well-invested, saying: ‘Shell remains the most consistent in terms of Human resources management. Shell treated its employees well. The company is also very transparent. Definitely Shell was never unfair to us as they’ve been supportive and understanding of employees. Many other ex-Shell men and women whose posts turned out to be redundant were now busy in their own endeavours and projects. One Shell man explains: ‘The company gets the best-skilled. Then these highly skilled individuals go through more training and are exposed to various work assignments and challenges to lend them a full appreciation of their skills. Thus, even in a depressed job market, it is the highly skilled, versatile individuals who get the available jobs.’”

**Source:** “Community partnerships and actors in development”, Philippine Business for Social Progress (PBSP), *Compact*, Vol. 3, No. 2 (Sept. 1998).

108. But it can be argued that, in the context of large-scale job losses in a diversified economy, the example of a large multinational firm with relatively few and highly skilled employees per unit of output can offer a very positive but possibly not representative example. We therefore also consider the case of a medium-sized domestic company in Mindanao, the Philippines, and its HRM and community engagement response to the Asian crisis that followed on the heels of a boom period. (Please see Box 9.)

## Box 9

### Employee involvement at Pilipinas Kao, Mindanao, the Philippines

Philip Dael, Group Manager for Administration, Human Resources and Finance of Pilipinas Kao, would readily admit that his company is now in survival mode. Pilipinas Kao, Inc. (PKI) manufactures a wide range of oleochemicals, the base material used for manufacturing cosmetics, shampoos, toothpaste, and food additives among others. With the price of coconut oil steadily increasing at about US\$660 per metric tonne today from \$630 per metric tonne in August 1997, the company has incurred substantial losses. PKI, however, is better off than most companies. It exports 70 per cent of its products, which offsets some of the losses. Projecting that tough times lie ahead for business not only in the Philippines but across the region as well, PKI has instituted various creative means to optimize its operations even as operating costs are slashed. The areas where savings could be realized were identified by task forces composed of employees from different sections of the company. The teams identified means of improving productivity and reducing cost. This included waste minimization, lessening the wastage of products that ended up in the sea. Employee “usual benefits” – not personal benefits, but the “simple perks” such as free snacks during meetings that employees used to enjoy within the company – were also cut. Employees were also asked to suggest and practise cost-saving measures even in the use of office supplies. “We issued a memo regarding the specifics of how employees can effectively contribute to bring down costs,” says Philip Dael. “It really is a matter of making the employees aware of what’s happening in the company and being aware of all the cost centres. We are transparent with them. Every month, we present to them the bottom line, like the production volume, total sales, even our net profit. Everybody is informed about these on a monthly basis. Everyone then does his part in identifying cost centres. The cost-cutting measures, however, do not apply to Pilipinas Kao’s projects for the community. We have not reduced the budget for these projects for this year, and our community involvement has not changed. The company is focused mainly on one project: the Adopt a School programme benefiting the Jasaan National High School. The project is at present renovating the school’s computer room and will soon be providing equipment like chairs and desks, and later on an air-conditioning unit.” Dael says this is the only prominent project on the community level the company is involved in right now, but its scholarship programme at Xavier University also continues benefiting three students. Aside from this, the company is maintaining three professorial chairs in the fields of chemistry, philosophy, and mathematics and two students are being sent to technical schools every year. “This is our commitment to the school and the community,” says Mr. Dael, “and we do not see any reason for us to stop it. It has to continue.”

**Source:** “Community partnerships and actors in development”, PBSP, *Compact*, Vol. 3, No. 2 (Sept. 1998).

109. “The years 1996 and 1997 saw Mindanao actively engage with its Asian neighbours,” says Philip Dael, Group Manager for Administration, Human resources and Finance of Pilipinas Kao, “specifically within the Brunei-Indonesia-Malaysia-the Philippines East Asean Growth Area. This marked a quantum leap for the island’s economy. Mindanao became the gateway of the country to Asean and its myriad opportunities, and not just the back door to the Philippines. Everything seemed ready for the economic take-off of which the residents had long been dreaming. Then came the Asian currency crisis of 1997. Suddenly economies all over the region began tumbling in a contagion effect that affected even the most stable economies. In the Philippines, businesses coped by minimizing costs and maximizing efficiency to optimize resources that were getting more scarce. Thus, across the country, thousands of businesses folded, leaving tens of thousands jobless. In this context it has been both a challenge and a benefit to maintain progressive Human resources management, employee involvement, and community engagement”.<sup>37</sup>

110. The preceding case is certainly an example of a socially sensitive company response. But what exactly does it mean to be a socially-sensitive and economically efficient enterprise internally and externally, while restructuring in response to the various adjustments made necessary by globalization or to the more abrupt changes due to crisis? We will review this topic first in global terms and then from the perspective of recent regional experience in the present time of crisis.

111. One clear global lesson is that restructuring must be handled carefully, and that this requires knowledge and analysis of comparative experience and design and management skills in the restructuring process. Whether restructuring takes the form of downsizing and retrenchment, re-engineering, or “right-sizing” – which have significantly different meanings – it can have either positive or negative short- and long-term impacts on the enterprise, depending on how it is planned and implemented. Restructuring is an inevitable response to changes in market conditions, whether these are brought about by globalization or by crisis. What is not inevitable, however, are forms and manners of restructuring that negatively impact employees, families, and communities. These can result in a loss of confidence, commitment, and morale on the part of employees, a loss of general company reputation and public image, and short-term and longer-term decreases in productivity, profitability, and competitiveness. It is in the interest of all stakeholders that approaches to restructuring recognize the high value of an enterprise’s human capital and its broader social and economic engagement.

112. In an informal paper reviewing recent research, Mr. G. Hultin, Executive Director General in charge of the ILO’s employment sector, notes that

... restructuring is expected to continue at a significant rate in the foreseeable future, and is likely to become even more pronounced in Europe and in Asia. Its driving forces are part of the adjustment to globalization. The opening of markets is bringing new actors and investors into countries prompting the forging of various kinds of alliances in the form of acquisitions, mergers, or partnerships. The global availability of information and technology is profoundly changing the ways enterprises operate and the way production processes and chains are structured. Rearrangements in organization and management also reflect changes in financial and ownership structures brought about by privatization, share re-purchase, employee buy-outs, and the reshaping of business portfolios through divestment and acquisitions. Many major corporations and financial institutions in the United States and Europe

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<sup>37</sup>. Philippine Business for Social Progress: “Community Partnerships...”, op cit.

have gone through some form of downsizing since the mid-1980s, and many have had to repeat the process several times. In China and central and eastern Europe, impact may be even more dramatic as various forms of privatization and deregulation proceed.

113. In view of this, it is even more important that restructuring be carried out correctly from both an economic and a social perspective. Hultin further reports that

... studies and surveys have been carried out of downsizing efforts undertaken by major companies in the United States, Europe and Asia. This research indicates that the way downsizing is carried out can easily impact negatively on organizational performance. In one study (Cameron, 1995) it was reported that two-thirds of companies that downsize may have to carry out a subsequent adjustment process a year later. More than 70 per cent of senior managers in companies that downsized indicated that morale, trust, and productivity suffered after downsizing. Half of 1,468 firms in another survey (Henkoff, 1990) reported that productivity either remained stagnant or deteriorated after downsizing. The *Wall Street Journal* profiled a survey of 1,005 firms that downsized and concluded that only 46 per cent had cut expenses, only 32 per cent had increased profits, only 22 per cent had increased productivity, and only 22 per cent had managed to reduce bureaucracy...

114. Professor Ketz de Vries of the European Institute of Business Administration (INSEAD) also found that the impact of downsizing has shown mixed results in terms of changes in both productivity and morale. Among the enterprises he studied, productivity improved in 34 per cent of the cases, decreased in 30 per cent, and remained unchanged in 26 per cent. Morale improved in only 2 per cent of the enterprises, declined in 86 per cent, and remained unchanged in 12 per cent. Some of the most commonly cited reasons for these mixed and unimpressive results are: i) lack of a clear and widely understood business strategy; ii) lack of consistent commitment from top management; iii) excessive focus on mere downsizing, rather than on more important structural changes; iv) inadequate involvement of employees and those implementing the downsizing; and v) overall inadequate communications.

115. "There is general consensus that restructuring succeeds best when it is considered as part of an ongoing corporate transformation process that is well-managed," says Goran Hultin. He goes on to suggest

Such a process should anticipate and react appropriately to a constantly evolving, sometimes turbulent external environment and be guided by clearly and widely understood business strategies. Such a process also should take not only strategy and structures into consideration but also business systems, business processes, organizational culture, and human resources...

116. "The more operational lessons for approaching restructuring that seem to emerge from successful and unsuccessful best practice in various approaches and locations point in the direction of approaches that are socially more sensitive and ultimately economically more effective:

i) developing and implementing a broad-based restructuring strategy based on: a) clear and widely understood business objectives; b) widespread, frequent, and transparent communications; c) the commitment of top management and the broad-based involvement of staff; and d) a priority on cutting other costs before shedding people when reducing staff is unavoidable;

ii) designing and implementing policies for staff reduction that a) carefully avoid losing key staff and core competencies; b) are correctly perceived as being both fair and humane; c) maintain the stability of the work environment; and d) maintain overall morale through investing in training, retraining and education for internal redeployment, provide for external job opportunities through outplacement assistance, and initiate community partnerships for entrepreneurship, enterprise creation, and job creation...

117. “Loss of confidence, commitment, and morale can be avoided through the above good management practices, communication, consultations, and broad-based involvement of the whole organization. ILO principles embedded in International Labour Standards, and the Organization’s experience in promoting good industrial relations, can be of significant value in guiding enterprises through the difficulties of restructuring. ILO activities have not only dealt with restructuring at the enterprise level, but have also offered experience with more holistic approaches in terms of job creation based on enterprise creation and development in communities. Since early 1998, following requests received from employers in Belarus, Georgia, Russia, and the Ukraine, the ILO has launched studies and operational pilot activities to provide technical assistance to national constituents in enterprise restructuring...

118. “The main objective of this work (as is that of this Round Table) is to assist the ILO’s tripartite constituents in opening a new vision, and specifically in equipping employers and managers with useful practical concepts and tools necessary to undertake socially sensitive and economically effective enterprise restructuring. The overall ILO approach is intended to help implement organizational transformations that can not only prevent the deterioration of key social values, culture, human, and intellectual capital during the difficult times requiring restructuring, but also take the opportunity presented by such difficult circumstances to reaffirm and enhance these essential assets.

119. These difficult circumstances are indeed testing the mettle of human resources professionals throughout the region. In a recent article in the 21 January 1999 edition of the *Far Eastern Economic Review*, Joanna Slater writes from Hong Kong, China that the Asian crisis has put human resources professionals “In the hot seat”, the title of her article, from which illustrative points are cited below:

120. These days, the brief of a human resources professional in Asia appears more challenging. Their job includes reduction of staff while maintaining morale, increasing performance, championing employees’ interests, and helping to devise strategies for surviving the recession. So-called ‘people issues’ suddenly are paramount – how to get more out of fewer people and how to improve their performance. That is a whole new set of expectations for a profession that, in Asia, has traditionally functioned merely to process forms, benefits, and new hires. ‘We’ve got a whole generation of human-resources people who have never had to deal with this kind of downturn,’ says Patrick Mule director of Axon Consulting, a Hong Kong, China based Human resources consultancy that advises companies on everything from recruitment to compensation. It is a particularly unpleasant and emotionally straining experience. Yet for all the challenges it presents, the crisis is also an opportunity for HR managers to show they are part of the solution...

121. Until recently, HR departments presided over rampant recruitment and frantic efforts to hang on to the best talent. Now in the wake of the crisis they’re often called on by senior managers to give advice on reducing staff and other cost-cutting initiatives; employees also expect a certain amount of advocacy on their behalf. ‘This is a very taxing moment in time because we have to integrate the two,’ says P.O. Ma, head of the Hong Kong Institute of Human resources Management ...

122. The relative inexperience of many human resources managers means they make mistakes: for example missing opportunities to boost employee confidence and gain staff loyalty by retraining or reassigning workers as an alternative to firing them, or failing to take a sympathetic view of those with deep personal difficulties. And a company's size is no guarantee of professionalism where dismissals are concerned, says Jon Rittger, managing director for Greater China of Davidson Associates, a consultancy that helps laid-off employees find new positions. Rittger says some multinational corporations have been 'just perfect' in dealing with firings. Then there are other MNCs who have been 'absolutely hopeless'. The most obvious mistake is in the area of preparation, says Axon Consulting's Mule, citing Hongkong Telecom's aborted attempt to institute an across-the-board pay cut, or the hasty, take it or leave it ultimatums some employers have presented to their workers. Such errors can kill morale as well as damage a company's public image. Of course, these mistakes can't all be laid at the door of HR managers. In many cases, they don't have the authority to question planned dismissals or to come up with alternatives, so they are handed the unpleasant job of executing a *fait accompli*.

123. Since the management of retrenchments is uncharted territory for companies in Asia, many are turning to outside help to get the job done. Such consultants have seen a huge increase in their business, says Rittger, whose own consultancy saw annual revenue in Greater China more than double in 1998. Thomas Chow, managing director of Professional & Organization Development in Kuala Lumpur, estimates that his firm was involved in about 12 projects to trim staff last year, mostly for local Malaysian firms. The economic situation has provided a good platform to make positive organizational change, says Dave Kohutynski, director of compensation and benefits for regional retailer Dairy Farm. But first, he says, HR managers need to 'put ideas in a form that the organization can understand and embrace'. That means basing decisions on clear business knowledge ... For those HR managers (and functions) with the skill to adapt, today's painful learning experience could well be tomorrow's key to success'<sup>38</sup>

124. The crisis showed that retrenchments cannot always be averted. Still, as was highlighted in the ILO's Asian Sub-regional Tripartite Seminar on the Termination of Employment, held in Seoul in November 1998, cost-effective alternatives to job loss sometimes do exist. Finding such alternatives is influenced by a variety of factors. For example, national regulatory frameworks that guide enterprise responses along certain paths is one factor, as are well-developed channels for the participation of employees and their representatives in the search for ways to avoid retrenchments. Greater efforts at information and communication and, of course, the initiatives of employers themselves also help to generate ideas for saving jobs. Taken together, these factors often can combine to produce innovative ways of preserving employment that are both equitable and efficient. The way these factors interact will determine whether income-sharing or other methods of cost reduction is a workable alternative to job loss, or whether leave with partial pay, for example, is a less costly alternative to retrenchments to which severance-pay requirements are attached. When job loss is unavoidable, prior notification and open lines of communication, combined with assistance in job search or the identification of training opportunities can enhance employee preparedness, minimize loss of morale, and facilitate labour market adjustment.

As it has many times before (please see earlier Box 5 on Singapore's economy strategy), Singapore has taken concrete measures that, because they take a longer-term strategic view, are especially appropriate to current conditions. (Please see Box 10).

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<sup>38</sup>. Joanna Slater: "In the Hot Seat", *Far Eastern Economic Review*, 21 January 1999.

**Box 10****Worker retraining in Singapore as a response to the Asian crisis**

Michael Richardson reports in the *International Herald Tribune* (8 April 1999) that “a path is being blazed in Singapore in worker retraining that could become a model for other Asian nations grappling with unemployment. The government will soon announce details of a comprehensive learning system that will encourage workers to acquire skills throughout their careers so they can adapt better to rapid changes in the workplace. Labour specialists say that if Singapore’s approach proves effective, it could provide a re-education blueprint for a region that has neglected the need to develop a high-quality labour force to attract investors and create jobs.

“The issue of how best to handle retrenchment, industrial restructuring and the job losses caused by the current regional recession is a crucial one. The International Labour Organization estimates that as many as 25 million people may have been laid off as a result of the economic crisis that began in Thailand almost two years ago. Apart from Japan, Singapore is the only country in East Asia with a long-term systematic approach to worker education and training. The countries hit hardest by the crisis, Indonesia, Thailand and the Republic of Korea, have concentrated on short-term assistance to alleviate unemployment. But the ILO concluded in a report last year that only a small proportion of the jobless could expect assistance through the employment-creation programs under way in those countries. The programs provide mainly unskilled, temporary jobs on public works programs.

“Eddy Lee, the labour organization economist who wrote the report, said he was puzzled that no East Asian country except the Republic of Korea had introduced unemployment insurance, which he said should be financed by workers, employers and governments to be effective and affordable. Singapore’s alternative (complementary) approach, to be called the School of Lifelong Learning, is likely to be similar to the University for Industry in Britain, which uses modern communication technologies to link businesses and individuals to affordable training opportunities. Amid warnings from some trade union leaders that unemployment could rise this year to as much as 7 percent of the workforce, Singapore is also considering holding an annual human resources meeting where government officials, employers and unions could discuss with foreign experts how to improve training.

“Both the meetings and the lifelong-learning program are among recommendations from a task force of 100 business leaders, civil servants and trade unionists, with contributions from international Human resources and management consultants. Their report is expected to be unveiled in June. But already several Singapore cabinet ministers have outlined some of the findings, to underscore the government’s concern about the rise in unemployment to its current level of 4.3 percent. The unemployment rate averaged about 2 percent during the years of economic growth that followed Singapore’s previous, short-lived recession in 1985. As Singapore was hit hard by the regional slump, growth in the gross domestic product fell sharply to 1.5 percent in 1998 from 7.8 percent in 1997. After shrinking in the last two quarters of 1998, the economy is technically in recession.

“Although the overall economy continued to grow modestly in 1998 because of strength in the services sector, manufacturing declined 0.5 percent. As a result, 19,000 manufacturing workers lost their jobs, accounting for about two-thirds of the 28,300 job losses last year. The human resources minister, Lee Boon Yang, said the School of Lifelong Learning would help workers to learn continuously to enhance their employment prospects. But officials have emphasized that the program is crucial if Singapore wants to emerge strong from the recession and position itself to take advantage of any upturn in the region.

“Prime Minister Goh Chok Tong noted recently that Singapore’s neighbors would become more competitive once they put their houses in order because their currencies were cheaper and their workers hungrier. “We have a window of three to five years to restore and widen the competitive gap between ourselves and our neighbours,” he said. ‘We have already cut our production costs drastically. The next step is to increase our productivity and upgrade our capabilities.’ Mr. Goh said that this was especially important as Singapore was transformed into a knowledge-based economy geared to the needs of Western markets.

“Although the Singapore workforce was rated the best in the world overall by a consultancy based in the United States, largely because of harmonious labour relations, workers’ technical skills lag behind those of many Western countries. Finance Minister Richard Hu made it clear that the government was sympathetic to the plight of those who had lost their jobs and would assist people who were in genuine financial difficulties. He said, however, that the government would continue to give priority to retraining workers. A social safety net is important, Mr. Hu said, but it must not destroy “the incentive for the individual to work hard.”

**Source:** Article by Michael Richardson in the *International Herald Tribune*, 8 April 1999.

125. Equally uncharted territory, although in a different sense and of a very different kind, is the much broader issue of enterprise reform and restructuring in China, and the effective emergence of its non-state or private sector. This represents an especially important national-level case in the context of this Round Table for three main reasons: i) the vastness of the Chinese territory and its economy and society; ii) China's economic and political importance to the rest of Asia and the world; and iii) China's implementing of an important historical concept, that of a socialist market economy.

126. Over the past 20 years China has achieved spectacular economic results. However, it is now becoming more evident that the past policies and conditions that contributed to a successful outcome may not be able to solve some newly emerging problems. An effective economy cannot fully emerge until the Government does something about its ailing state enterprises, which employ some 100 million workers and are swamped by debt, surplus labour, and bloated inventories. Half of these enterprises operate at a loss, and one-third barely turn a profit. Many workers earn much of their income moonlighting for non-state/private firms. The present economic situation requires active steps in reforming, restructuring, or privatizing state-owned enterprises (SOEs).

127. The immediate challenge for policy-makers is to find a sustainable balance between longer-term economic needs for SOE reform and the short-term requirement for subsidies. Present government priorities are to standardize bankruptcy practice, encourage mergers, and promote employment of people released from SOEs. The Government's longer-term objective is to concentrate state resources on building up a core group of 1,000 companies that can dominate China's major economic sectors and compete on a global scale. Meanwhile 240,000 smaller SOEs will be released to the non-state/private sector. Further expansion of the rural non-farming sector and the private sector will require further liberalization of capital and labour markets. This gradualist approach that China has adopted in reforming its economy (in contrast to the course taken by the former Soviet Union), the urgent problems that it currently faces, and some of the basic considerations and ways forward for the future are examined in more detail in the following box: "Reform and restructuring of China's state enterprises", based on *Privatization: Lessons from Russia and China*, ed. J. Prokopenko, ILO Enterprise Department .

**Box 11****Reform and restructuring of China's economy and its state enterprise sector**

In reforming its economy, China has followed the path of “gradualism” with spectacular results. The reform that began China's economic transformation was launched nearly 20 years ago. Since then, the lives of hundreds of millions of people have vastly improved. Economic liberalization spread throughout the country sparking national growth averaging 10 per cent for the past 18 years. From 1978 to 1993, China's per capita GNP increased in real terms by around 280 percent, and in 1996 it stood at about US\$2,500. However, people live far better than the number implies, since the prices of goods and services remain relatively low.

National poverty in China was reduced by more than 50 per cent in the first half of the 1980s, dropping from 17.9 per cent of the population in 1982 to 6.1 per cent in 1984. After the mid-1980s poverty rates increased – reaching 14.7 per cent in 1989 – and then stagnated, hovering around 10 per cent in the early 1990s in rural areas. Urban income has grown rapidly since 1984. Between 1984 and 1993, average household income almost doubled, increasing by 81 per cent, with an average annual growth rate of 7.5 per cent. Between 1990 and 1993, the rate of absolute poverty in urban areas fell below 0.1 per cent. In the early stages of reform, inequality also lessened, although it has increased again in recent years. However, in comparison with other developing countries, rural inequality in China has not been severe.

The gradual liberalization of agricultural prices has helped reduce inflationary pressures. The time lag between rural and urban reforms (about six years) spared farmers from soaring agricultural input prices and provided them with a precious adjustment period. China's rural industrialization also helped to absorb surplus labour while it increased rural output, created a basis for future rural development, and helped avoid massive migration to the cities. Gradual urban reform increased income and maintained relative equality, while gradual price reform prevented inflationary income erosion. The slow withdrawal of food subsidies eased the pain of transition for the urban poor, prevented the rise of absolute poverty and stemmed widening of inequality.

The same could be said about the approach in reforming SOEs. Gradualism helped maintain almost full employment and a steady increase of income, thus helping to avoid massive urban unemployment and poverty. It is interesting to trace how enterprise reform influenced institutional changes in China. Enterprise reform started with a series of modifications of existing programmes. While these modifications were designed to maintain the basic rules of the game, they induced different behaviour and expectations from organizations and individual entrepreneurs whose response had intentional and unintentional positive effects on the progress of the reform.

Granting SOEs more autonomy without separating ownership and managerial rights seemed to improve productivity and economic growth, but simultaneously triggered social and economic ills that devastated the reform and the economy as a whole. These undesired outcomes (corruption, increased predatory activities, inflation, near bankruptcy of the state, etc.) have become the main stimulus for further reform in China since 1993. The inducement measures adopted in the process of enterprise reform have brought some positive effects, including increased productivity, economic growth, an increased role for market institutions, a growing market system and a system that is more open globally.

Politically, partial and incremental reforms softened the risk of total collapse of the economy by changing the potential earthquake into several small tremors spread in time and space. This generated support for reform, especially from the state and party bureaucracies. Meanwhile, the gradually more incongruous relationship developing between reform measures and the existing economic institutional structure generated stresses, conflicts, and unanticipated consequences, such as poor performance of SOEs, deteriorating macro-economic stability, and a decline in the state's credibility and capacity to manage the economy.

As a result, the central Government adopted a new programme at the end of 1993, emphasizing transformation from policy adjustment to establishment of a modern enterprise system. Its priorities shifted from improving the management of individual enterprises to upgrading the state-owned economic sector as a whole. The necessary negative incentives – corporatization, regrouping, and even bankruptcy – were combined with positive inducements to ensure a successful and sustainable enterprise reform. The programme simultaneously called for the creation and expansion of financial markets for bonds, stocks, and other negotiable securities; markets for technology, labour, information, and real estate; further reform of pricing and taxation; government reform regarding the separation of responsibility for macroeconomic control and microeconomic management; and the introduction of other market-related institutions, such as a social security system, a labour market, corporate regulation, and so on.

Political stability has always been the top priority of government policies and measures. Anything that can lead to social unrest should be carefully avoided. For example, the overemphasized full-employment policy pursued over the past four decades has been the major cause of labour redundancies that now constitute a major stumbling block for China, hindering the development of SOEs, since between a quarter and a third of employees represent surplus labour. The new stage of reform will be to ensure that larger state firms become more profitable, while smaller firms are allowed to merge, go bankrupt or be sold.

Over the next 25 years, the World Bank expects the Chinese economy to undergo a transformation that took about 65 years in Latin America and 80 years in the world's most advanced economies. China's particular strengths are its high rates of savings, its pragmatic reforms, a disciplined and relatively well-educated workforce, and rich overseas Chinese eager to invest in the country of their ethnic and cultural origin. The challenge for policy-makers is to find a sustainable balance between long-term economic needs for SOE reform and the short-term political need for subsidies.

**Sources:** *Privatization lessons from Russia and China*, edited by Joseph Prokopenko for the ILO's Action Programme on Privatization, Restructuring and Economic Democracy, Enterprise and Cooperative Development Department, (Geneva, ILO, 1998); Sachs, J. and Wing Thye Woo: "China's transition experience, reexamined", in *Transition*, World Bank, Washington, Vol. 7, No. 3-4 (March-April 1996); World Bank: "From plan to market", in *World Bank Development Report 1996*, Washington; Xu Yi Chong: "Deepening and widening the economic reform in China: From enterprise reform to macroeconomic stability", in *Journal of Developing Areas*, Western Illinois University, Vol. 30, No. 3 (April 1996), pp. 361-384; and Ying, Yvonne: "Poverty and inequality in China", in *Transition*, World Bank, Washington, Vol. 7, No. 7-8 (July-August 1996).

128. At the same time, however, China has also undertaken the development of a second important policy initiative: the development of a non-state-owned enterprise sector. There have been two main sources to the emergence of this sector since the beginning of reforms in 1978. Firstly, township enterprises in rural areas emerged and grew rapidly as a result of these reforms. Secondly, promotion of non-state enterprises in urban areas eased the pressure of unemployment which began to be felt at the beginning of reforms. Overall, the non-state sector has been much more effective than the state sector. In fact, it has in some respects become a model for state enterprise reforms.

129. However, many state enterprises are also still at a low stage of development, with an under-trained labour force. Their managers often do not have enough experience to build up sophisticated modern enterprises. And the business environment still encourages these non-state enterprises to operate along the same lines as state-owned enterprises because of central and local government intervention. Moreover, labour relations are insufficiently based on legal regulations. The role of trade unions in non-state enterprises is weak compared with state enterprises, and worker protection measures are in general more difficult to implement. To correct this, the All China Federation of Trade Unions (ACFTU) has requested every joint-venture and township enterprise to set up a trade union to look after workers' rights.

130. The success of the Chinese economy in the past 20 years is a complex story. Reforms were undertaken in a gradual manner. Their sequencing started with basic rural sector reforms and the gradual industrialization of the rural sector to prevent input price strains and rural-urban migrations followed by urban sector reforms and enterprise reforms, but all in the context of the necessary financial sector reforms and adjustments. At the same time, as the SOE sector was placed under increasing incentives and disincentives to decrease in size, a non-state/private sector was placed under similar incentives to grow and take up human resources and economic activities.

131. The relationship of institutional changes to economic reforms was also placed firmly on the policy agenda, and, as new conditions slowly emerged, these also permitted change by simultaneously creating social and political support for it. At the same time policy-makers knew they were on uncertain ground, and recognized they did not even know the correct path *ex-ante*. These gradualist tendencies and high degrees of social concern coupled with great discipline, respect, and desire for order and stability, and the policy and institutional reform approaches which they prompted, find their roots not only in the political and ideological transitions of China's twentieth-century history but, perhaps more so, in the predispositions of its people engendered by much longer and deeper cultural traditions.

132. The presentation and analysis of this case concludes this report's treatment of the topic of human resources management and restructuring within the current Asian context.

## **Corporate citizenship practice**

133. The second major area of focus for this Round Table is strengthening and extending good corporate citizenship practice (CCP), with an emphasis on achieving improved community and skills development. The overall purpose of examining this area is to tap the vast potential of the corporate citizenship movement in the region and strengthen its emerging positive role in the economic and social development of the region. A more restricted objective is the extended application of best practice in the present and building a solid base of understanding for improving and advancing CCP at enterprise level in the near term. But to understand what progressive CCP means in this broad context, and for these

particular purposes, it is indispensable to trace some of the history and background of the corporate citizenship movement, describe its alternative definitions and composition, and place it in the context of other advancing trends in the broader field of private, public, and civic responsibility and action for overall development and progress.

134. To accomplish this, it is useful to review briefly the history and emergence of the broad area of social concern and performance by private enterprise. A number of terms and practice are currently in use – corporate philanthropy, corporate social responsibility, corporate citizenship, corporate and business ethics, corporate codes of conduct, and social initiatives by enterprises. All these terms and movements have their roots in much broader ethical, social, cultural, and political trends that reach well beyond modern private enterprise and economics. Their driving values rest on Oriental and Western traditions, including world religions themselves partially anchored in earlier pre-modern communal values and social systems based on the vast historical human experience with individual and collective struggle for survival and progress.

135. The Western Greco-Roman rationalist and humanist tradition has placed significant emphasis on individualism within broad egalitarianism and democracy that found a form of expression also in the Christian concept of charity. Just six centuries later, *zakat*, the Muslim duty to give alms to the poor, became one of the five pillars of Islam. In Asia, the Japanese value of *kyosei* has traditionally called for doing one's utmost in living and working together for the common good. Buddhist philosophy in its concept of *santutthi*, stresses the importance for an individual to have limited desires. And the Hindu religion places great importance on *dharma*, the fulfillment of inherited duty. Confucius, in his *Analects*, counsels people to maintain reciprocity and not do to others what they do not wish done to themselves – the Golden Rule. All these values, concepts, and traditions from India, China, the Mediterranean basin, and other regions form the broad inherited ethical background for today's corporate social responsibility movement and its various predecessors. As economic integration rapidly proceeds under the forces of globalization, so does cultural integration, although more slowly, and these various traditions and values are gradually beginning to form a set of core human values that currently find expression in such lists of moral principles as the United Nations Universal Declaration of Human Rights.<sup>39</sup>

136. In this respect, it is useful to review briefly the values-grounded frameworks of human rights and work rights that have been established by the international community, both for their intrinsic value and for the role they play in shaping effective and equitable approaches to development. Clearly these frameworks also impinge upon and interpenetrate the behaviour of the broad business community in its corporate social responsibility principles, policies, and practices. (Please see Box 12: "Human rights and work rights and their role in development".)

137. One of the concepts mentioned earlier, that of corporate philanthropy, has its roots in the broader (and earlier) non-corporate philanthropic and charity movement, whose basic history and structure in the region has already been broadly summarized in Paragraphs 46 and 47, above. It was also later briefly argued in this paper that corporate citizenship and corporate social responsibility are much more recent notions that have emerged in response to legal, market, stakeholders', and public pressures arising from globalization as well as from other earlier systemic development trends (e.g. the Industrial Revolution) and

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<sup>39</sup>. These comments are based on readings in J.M. Roberts: *The History of the World* (London, Hutchison Publishing Group Ltd., 1976); "London: The Classical Mediterranean", pp. 171-291; "The Age of Diverging Traditions: Islam and the Remaking of the Near East", pp. 307-321; "India", pp. 396-417; "The Chinese Sphere", pp. 417-437; "Asia's Response to a Europeanizing World", pp. 762-789; "A World Civilization", pp. 907-929; and "In the Light of History", pp. 988-1102.

effects that have shaped ethics, values, politics, law, and culture beyond the much earlier broad influences of the major traditions and religions. At the heart of the corporate social responsibility/citizenship movement is the notion that a business enterprise is not only an economic institution, but also a social, political, legal, and cultural institution. A firm is a piece of an interpenetrating social system within which both organizational and individual actors inevitably embody and assume multi-dimensional roles and responsibilities, i.e. “citizenship”.

138. The modern corporation clearly operates within a complex, multi-dimensional environment. Dr. Lee Preston, in a 1996 paper by the Center for International Business Education and Research at the University of Maryland, reports that Daniel Bell (1973) described modern-day post-industrial society as consisting of three main elements: the economy; the polity, i.e. the political and governmental structure; and the culture. According to Bell, the culture of a society, built up through historical experience within a particular physical setting, is the underlying structure. It provides the focus and a base for the political system, which in turn creates the framework for the economy. Whether one describes these relationships in this manner or in reverse, as Marxists would, there are clearly two-way interactions among these broad elements of social structure, if indeed they can be separated at all.<sup>40</sup>

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<sup>40</sup>. Paragraphs 137 to 140 are quoted from or based on Lee E. Preston: *Redefining the Corporation: Stakeholder Theory in International Perspective*, occasional paper #78, July 1996, Center for International Business Education and Research, College of Business and Management, University of Maryland at College Park; and Daniel Bell: *The Coming of Post-Industrial Society* (New York, Basic Books, 1973).

**Box 12****Human rights and labour rights in development**

During the Society for International Development's Chapter Event 9 December 1998, Mary Robinson, UN High Commissioner for Human Rights, spoke on bridging the gap between international development and human rights:

“I was delighted that you chose to focus on this issue because I believe it is one of the major challenges that we are facing. And I could begin by re-emphasizing that when I took on the responsibility as UN High Commissioner for Human Rights in September 1997, I was very conscious of the need to project at all times a very strong sense of being equally determined to advance both sets of rights, civil and political and economic and social and cultural and that this would be a key debate, not just over the months of this special year of human rights, but really as a beginning to influence policy and to influence approaches to development – and that it would not be an easy debate. It's been a debate that's gone through different phases, after the Second World War, during the Cold War, and now in a very interesting way, we are beginning a new debate. I say a new debate because the international human rights community is building its institutional strength. I think it was very significant that the Commission on Human Rights in looking at the situation for human rights decided to create significant new mandates and an independent expert on human rights and extreme poverty to look at the right to development, the right to education, and the effects of foreign debt.

“On the right to education, the committee on economic and social rights has just had a very important day of discussion that brought together experts from within the UN system itself and from a much wider outside constituency. The general conclusions of the committee are a very good focus for looking at how we approach issues of economic and social rights, and how we link development and human rights. In my view, having the right attitude to human rights and development means understanding that the role of human rights is to empower individuals and communities. Human rights ensure that the individual's development be given first consideration when decisions are made at a macro level. Human rights tell people at the grassroots level that security, economic opportunity, and a better life for their children are not vague and undefined entitlements or favours bestowed by government or an international agency, but essential rights which each individual must have to develop fully to live a life of dignity – as was so clearly proclaimed in the Universal Declaration. And so saying that, I am advancing nothing new or taken from an agenda or any particular ideology. I am simply advocating for the implementation in a consistent, coordinated and coherent manner of well established legal obligations and that we increasingly focus on the ways on which we can implement legally these obligations.”

Within the specific area of labour rights and human rights within the World of Work, the 86th Session of the International Labour Conference of June 1998 established the landmark ILO Declaration on Fundamental Principles and Rights at Work:

**“The International Labour Conference,**

1. Recalls: a) that in freely joining the ILO all Members have endorsed the principles and rights set out in its Constitution and in the Declaration of Philadelphia, and have undertaken to work towards attaining the overall objectives of the Organization to the best of their resources and fully in line with their specific circumstances; b) that these principles and rights have been expressed and developed in the form of specific rights and obligations in Conventions recognized as fundamental both inside and outside the Organization.

2. Declares that all Members, even if they have not ratified the Conventions in question, have an obligation arising from the very fact of membership in the Organization, to respect, to promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights which are the subject of those Conventions, namely: a) freedom of association and the effective recognition of the right to collective bargaining; b) the elimination of all forms of forced or compulsory labour; c) the effective abolition of child labour; and d) elimination of discrimination of employment and occupation.

3. Recognizes the obligation on the Organization to assist its Members, in response to their established and expressed needs, in order to attain these objectives by making full use of its constitutional, operational and budgetary resources, including by the mobilization of external sources of support, as well as by encouraging other international organizations with which the ILO has established relations...”

The preceding is fully consistent with the conclusions of Ms. Mary Robinson’s speech with respect to other human rights, as she went on to state:

“And so what is the UN’s response? The Secretary General in the programme of reform envisaged a better integration of human rights throughout the UN system. To fulfill its mandate the UN Human Rights Programme is undergoing a profound process of change. First of all, a change from standard setting to standard implementation. But in addition to what we need to do to integrate and make more known the work, so that it can serve as part of an early warning system (in terms of peace and diplomacy), so that it can be in the leadership in precisely bridging the gap between international development and human rights. We have new mandates which are a big challenge ... and I will end on this point: we need to move to a more integrated approach and to partnerships to further the protection and promotion of human rights. I knew when I took on the responsibility that it is a vast and daunting task, and now I am increasingly aware that we can create innovative linkages and strategies.”

One such set of “innovative linkages and strategies” can well be considered to be those that relate the ILO Declaration on Fundamental Principles and Rights at work to the notion and practice of corporate social responsibility in the context of globalization – which is discussed later in this report within the context of an effective response by business and government to the Asian crisis.

**Source:** International Labour Conference, “Declaration on fundamental principles and rights at work”, 86th Session, Geneva, June 1998; and from “Development Connections”, *The Quarterly Newsletter*, Spring 1999, the Washington DC Chapter of the Society for International Development.

139. The dominant cultures of the developed world, which provide the home base and model environment for the modern corporation, involve varying mixtures of individualist and communitarian elements. However, at present almost all of these cultures support the concepts of private ownership and market allocation, as opposed to collective ownership and administrative allocation. In response to these cultural stimuli, political systems in the industrialized countries provide protection for property rights – both individual and collective – and support the operation of markets by establishing a framework for the rule of law in economic affairs.

140. Perhaps the fundamental questions to ask are the following. What kind of entity is a private sector enterprise, firm, company, business, or corporation? How does it operate, and with what impact? And how should it operate, make decisions, and interact with other elements within society? With what specific elements of the polity (government) and the culture (civil society) should it in fact interact within the complex and dynamic setting of the emerging globalized economy and also buffeted by occasional minor or major crises?

141. There are various simple theories that provide bases for considering these questions:

i) Entrepreneurial theory views the corporation as based on individual initiative, embodying the ideas and resources of its creators. This concept clearly captures the essential attributes of most new and small and family companies all over the world, and may be the most appropriate model for analyzing the role of indigenous corporations and SMEs in developing and transitional economies.

ii) Managerial theory sees the corporation as an institution in the custody of its managers, whose duty it is to see that the institution persists over time, and grows and extends its influence when possible and desirable.

iii) Shareowner-agency theory views the public corporation as the private property of its shareholders, whoever they are and however temporary their ownership may be. From this perspective, the enterprise should be managed by hired agents so as to serve the shareholders' immediate financial interests.

iv) Stakeholder theory, in contrast to the preceding notions, holds that the corporation also involves a collaboration of several and multiple interests – investors, employees, customers, suppliers, host communities, the broader public, and even future generations – each of whom contributes to and gains something from the activities of the firm and each of whom therefore requires consideration in its decision making.<sup>41</sup>

142. This theoretical and definitional territory clearly has overlaps. Private businesses can be and are viewed through the lenses and principles of one or more of these main schools of thought at once. Willis Harman, president of the Institute of Noetic Sciences and a founding board member of the World Business Academy, describes three categories of broader viewpoint held by the global business community with respect to corporate social responsibility that embody and combine and reflect various strands from these preceding theories, reflecting what is considered their responsibility and what is considered externalities.

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<sup>41</sup>. Paragraphs 37 and 38 are quoted from or based on Lee E. Preston: *Redefining the Corporation...*; and Bell: *The Coming of ...* op cit.

143. The first category is composed of business people who believe that the problems we face in the world at this time are simply repetitions of problems faced in the past. They have been successfully negotiated before, and they can be successfully negotiated in the future. Furthermore, since we pay taxes it is the role of government to deal with problems of the environment and society.

144. The second category consists of those people in the business community who hold the view that the problems that we are seeing in society and the environment are serious and urgent, and they require the attention of business. We need to invest money and we need to be very careful about our behaviour. We have to work together with other partners in society to solve these problems.

145. The third category is made up of those people who hold the view that the problems we are seeing in society and in the environment (please also see Box 2: “Major world trends”, above) are just symptoms of a much deeper systemic problem. We are not going to be able to solve the real problem simply by dealing with symptoms. We need to understand the nature of the fundamental change required in the overall system.

146. In this view, business, as the most powerful influence in the world today, has a responsibility to facilitate the transformation of the wider existing system. We therefore need to better understand the role that business plays, and not limit ourselves by solely emphasizing technologies and processes but also examine our consciences and the way we do business. A perceived strength of the World Business Academy is that it is firmly rooted in this third category. (i.e. in stakeholder theory, but much more broadly interpreted). The second category, which believes that business has a role to play in solving the world’s problems, is by now the dominant view within the mainstream business community (reflecting stakeholder theory more narrowly). Five years ago, the first category would have been much larger. The smallest is the third category, but it is rapidly expanding as frustration and disillusionment over re-engineering and change-management processes spread within the same basic context.

147. A broad objective of corporate social responsibility or corporate citizenship movements globally and nationally, in the perspective of the third category above, can be viewed as implementing awareness, education, and other policies and actions that will assist in shifting this profile (and paradigm) of companies and private sector actors and players progressively from category 1 to 2 and onward from category 2 to 3. (Please see Box 13.)

**Box 13****Old and new paradigms for business, society and development****The persistent themes of the Western industrial era paradigm are:**

- i) the scientific method as the supreme mode of inquiry;
- ii) unlimited material progress as the inherent goal;
- iii) industrialization of the production of goods and services achieved by subdividing work into increasingly elemental increments and replacing human labour by machines; and
- iv) the predominance of pragmatic values with individuals free to seek their own self-interest in the marketplace.

**These themes of the Western model have brought about some great achievements, but they have also led to:**

- i) scarcity of fresh air, water, and arable land; environmental degradation; biodiversity and ecological crises; toxic substance concentrations; and man-made climate change;
- ii) marginalized people and cultures, and chronic poverty; hunger; and maldevelopment;
- iii) a crisis of overall human economic and social control; and
- iv) a crisis of meaning and values. Some of its recent underlying assumptions seen to have caused this are: i) the predominance of economic institutions and economic rationality; ii) nationalism and the concept of “national security”; iii) government by interest groups; and iv) the predominance of a materialistic picture of reality.

**The new paradigm which some believe is needed and which is gradually emerging features:**

- i) wholeness and a whole-system multidimensional view of society within nature;
- ii) ecological awareness of the finiteness and multiple-connectedness of the planetary ecosystem and the inextricable interdependence of all human communities;
- iii) peace and common security, since present national security policies *diminish* both security and well-being;
- iv) decentralization on a human scale of social and political activities and rebuilding of communities;
- v) post-patriarchal perspectives and counterbalancing of traditionally male-associated characteristics with characteristics more traditionally associated with females;
- vi) trans-materialist beliefs and transcendent meaning and inner growth leading to wisdom and compassion;

vii) social responsibility to ensure that poor and working people will not be hurt by emerging programmes to restructure economies and the consumer society along lines that are more ecologically sound;

viii) solidarity with the “Third World” – just as economic growth is not an adequate goal for developed countries, so economic growth alone is not an appropriate goal for the developing world – and an emerging redefinition of development should include emphasis on human development and well-being, social and cultural goals, and self-reliance;

ix) steady-state population and economy – the finiteness of the globe dictates that world population should approach steady-state conditions and that the interaction between total world economic activity and the earth-system should approach some kind of equilibrium the latter will require new concepts of work and of the healthy economy, since the creation of jobs through boundless economic growth and consumption is not in the end a viable strategy;

x) cultural pluralism – the richness of cultural diversity is a planetary resource, just as is the richness of diversity of plant and animal life; the tendency of the world industrial economy to stamp out competing cultures must be corrected;

xi) nonviolent change – necessary and fundamental societal change must arise through a spreading awakening; the political manifestations of this must involve nonviolent change, if the change process is to be compatible with the ends desired; and xii) empowerment of people – for the other conditions to be met, the emphasis must be not just on goals but on process, on people becoming empowered to take responsibility for their own lives and for changing society as necessary. The process is an evolutionary one, and its goals are emergent.

**Source:** *The new paradigm in business: Emerging strategies for leadership and organizational change*, ed. Michael Ray and Alan Rinzler for the World Business Academy (New York, G. Putnam’s Sons, 1993).

148. Narrower and shorter-term objectives than these are represented by the specific social initiatives undertaken by enterprises in the present, and by their demonstration of increasingly higher levels and standards of corporate citizenship. To examine these, it is useful to understand what corporate citizenship means. But what are good conceptual and working definitions of corporate citizenship that also can have practical application, and what are some concrete examples of social initiatives taken up by enterprises?

“Corporate citizenship,” say Chris Marsden and Jorg Andriof,<sup>42</sup> “is a term based on the premise that companies are in effect ‘citizens’ of the countries where they operate and, increasingly, with globalizing markets, of the world. The potential positive environmental and social contribution of companies is every bit as great as their potential for harm. Good corporate citizenship is about understanding and managing an organization’s influences on and relationships with the rest of society in a way that minimizes the negative and maximizes the positive. The importance of the effective management of a company’s citizenship (and social) performance is growing both for itself and society as a whole. There are a number of forces based on self-interest and mutual advantage, in addition to ethical values which underpin any civilized activity, which if better understood and harnessed, can be used by company managers and stakeholders to enhance the positive contribution and lessen the negative.”

149. A key to the development of such citizenship can also be seen to be the development of an effective “reputation marketplace”, which relies on the creation of countervailing social pressure to balance that of certain economically powerful companies. An important source of this pressure is the presence of effective trade unions at enterprise, industry and national levels. The emergence of campaigns by NGOs has also helped to highlight this issue. Companies will increasingly need to manage their citizenship performance in order to maintain and advance their competitive advantage in cooperation with representatives of workers.

150. Citizenship also concerns rights and duties. Companies as separate legal entities thus can be thought of as corporate citizens, with both legal and moral rights and duties. As Peter Drucker has said (1993), citizenship is more than just a legal term, it is a political term and, as such, it means active commitment and responsibility. It means making a difference in one’s community, one’s society, and one’s country.<sup>43</sup> It also means being accountable for one’s actions. As corporate citizens, enterprises are increasingly being asked to measure their performance in terms of a “triple bottom-line” of accountability, wherein financial, environmental, and social concerns are all important.

151. But it is useful to place corporate citizenship performance or corporate social performance (CSP) in a more operational analytic framework. Wood’s 1991 CSP model<sup>44</sup> posits three sets of main components – social responsibility principles, social responsibility processes, and social responsibility outcomes – within an interactive model intended as a framework by which a socially responsible enterprise can be examined and its performance measured. Its theoretical relevance lies mainly in its ability to incorporate a number of descriptive elements of a socially responsible enterprise in such a way that such elements can be described as interrelated areas within which indicators can be described as variables. But it also has practical relevance for managers who wish to arrive at socially responsible practice.

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<sup>42</sup>. Marsden and Andriof, *op cit*.

<sup>43</sup>. Peter Drucker: *Post Capitalist Society* (Oxford, Butterworth-Heinemann, 1993).

<sup>44</sup>. Donna J. Wood: “Social Issues in Management: Theory and Research in Corporate Social Performance”, *Journal of Management*, 17 (1991), pp. 383-406.

152. Clearly these principles, processes, and outcomes are themselves shaped and their intensity influenced by the heretofore described “ethical-moral-*conscience*”, “legal-regulatory-*compliance*”, and “business-marketplace-*competitiveness*” – external forces and factors that derive from both long-standing societal values and cultural and religious traditions and nearer-term developments in the global economy, and its cultural, legal, and marketplace impacts. The motivations that these “3Cs” (conscience, compliance, and competitiveness) induce at internal-enterprise level provides incentives on a company’s leadership, management, and staff, which will determine its operational levels of corporate social responsibility in terms of *principles*, *processes*, and *practice* (3Ps) and their outcomes.

153. Within this second part of this model, the main principles of enterprise social responsibility are: i) legitimacy; ii) public responsibility; and (iii) managerial discretion. Its main processes are: i) environmental scanning/assessment; ii) stakeholder management; and iii) issues management. Its main outcomes are internal stakeholder effects, external stakeholder effects, and external institutional effects. It is clear that the principles affect the processes, and the processes bring about practice and effects, which in turn determine impact. All these are shaped by external factors and forces and all impact enterprise performance or “best practice” in the area of corporate social responsibility, corporate citizenship, and social initiatives by enterprises. Best practice outcomes and impacts should therefore be understood comprehensively as the manifestation and result of all three main components (3Ps) and their sub-variables in an enterprise-level response to the 3Cs driving forces in the external environment.<sup>45</sup>

154. Having reviewed the preceding conceptual and analytical territory, let us now review some general operational social initiatives by enterprises and attempt to place and understand these within the preceding frameworks. (See Box 14: “Social initiatives by enterprises”.) These general examples will be followed by specific case examples of good practice.

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<sup>45</sup>. Michael Hopkins and Alton Straughan: “Defining Indicators to Assess Socially Responsible Enterprises” (Geneva and London, MH Consulting Ltd., June 1995).

**Box 14****A definition of social initiative by enterprises**

Analytically, we can distinguish between various kinds of initiatives. First, there are external and internal initiatives. Internal activities refer to employment, training, and welfare measures undertaken by organizations for their own employees. This is the traditional area of enterprise social or human resources policies. External initiatives cover measures that are undertaken by enterprises for those outside the organization. This can be for individuals, for groups or for other organizations. Individuals and groups might cover family members of employees or past employees such as pensioners. Outside organizations might include business partners and subcontractors, suppliers, and customers; they can extend to local and national community groups and voluntary organizations such as charities. They might cover activities vis-à-vis the environment. Many enterprises launch community initiatives for mutual benefit. Examples include financial donations, youth programmes and participation in entrepreneurship, small enterprise and job creation schemes involving credit, training and other support, and other forms of support and services. Globalization has also brought enterprises' social initiatives on to a global level. Recent signs of this are increased business-UN cooperation, CEO links with political leaders, and the growth of Round Tables, conferences, and seminars on the social responsibility of enterprises.

Second, we can distinguish between initiatives that are voluntarily undertaken and others that are legally encouraged or based or else market driven. An intersection of these are those activities that are enterprise-policy driven reactions or proactive initiatives conceived to constructively react to problems or pre-empt them. Many enterprises have also adopted measures in the form of corporate policies, or social codes of conduct to promote social or labour standards. They are applicable in-house, but are also often extended to business partners throughout the product supply chain.

In the specific area of jobs and employment opportunities, it has in recent years become more difficult for firms to provide employment security and keep excess staff on their payrolls. Large Asian, European, and North American firms have called massive redundancies. Even in the large-firm sector in Japan there have been layoffs questioning so-called lifetime employment. With the advent of restructuring, many enterprises have developed outplacement support for employees who had to be made redundant. Firms have encouraged self-employment programmes and the start-up of small businesses with advice and cash, and have provided support for management and employee buyouts. Sometimes this has involved the creation of employee share ownership plans giving various rights of ownership to employees in new enterprises. Some companies voluntarily provide payments based on years of service, job search assistance, and continued health care benefits.

In the area of education and training, a number of new initiatives may be cited. Some firms have gone beyond their traditional training activities and inaugurated employee development programmes intended to improve the basic educational level and employability of their employees. The argument is that, if firms cannot provide employment security, they can enhance the employability of employees via recognized skills that can be used in the external labour market. Some large enterprises have also increasingly provided training for business partners, subcontractors, and customers within their commodity chains. This is often cited as a characteristic of large Japanese companies both within Japan and outside. In addition, some large enterprises have provided training programmes for public sector organizations, charities, and worker-owned enterprises and cooperatives. They have also given support for education and training in the broader community.

There have also been initiatives vis-à-vis other enterprises. This might include help to firms within a community of firms such as in Japanese *keiretsu*-type arrangements, or in some German and Italian industrial districts. It would also include support with technology and transfer of organizational know-how to organizations in developing countries. Interventions have also been stimulated by a need to protect disadvantaged workers in developing countries. These have been undertaken by some large supermarket chains, clothing companies, and toy and sporting goods manufacturers. Finally, initiatives vis-à-vis other organizations might include secondment of staff to charities, philanthropic organizations, school governing bodies, and other voluntary organizations and NGOs.

**Source:** *Social initiatives by enterprises*, by Professor Howard Gospel, Chair of Management Studies, the Management Centre, King's College, London; "Discussion Paper No. 3 prepared for ILO Enterprise Forum 1996"; and from a draft informal paper on corporate citizenship and social initiatives by enterprises (1999), by G. Hultin, ILO.

155. In its concern with corporate citizenship practice and social initiatives by enterprises, this Round Table focuses specifically on community development and support, and training and education outreach for employment and employability – areas of particular importance in times of crisis. Employability can be defined as the increased opportunity and capability for constructing the productive skills and competencies that will allow people to find, create, keep, enrich, and change jobs (please see Box 10 for Singapore Lifetime Learning example), and to obtain fair personal, economic, social and professional returns in reward. For each individual, employability means enhanced possibilities for successful transitions throughout working life: from school to first employment, for re-entering the labour market after unemployment, for horizontal and vertical mobility within and between enterprises, between training and work, between wage-employment and self-employment, and for coping with changing job contents and requirements. For enterprises, commitment to employability can be inferred from enterprises' personnel policies and in particular training, job rotation, and career development. Externally, enterprises have a growing interest in the total quality of the workforce and its constant updating and renewal, since it provides the source of skills to which they resort. Enhancing employability involves stakeholders at different levels, employees, enterprises, governments, and workers' and employers' organizations alongside the community itself.<sup>46</sup>

156. Related to efforts on employability, but also to the other manifestations of corporate social responsibility, is a company's contribution to advancing national and enterprise-level gender practices. Since corporate social responsibility refers to a vision of the role and responsibilities of business in society, it should also contribute to promoting gender equality as an important component of a better society. CSR practitioners should bear in mind that women's equality and the promotion of their human rights – including their rights as workers – are integral goals of socio-economic development and poverty eradication that also make good business and community development sense. Some trends of globalization and trade liberalization have brought about new work opportunities for women, but the Asian crisis has also hit many women hard. The private sector can play a very useful role, complementary to that of the public sector, in assisting to mitigate its adverse effects, particularly in favour of the poorest strata of the population. Women tend to be over-represented in these strata, and therefore social initiatives by enterprises that target women to alleviate poverty are doubly effective, since they also benefit their children and, indirectly, the entire local community.

157. The United Kingdom provides a relevant national case of community support in times of crisis, one that is illustrative for Asian countries because it provides a longer-term perspective before and after a crisis period. Corporate community involvement in the United Kingdom has a long history. In the nineteenth century industrial philanthropists were responsible for providing universities, hospitals, libraries, and similar institutions in industrial towns and cities throughout the country. Most of this activity declined and disappeared during the twentieth century with the growth of public provision under the welfare state, and, until recently, modern corporate involvement in most companies was restricted to financial support for charities, often selected on a random basis. This limited pattern of involvement has for several reasons changed and grown since the early 1980s. Box 15 provides an overview of the relevant UK experience, useful in understanding and promoting community-related enterprise social initiatives at national levels.

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<sup>46</sup> Maria Angelica Ducci, Chief of the Training Policies and Systems Branch, ILO Geneva: "Training for Employability", discussion paper 2b, ILO Enterprise Forum, 1996.

## Box 15

### Enterprise community support in the United Kingdom during industrial restructuring

Business values have become increasingly dominant in the United Kingdom during the past 20 years, with public utilities privatized and a growing emphasis on efficiency throughout the economy. Alongside this new recognition of the importance of business, however, has come a corresponding development of interest in business responsibility. Many companies, led by some of the largest and most successful, now regard various forms of community involvement as an essential and mainstream part of their trading activities. In the 1980s a huge increase in unemployment resulting from the restructuring of industry had a particularly severe impact on regions where the declining heavy industries were located. Employers sought to mitigate the effects of redundancy by supporting job creation schemes, training projects, and community activities in areas where factories, mines, steel works and shipyards closed.

Much of this activity was intended to be temporary, but pressures on public spending, combined with a recognition that the State could no longer finance and provide all community needs, have served to keep companies involved in community activities. If modern corporate community involvement in the United Kingdom began out of a sense of responsibility at a time of industrial restructuring, however, it is now maintained by a rigorous recognition in many companies of its business benefits. Many of the present generation of business leaders have ceased to regard the community as something abstract, and see it as the source of both their customers and their employees. Companies regard a good community reputation as one of the ways in which they can successfully market their products. Leading successful companies such as Marks & Spencer include secondments to community organizations in management training schemes. A further factor in the growth of corporate involvement has come through employee volunteering, with some companies giving staff time off to work in the community, or providing financial assistance to community organizations supported by employees.

The appointment of professional community affairs managers in large companies, and the discussion of community issues at main board level, is evidence of the growing importance of the community to UK companies. Some UK multinationals, including Grand Metropolitan, are regarded as leaders in a field where most ideas have tended to originate in the United States. The development of corporate community involvement in the UK has so far been relatively uncontroversial, apart from some criticism from those who believe business support for social programmes will merely be matched by reductions in public spending. Those corporate chief executives who do not believe in community involvement have simply ignored it.

The subject however may not remain so uncontroversial. One of the consequences of businesses doing a mainstream, managerial approach to community activities is that their motives will become more exposed to public examination and they will need to demonstrate that projects really do benefit the community and not just the company. Can a company be regarded as a good community partner just because it supports local projects and supports employee volunteers? These tend to be the present tests, but critics argue that factors such as recruitment, equal opportunities, and investment policies should also be taken into account, since these can have far greater impact on the community. These are difficult questions, but the fact that they are even being raised suggests that corporate community involvement will remain a high priority issue for the remainder of the decade and beyond.

**Source:** "Business benefits in community support", by Alan Pike, *Financial Times*.

158. The preceding box described the case of a national-level response by business in the general direction of community engagement under contingency conditions of national economic restructuring. At the level of a large enterprise, an excellent although different case of a community engagement response driven more by tradition and values is that of the Nagarujna Group of Companies in India. The Nagarujna group is a major business group in India founded in 1973 with an investment of US\$6 million by the late Shri KVK Raju, a professional technocrat and entrepreneur. The group is now poised to develop an asset base of about US\$10 billion, and has a significant presence in core areas such as steel, agribusiness, and financial services. In recent years unprecedented changes have also taken place in India, as global market forces impacted upon not only on its economy and technologies but also on its political and social system and its environment. The Nagarujna group is facing these challenges through its own transformation by harnessing the indigenous values of India in its approach to business. (Please see Box 16.)

159. Values are a powerful force, and India is a vast country with immense economic and social development problems and a deep ethical tradition. It is therefore particularly interesting to review what the broader community of enterprises is doing in India. A sampling was conducted in a 1996 survey commissioned by the Partners in Change group in India and undertaken by the Social and Rural Research Institute, a specialist social research unit of the leading market research agency, Indian Market Research Bureau. The survey covered 650 companies and 75 CEOs. Most of the CEOs indicated a belief that companies had a social responsibility to society. The CEOs surveyed felt their primary responsibility was to their employees and their families; but this was quickly followed by a feeling of responsibility towards the communities around their place of work, qualified by indicating action was conditional on the capacity of the company.

## Box 16

### Social initiatives by enterprises in India: The Nagarujna experience

Nagarujna's senior management states: "We at Nagarujna believe that long-term economic success is not an end in itself but the means to also serve the longer-term interests of our society. We believe that market leadership is not an end in itself, but rather the by-product of success in sustaining customer satisfaction. We believe that corporate growth is the by-product of the growth and development of individuals within the company.

"Nagarujna's aim is to spearhead an agri-revolution in India through our leadership in the agri input-output business. We have set up a state-of-the-art fertilizer plant which meets global standards of productivity, energy efficiency, and environment control. The large ecosystem developed by Nagarujna around its plant has been acknowledged as a model of industry's contribution to ecology. Through our country-wide dealer network we are in a position to supply high-quality critical inputs to farmers including fertilizers, pesticides, seeds, and micro-irrigation systems. Our strategic plan envisages the provision of the entire range of agri-inputs to the Indian farmer in order to multiply farm productivity. With vision the company is setting up an applied research center to provide state-of-the-art agricultural technology to farmers.

"We are also setting up model farms to transfer the latest agricultural technology and best practices to raise farm productivity. There are plans to develop infrastructure facilities including storage, transportation, and marketing of agricultural output so as to increase farmers' incomes. Our founder believed that the innate values of India provide the basis for an ideal management system."

**Source:** Company presentation at the World Business Academy and ILO International Executive Meeting, 21-24 September 1994, Geneva, Switzerland.

160. Only 8 per cent of the companies had a written policy on their involvement in development, but an overwhelmingly large proportion were: i) actually supporting activities on the ground; ii) working in the areas identified in their policies; iii) supporting ongoing, long-term programmes; and iv) working through a senior person or department who was responsible for the programme. A little under half of the companies surveyed reported supporting some kind of development activity, and the single most important reason for doing so was reported to be "pure philanthropy". Monetary donations were the most common way of supporting development work, with over 60 per cent of the companies reporting this form of support. Other forms such as directly enabling employment and volunteering staff were also reported by 16 per cent to 19 per cent of the respondents. At the same time, 62 per cent said they made monetary donations to development work and causes, while 46 per cent indicated that they were involved in community development work. Some specific examples of providing employment opportunities and of supporting the marketing efforts of small producers and other forms of social support are summarized in Box 17.

**Box 17****Employment opportunities for the disadvantaged and marketing support for small producers in India**

The corporate sector can provide employment opportunities to disadvantaged persons in many ways: i) affirmative action towards specific disadvantaged groups such as women and the disabled during recruitment; ii) influencing suppliers to do similarly; and iii) promoting ancillary units that provide employment opportunities to disadvantaged persons by producing goods and services the company requires. Such units may be for raw materials, assemblies, packaging materials, packaging services, etc.

**Practical examples of this kind of social support have included the following:**

i) Titan Industries has a stated policy of giving preference in certain production areas to disabled people. As a result, Titan is perhaps the largest employer of the disabled, at least in the private sector if not in the country overall. Titan Industries has also set up an ancillary unit that fixes straps on watches and other operations, along with an NGO called the Integrated Rural Development Trust. This unit provides employment to people, mainly women, with physical and social disabilities

ii) HMT Ltd., together with an NGO called Amar Jyoti Charitable Trust, has established a training and repair centre for watch repair. The unit trains people, many of whom have later found jobs or have set up their own watch repair shops. HMT provided the initial training and also continues to support the unit by providing repair jobs and spare parts.

One of the difficulties that small producers face everywhere is how to make their products reach a customer who can pay a reasonable price. Development agencies, be they governmental or non-governmental, are able to provide only limited inputs to the marketing or input-sourcing problems of producers, since these are in their core area neither of competence nor of activity.

However, both sourcing and marketing functions lie squarely within the activity domains of most companies, who are therefore able to provide market opportunities to community groups in many ways. Among these are sourcing raw materials, packing materials, consumables, and stationery and even drawing services like packing and horticulture from disadvantaged communities. Companies can also enter into preferential purchase agreements with producer groups and provide them preference over other suppliers if quality, delivery, and other requirements are met. They can also assist these groups in becoming better able to meet their requirements while at the same time making available some of their own distribution channels to the produce of community groups. Examples of how this has been practised are provided by Forbes Marshall, Kalyani Brakes, and Kinetic Engineering, all of whom sourced machined parts from Arun Mangal Seva Vikas Yojna, a workshop that provides training and employment opportunities to people in Pune with disabilities.

Other examples are Smith Klein Beecham, which is buying milk from 25,000 families/farmers for their products and is assisting them with production, quality, etc.; and Cadbury, which has helped farmers in Kerala to plant cocoa for use in Cadbury products. Cadbury is considering the extension of this scheme to other states in India.

Other more general forms of support are relatively more common in India, but are still extremely valuable. These include donating or providing discounts on company products to selected groups. This can range from vehicles (Mahindra has donated jeeps and ambulances to NGOs such as CRY and Vachan for use by communities) to computers (HCL and Apple have donated hardware, and Tata Infotech has kept aside free slots for NGO staff in its software education programmes). Donating used assets is another practice, as is allowing communities and NGOs to use company health care and office space facilities or communications capacities like fax and e-mail.

161. The Mindanao Development Bank (MDB) in the Philippines, a regional development bank operating successfully in times of crisis, provides another instance of assistance to small producers. It is an interestingly illustrative example because it represents efforts on the part of a large banking institution to maintain and extend support to SMEs during hard times in order to protect employment and maintain the potential for later expansion. This, like the previous examples from India, is also supported by local values and ethics, but at the same time it makes obvious business sense. MDB has consistently maintained its credit arrangements and its flexibility with the other financial concerns of local SMEs hard hit by crisis. MDB is the largest private development bank outside of Metro Manila, and it continues striving to improve the island's overall business situation during these difficult times, particularly for small and medium enterprises. MDB sees that there are more opportunities ahead for Mindanao, and is taking a positive look beyond the crisis by both preparing for the economy's rebound while also helping to set the stage for it. (See Box 18.)

**Box 18****Community and SME-related social initiatives by the Mindanao Development Bank, the Philippines**

Recently, MDB was strengthened by becoming a member of the Equitable Bank Group of Companies. The latter is one of the Philippines' biggest universal banks, with over 105 billion Philippine pesos in total assets and 15 billion in capital. In the midst of the crisis, the Bank is maintaining its engagement in the community by continuing to focus on SMEs. MDB strongly believes in serving as a catalyst for growth. The Bank continues to fund projects that are relevant to social progress and economic development. The MDB branch in Valencia, Bukidnon, has been active in funding farmers' agricultural programmes in the area since the 1980s. It started with small projects such as funding one planting-and-harvest season of rice and sugar. Over time, the farmers became successful and conscious of the fact that they and the Bank had grown and prospered together.

Now, faced with crisis, the last thing the Bank would do is to abandon its partners in progress. Many of the farmers were hard hit by El Niño, their cash flow badly affected, but MDB has continued to be responsive in accommodating their requests for credit arrangements and remaining flexible in dealing with their other financial concerns. In other areas, MDB is involved in financing SMEs that promote employment and generate economic activity. Some of these SMEs have also reported difficulties, since many of their clients are farmers hit by El Niño. With the onset of rains and the Government's own efforts in priming the economy, MDB's clients are looking forward to a brighter future.

**Source:** "Community partnerships and actors in development", PBSP, *Compact*, Vol. 3, No. 2 (Sept. 1998).

162. The preceding cases are examples of good enterprise practice. But how can companies wishing to embark proactively on policies and programmes to emulate such practices and better reach out to their communities prepare to do so? One approach is to develop a strategic plan for corporate citizenship and for corporate community relations and development work. Such a plan should be designed to set the long-term direction and vision for responding to community issues and needs. A company can review the programmes and experiences of other, similar firms in its own industry or sector. (Please also see the following paragraph.) It can then begin to develop a plan that explicitly links the company's business strategy and its community relations strategy. This plan should include the development and implementation of a company training programme in which managers can learn specific strategies and techniques to analyze their communities, identify, and manage emerging community issues, design targeted programme responses to issues, and link community development strategies to business strategies that develop the company's overall social vision. A few training programmes are available on the market, one of them from the Center for Corporate Community Relations at Boston College, Massachusetts, a leading policy centre for corporate citizenship. Countries that wish to promote corporate citizenship in its various forms should consider establishing similar training, consultancy, research, and policy development programmes on corporate citizenship development and extension within national management development centres and related institutions. This work can be carried out more successfully and profitably in cooperation with national employers' and workers' organizations.

163. Another approach to improving corporate citizenship performance is for companies to review (carefully and in appropriate participatory fashion with other stakeholders) the experience of other firms trying to enhance their own corporate social responsibility profile internally or externally. In order to assist companies wishing to improve their corporate social responsibility performance in this manner, the International Labour Office commissioned and published a study of three companies in the Philippines dedicated to improving their performance in the area of working conditions. The main research for this study<sup>47</sup> (please see Box 19) was undertaken between December 1996 and March 1997, shortly before the onset of the Asian crisis. But the postscript to the study gives ample ground for optimism that corporate social responsibility can be sustained and can contribute to business performance in bad times as well as in good ones.

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<sup>47</sup>. ILO/SEAPAT: *Corporate social responsibility and working conditions*, an ILO study in the Philippines, March 1999, pp. 195-198 and 101.

**Box 19****Corporate social responsibility and working conditions in the Philippines: An ILO survey and analysis of policies, programmes and practices in three enterprises*****Introduction***

Corporate social responsibility in developing nations – partly in view of the difficulties faced by governments in improving standards of living through legislation alone – is becoming increasingly interesting as an avenue for social and economic development. The provision of incentives for companies to adopt socially responsible policies may well be an effective means of securing the implementation of some aspects of labour law, including working conditions, while complementing other means such as legislated wage increases and national health and safety codes. The encouragement of such voluntary, socially responsible schemes also has the potential to reduce the cost to the governments involved in the enforcement of mandatory, legislated schemes.

***Corporate social responsibility in the Philippines***

The aim of this study is to examine the Philippine experience of socially responsible approaches to working conditions. In particular, this study provides a detailed analysis of three Philippine companies' application of socially responsible policies to employee working conditions. The focus of the study is principally on two fundamental aspects of this application: first, to explore the circumstances under which these Philippine enterprises have adopted socially responsible policies towards working conditions and, second, to make a preliminary assessment of the nature of the relationship between improved working conditions and enterprise performance and competitiveness. The study also examines the relationship between ethical and economic concerns, both in the decision to voluntarily implement a high standard of working conditions and in terms of the benefits that the companies have received from their improved working conditions. The study also examines the relationship between corporate social responsibility as working conditions and corporate social responsibility as community relations to examine whether the motives the companies pursued and the benefits they received were similar in both cases.

***The majority of the information gathered in the company surveys was gathered at three distinct levels:***

- i) the policy level, where top managers (usually at vice-president level or above) were asked to share their perceptions and experiences on the process by which the improved working conditions came about and the benefits that the company had expected and received from the programmes;
- ii) the programme level, where the company managers actually implementing and supervising working conditions – usually the managers of the human resources, employee relations, industrial relations, health and safety, personnel and community relations (Comrel) departments – were asked to comment on the process by which improvements came about, as well as successful and unsuccessful programmes, problems encountered in implementation and innovative solutions found; and
- iii) the practice level, where the workers were asked to comment upon their perception of the working conditions in their company, the process that brought about improvements in conditions, how

important a range of possible improvements to working conditions was to them, as well as the effect that improved working conditions had on them in terms of attitude, productivity, etc.

Below, we summarize the key findings for three companies demonstrating high levels of corporate social responsibility in working conditions and community relations: the Philippine Appliance Corporation, United Laboratories, and Central Azucarera Don Pedro (CADP).

### ***The Philippine Appliance Corporation (Philacor)***

This company is currently the Philippines' leading manufacturer of large electrical goods. Philacor produces refrigerators, freezers, washing machines, dryers, and air-conditioners under the international General Electric, White-Westinghouse, and Hotpoint brand names. The company is currently based in Sucat Parañaque, to the south of Manila. In 1995, the company had assets of US\$60 million, annual sales of \$76 million, and a 65 per cent market share. It has separate unions: one for rank and file workers, one for supervisors, and one for "staff". Philacor's working conditions include some of the best wages in any Philippine manufacturing enterprise. Philacor also runs a long-standing productivity bonus scheme, maintains a comprehensive medical, dental, and optical clinic, and has a family welfare council that provides a range of services for Philacor employees and their families. The company extends many of its benefits to its employees and their families, but it sees its social responsibility as also extending to communities outside the factory.

These programmes include the donation of water-pumps, artesian wells, fruit-bearing trees, garbage cans, a twice-yearly medical mission offering free immunizations and basic medical and dental treatment, as well as livelihood seminars. Philacor's managers at both the policy and programme levels saw their working conditions and community relations programmes as intimately linked, partly because many of the beneficiaries of the community relations programmes were employees' families, but also because they both reflected different manifestations of one corporate desire – to incorporate people into the business plan.

The study surveys established that Philacor has indeed adopted a socially responsible approach to working conditions, offering its employees a range of benefits well above legal and industry standards. How did this come to be? Philacor's top management felt that the two most important factors leading to improved working conditions were "CEO's vision" and "management initiative", which were both rated 3 out of 3 (very important) by all management respondents. "Philanthropy" and "Filipino values" were rated as the next most important factors, demonstrating the importance of ethical and cultural concerns. Managers referred to Filipino values such as *bayanihan* (a concern for the community as a whole) as values that contributed to the decision to improve working conditions.

The next-rated contributors were union pressure, social justice, and government – the latter being considered unable to effect improvements. Philacor's programme-level managers complemented the picture of the process that led Philacor's management to adopt a socially responsible approach to working conditions by rating management initiative, unions, and employees themselves as high, and government as low. Philacor's employees in turn believed that both company management and the union were striving to improve working conditions.

Philacor's experience is instructive in a number of ways. First, it illustrates the primary role that top management plays in the decision to improve working conditions. Second, it demonstrates that companies do not necessarily introduce improved working conditions with economic motives foremost in mind. They may do so primarily for ethical reasons. Third, Philacor's experience demonstrates that, although economic motives may not be foremost in influencing a company to institute good working conditions, this does not mean that the

company does not expect or receive a range of economic benefits from its decision. Benefits cited by the company ranged from industrial harmony to improved employee motivation, productivity, efficiency, quality and better reputation with investors. Fourth, Philacor's staff and management both agreed that the overall benefits of Philacor's socially responsible approach outweighed the increased costs to the company.

This is, however, a difficult relationship to measure accurately, and the qualitative measures used in the study depended upon the opinion of company management, who could reasonably be expected to overstate the success of the programmes they themselves implemented. At the very least, however, it is clear that improved working conditions and increased enterprise performance are not mutually exclusive. Philacor's actual returns to shareholders confirm management's assessment on this point, with Philacor's net income growing from US\$1.86 million in 1994 to \$6.8 million in 1995.

Perhaps the most important lesson from Philacor's experience is the general conclusion that economic and ethical motives and benefits are not fundamentally opposed but can be reconciled.

### ***United Laboratories (Unilab)***

This company is a pharmaceutical manufacturer located in Mandaluyong City, Metro Manila. It began in 1945 as a single drugstore, and is now the largest pharmaceutical company in south Asia, with current operations in Bangkok, Hong Kong, China, Jakarta, Kuala Lumpur, Singapore, and Viet Nam, Hong Kong, China and plans for developing markets in China, the Republic of Korea, and Pakistan. Unilab was ranked the 28<sup>th</sup>-largest company in the Philippines in terms of gross revenue in 1995, with revenues of \$270 million and a profit of \$40 million.

Unilab's history has added an interesting experience of corporate social responsibility and working conditions. Unilab's high standard of working conditions originated as a fundamental managerial attitude toward the proper role of business in society. This demonstrates once again the crucial role that managerial attitude plays in the institution of socially responsible programmes. The other factors Unilab felt had an important impact on the company's working conditions – such as the Human Resources Department and employee pressure through the Employee Council – were secondary factors because they were only able to exert an impact because of the open and cooperative approach taken by Unilab's managers. The new approach required a fundamental change of attitude on the part of management, and thus led not only to improved working conditions, but also to a wide range of community relations projects.

Unilab's experience, however, also provides warnings for those seeking to abandon the traditional union model, since a non-union approach may well require a fundamental and comprehensive re-thinking of corporate approaches to industrial relations. Unilab's managers were careful to point out that their rather unconventional approach cannot be instituted piecemeal or overnight. Rather the Unilab model is the result of over 40 years of constant communication, commitment, and innovation. It does not therefore necessarily represent a "better" nor necessarily an easier solution to industrial relations problems.

Unilab's experience also confirmed that a range of benefits can and do flow back to a company from the implementation of a high standard of working conditions. Unilab's management testified that a wide range of benefits were returned to the company, from improved productivity and low employee turnover to better communication and an understanding on the part of both employee and employer of the economic pressures on both parties. Unilab's managers, like those at Philacor, agreed that, above all, the high standard of working conditions had contributed to Unilab's overall enterprise competitiveness. This demonstrates that economic and ethical concerns can be reconciled in corporate policy to the mutual benefit of a variety of stakeholders – shareholders, management, community, and employees.

### ***Central Azucarera Don Pedro (CADP)***

This company had been the subject of two previous studies on corporate social responsibility, and for good reason, considering the scale of its community relations programmes and its status as an industry leader in working conditions. The first, sponsored by PBSB, concentrated on CADP's comprehensive community relations programme. The second dealt with CADP's sugar workers primarily as potential beneficiaries of community relations programmes should the company be forced to shut down its operations – which seemed a likely outcome to the economic crisis the company faced throughout the 1980s and into the 1990s.

CADP provides an excellent contrast to the two other enterprises included in this study, both industrial, since it depends upon agricultural inputs and is located outside Metro Manila.

CADP is a sugar milling and refining operation located in the province of Batangas, about 100 kilometres south-west of Metro Manila. It is the Philippines' second largest sugar supplier and the province's largest employer. CADP's socially responsible approach is in part a result of historical and economic pressures. Its experience of the process which led the company to improve working conditions is significantly different from that of Philacor and Unilab, in that CADP adopted its socially responsible principles primarily for economic reasons. The disastrous state of the world sugar industry forced the company to rethink its approach to enterprise performance. CADP was faced with a crucial choice between two basic strategies to increase productivity: either decrease inputs, staffing levels, and other costs such as wages and benefits – with grave implications for both CADP's employees and the residents of the province – or increase outputs by modernization and improved working conditions. The company chose the second strategy, and has managed to maintain profitability in an increasingly difficult economic climate where many other major sugar producers are increasing debt rather than profit.

Further analysis of management's motivations revealed that these were both ethical and economic – wishing to maintain a high standard of working conditions primarily for ethical and economic reasons, but also expecting to receive some concrete benefits from their socially responsible approach.

CADP's experience reconfirms that the improvement of working conditions can return a range of economic and non-economic benefits which in the end allow a company to maintain enterprise performance in the face of an economic climate that would force many to think in terms of survival rather than profitability.

### ***Lessons learned***

The common process of these three experiences has significant implications for encouraging other companies to pursue similarly socially responsible approaches. It locates the primary impetus for change as enterprise management defining to a certain extent the level at which an attempt should be made to influence companies to adopt socially responsible approaches. It also highlights that efforts to educate workers and their organizations about the possible applications and benefits of improved working conditions are very useful supporting efforts to those focusing on top management. The focus on management can be undertaken through employers' organizations that enjoy a wide membership in the community of enterprises at the highest level, precisely where efforts to encourage companies to improve social responsibility should be made. All three cases also point attention to the need for further study of companies' experience in the field of corporate social responsibility focusing on the specific economic benefits that companies have gained from their improved social performance to ascertain more accurately its relationship to enterprise competitiveness.

There is also a clear need for forums where these results and company experiences can be shared. Finally, there is a need for research, training, and consultancy on the part of organizations concerned with all aspects of companies' experience to identify programmes in the area of corporate social responsibility that have proven particularly successful (or unsuccessful), and to publicize the innovative and effective solutions that companies have found. These organizations should clearly include national management development and productivity institutions and employers' organizations.

**Source:** *Corporate social responsibility and working conditions*, ILO/SEAPAT publications, March 1999.

## Small business development practice

164. A final specific goal of this Round Table is to analyse and strengthen the contribution that, together with strengthened HRM practice and corporate citizenship practice, more effective small business development practice can make to

- i) addressing employment and unemployment problems created by the current Asian crisis; and
- ii) unlocking the employment potential inherent in the small business sector under conditions of ongoing globalization, aiming to create more national and regional employment and contribute to equitable and sustainable forms of national private sector development.

The objective of this Round Table focus is to permit participant learning and, through it, to contribute to extended application of best practice within the present Asian context.

165. To place these goals in perspective, and to better understand what is good SBD practice for these purposes, it is helpful first to: i) define SBD practice, both conceptually and operationally; ii) empirically illustrate its application and implementation at the national level through some representative national cases; and iii) briefly trace the development and evolution of the concept of SBD practice, providing an analysis through a more in-depth review of the ILO's own involvement and contribution to the development of this field. In this respect, one of the early concerns of the ILO's Enterprise Department in the broader area of private sector and enterprise development was the promotion and the development of small enterprises, the informal sector, and entrepreneurship. The reasons and background to this are further explained in the section on ILO involvement with SBD practice, following the definition below and some illustrations of national practice.

166. It is useful to start such a definition by reviewing the scale, scope, and significance of the SME sector globally and in the region. Why is the SME sector so important? First, a large proportion of the world's working population is presently engaged in micro, small, and medium enterprises. The contribution of micro and small enterprises to employment has been estimated at 51.2 per cent in EU countries, with only 48.8 per cent being employed by medium or large enterprises. In developing countries, the proportion of workers engaged in micro or small enterprises is as high as 60 per cent. Within the specific region covered by the Asia Pacific Economic Cooperation Forum (APEC) – 14 of whose 18 member countries also fall within the ILO's Region for Asia and the Pacific – it has been estimated that SMEs make up about 99 per cent of all enterprises. For the region as a whole, SMEs contribution to GDP ranges between 30-60 per cent while SMEs employ 40-80 per cent of the workforce. (Please see Box 20 below.) Also striking is the mounting evidence of the recent shift in global employment patterns that identifies growing employment in the micro and small sectors, accompanied by corresponding decreases in the medium and large sectors (OECD, 1994).

**Box 20****Relative importance of SMEs in selected Asia-Pacific countries:  
An overview**

Country	Number of SMEs (thousands)	SMEs as % all enterprises	% employed by SMEs
Australia	530	97	46
PR China	m # 500	98	# 70
Indonesia	105	97	42
Japan	6,450	99	74
Rep. of Korea	m 68	96	63
Malaysia	m 20	96	40
The Philippines	78	99	50
Singapore	69	89	42
Thailand	102	98	na
Viet Nam	14	83	67

*Source: "APEC and SME policy: Suggestions for an action agenda", Chris Hall, University of Technology, Sydney (1995) as extracted from country statistics, Far Eastern Economic Review, IMF, and Asiaweek.*

(Note: # -- estimate only; m -- manufacturing only)

167. Secondly, and perhaps even more significantly, in most countries both small enterprises and medium enterprises distinguish themselves by their i) efficient use of resources for production; ii) creation of employment; and iii) impact on promoting a more equitable distribution of income. These three fundamental and interrelated SME “functions” are typically further enhanced by the fact that SMEs tend to be numerous and widely distributed geographically throughout a national territory. This magnifies their overall impact and economic and equity significance. So does the fact they tend to be more labour intensive; tend to use appropriate and often innovative technologies; exhibit backward and forward linkages for local economic development; promote exports and foreign exchange earnings; are flexibly organized in combination with larger enterprises providing a more flexible national economic structure; represent useful training grounds for further entrepreneurship and for facilitation of the growth of business potential; are effective mobilizers of local human and material resources; and are frequently financed by personal savings and owned by local residents with deep community roots.

168. For all these reasons, any national or donor policies and programmes should consider effective and useful initiatives that can advance the quality and the level of national small business development practice so that such improved practice can further the growth and the national role of this important sector. In attempting this, their initiatives should focus on how best to further enhance these SME functions, especially in response to the current crisis. In order to do this effectively, however, their efforts must be guided by international best practice. How may this best be accomplished?

169. First, it is important to understand what small business development practice is, what it currently comprises, and how best to consider what it might emphasize more in future in order to be more useful and effective. Like the two preceding areas of practice already considered in this Technical Report – HRM and CSR practice – SBDP is a dynamic area and an evolving notion, both in its concept and in its operational applications and reality. The shared understanding of this concept and its practice on the part of its national and international analysts, decision-makers, practitioners, and other stakeholders has advanced and evolved substantially over the past 40 years. Both theory and practice will undoubtedly continue to evolve and advance as lessons are learned and contexts continue to change. As is the case for other fields of development assistance, practice and knowledge, achieving and maintaining a consensus, and an effective set of coordinated and concerted actions based upon it (on the part of concerned stakeholders) is an ongoing challenge and a joint responsibility that requires both national leadership, national and international facilitation and coordination, and individual institutional initiatives that are also carefully assessed.

170. At present, SME practice may be seen as comprising four main “strategic orientations” or “practice components”. The first and foremost of these orientations subsumes a broad range of government, civil society, and private sector policies, actions, and initiatives – all of which aim at the creation of a more conducive and less constraining business environment for SMEs. This can be understood to be a conducive environment or surrounding conditions that will both permit (not constrain) but also encourage (provide positive incentives for) the economic and social development and expansion of SMEs. This environment can be considered in terms of its main components, comprised of policy, regulatory, legal, fiscal, competition, a level playing field, physical infrastructure, administrative, corruption-free, and business culture environmental elements that SMEs must face in establishing a business and in conducting and expanding business operations in specific economic subsectors and localities within their countries. Good SBD practice in developing a conducive business environment may include skilfully involving the right stakeholders in changing national or local laws, regulations, permits, policies, practices, customs, infrastructures, etc. within each of these main identified areas of the environment – making them more SME-friendly – on the part of the right national and local policy advocates and institutional actors.

171. The second strategic orientation covers the field of stakeholder activities and initiatives related to providing (i.e. making available to SMEs at commercial rates) genuinely needed financial services and credit in keeping with international best practice. Banks and other national and local credit institutions are key actors and potential targets for change in this area, but banking rules and laws and lending practices and procedures could similarly be subject to review, scrutiny, and change as required. The third orientation similarly covers a range of activities and initiatives aimed at providing a wide range of useful “business development services” that can include, but are not limited to, training and consultancy services in management, professional/technical skills acquisition, marketing, technology, networking, information-provision, partnering, alliances, incubators, etc. These services also can either be directly provided by government programmes, or their private provision can be stimulated by creating a more enabling environment for the development of private sector providers of such services on commercial terms.

172. The fourth strategic orientation of SBD practice subsumes all efforts that are aimed at developing more efficient and broadly based institutions and institutional frameworks and partnerships and practices – and formal or informal associations and relationships both nationally and locally – to better achieve the preceding necessary strategic orientations and needs for SME development. This fourth “institutional development” component of SBD practice comprises – within the three main preceding areas of practice – the creation of effective networks, partnerships, linkages, and forums and the ongoing development of sets of self-help associations, private sector enterprise initiatives, and civil society organizations and government agencies-sponsored initiatives of various kinds.

173. By way of summary, then, the main components (or “strategic orientations”) of SBD development practice can be thought of as those practices, actions, and initiatives by SBD stakeholders that help create: i) a more conducive business environment; ii) better access to credit; iii) better access to useful business development services of diverse types; and iv) institutional and administrative development and associative mechanisms for better achieving i), ii) and iii), both nationally and locally. Advancing such SBD practice areas means rendering more effective and useful those stakeholder activities and initiatives that are undertaken within these areas to create the related conditions. National workshops where these matters can be debated and closely examined are one method of advancing national SBD practice.

174. It is important to understand national SBD practice fully and consider how to best re-orient it and advance it on the part of its various governmental and non-governmental actors. To this end, one must view its basic elements, outlined above, in interaction with a broader national political and policy agenda. Only then may one better examine the relationship that obtains between the national policy and political environment (in which such practice must take place and unfold) and the likely useful or less-than-useful orientations and biases that this environment may impart to the orientation, focus, methods, and dynamism of the nation’s specific SBD practice areas. For instance, will it orient it towards government programmes which provide subsidized credit that may not reach intended beneficiaries or towards commercial credit? Or will it orient it towards legislated assistance by large enterprises towards small enterprises that may create little more than micro-economic distortions and opportunity costs, or towards incentives that promote the development of such linkages voluntarily on the basis of reciprocal benefit?

175. This broader policy context should be considered to include the explicit or the tacit philosophy of a government, and of other influential national opinion and decision-makers, with respect to the SME sector. For instance, is the sector implicitly viewed as a strong or emerging sector that simply needs to be left alone, or as one that is weak and needing assistance from various quarters and programmes? Or is it something in between, or something best understood according to its subsectors and geographical locations? Are government programmes thought to be best, or is the free market, one free of policy biases

against SMEs, the optimal mechanism best suited to assist it? What best corresponds to the specific realities of the national SME sector and its subsectors and localities with respect to the above, and to the sector's real needs? And what combination or balance of these government philosophies or policy orientations may be most appropriate at a given historical moment within the nation's economic development, or for each developed or undeveloped national region? And finally, through what national processes, consultations, or policy debates should decisions on revisions to this broader policy environment and its resulting specific policy orientations within the various SBD practice areas best be arrived at and kept updated?

176. Experience shows that how (or whether) such questions are posed, debated, and answered nationally often determines what will or will not be done, nationally and locally, with respect to the four more restricted technical policy areas of SBD practice. Many more details on the specific elements of practice within each of the four main areas above are provided together with specific illustrations and cases within the sections that follow later in this report. These sections also review and analyse the ILO's own involvement and its contribution to the development of more effective international SBD practice.

177. The ILO is but one agency active in the area of SME development. Many multilateral and bilateral donor agencies have been active for a long time in this broad and important development assistance area. In the Asia-Pacific region, the Asian Development Bank, the World Bank, the UNDP, the United Nations Industrial Development Organization (UNIDO), and the ILO all have been very active through a variety of programmes and initiatives in the various countries. Most of the other major bilateral donors – such as Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Swiss Contact, the Australian Agency for International Development (AusAID), the United States Agency for International Development (USAID), the Canadian International Development Agency (CIDA), the Swedish International Development Agency (SIDA), the Danish International Development Agency (DANIDA), Japan International Cooperation Agency (JICA) and Overseas Economies Cooperation Fund (OECF) are similarly involved. These international actors work to assist governments, business and national civil society organizations in their own direct efforts towards the development of the national SME sector to improve its conducive environment, or its credit, or its access to business development services, or its supporting institutional development.

178. Before proceeding to a more in-depth analysis of ILO work, it is worthwhile to anchor the review with a summary of mini-illustrations from national SME development efforts. Additional national cases are also presented later in connection with ILO technical cooperation activities. Box 21, below: “Small enterprise envelopment practice: Some examples from the People's Republic of China, the Republic of Korea, Japan, Nepal, Thailand, Viet Nam, Hong Kong, China, and APEC”, provides short summary illustrations of broader efforts in SBD practice. These illustrations are only intended to provide a flavour of SBD practice in the region. Please also note that, with the four areas of SBD practice identified conceptually above, each is represented to different extents and degrees within these mini-cases. This demonstrates the need to make analytical distinctions, while also recognizing that areas of intervention may interrelate and are often not neatly distinguishable categories.

**Box 21****Small enterprise development practice: Some examples from the People's Republic of China, the Republic of Korea, Japan, Nepal, Thailand, Viet Nam, Hong Kong, China, and APEC*****People's Republic of China***

In a policy paper delivered to the Ninth National People's Congress (March 1998), the Minister for the State Planning Commission reviewed progress to date and outlined plans for 1998. For SMEs or the village and township sector (VTE), these were as follows: i) the reform of village and township enterprises will be accelerated, as many of these need to be restructured to raise their level of technology, improve the quality of products, and protect the environment; ii) production enterprises are encouraged to export their products independently, increase their competitiveness, and improve their economic performance; iii) there will be improvements in financial services, support for the reform and development of large and medium-sized state-owned enterprises, and increases in lending to medium-sized and small enterprises; and iv) laid-off workers who create employment or organize a group business will get preferential support in terms of capital, taxes, charges, and registration.

***Republic of Korea***

There have been a number of policy initiatives in support of SMEs in Korea since 1995, following the Special Measures Law for Regionally Balanced Economic Development and the Fostering of Local SMEs (1994). With the Ministry of Industry and Energy as an apex institution in the national SME organizational support structure, various institutes have been working to create a favourable environment for entrepreneur development and provide financial assistance, technology development, and human resources training. In February 1996, the Small and Medium Business Administration (SMBA) was established to strengthen support to SMEs. The SMEs Structure Improvement Programme was established in 1993, and now the SMBA is responsible for planning and coordination of technology programmes with 5,000-6,000 SMEs assisted annually. Measures are focused on providing financial assistance and tax incentives, fostering technical human resources, and encouraging joint R&D activities among SMEs, academia, and research institutes.

***Japan***

In Japan, the various levels of government, especially at the national and prefectural level, provide numerous support services to small and medium enterprises in the form of subsidies, financing, guidance, and advice. The Law for the Promotion and Improvement of Human Resources Management in Small Enterprises (SMEs or cooperatives containing groups of SMEs) for the protection of the workforce, were intended to improve the attractiveness of jobs in this sector through, among various measures, improvement in working conditions such as reduction of working hours, the improvement of the workplace environment, and social protection. The 1991 Law took up the conclusions of an expert group brought together at the request of the Ministry of Labour's Director General of the Public Safety at Work Office. In response to changes occurring in the labour market, the expert group's report placed employment protection in small enterprises at the top of the priority list of job creation measures. The Law was passed by Parliament after consultation with various other consultative bodies composed of experts and representatives of workers and employers. This law has made a major contribution to employment protection in small and medium enterprises in Japan.

**Nepal**

The major policy initiatives initiated in the SME sector in Nepal after 1995 include the upward revision of the investment ceiling for small industries under the Industrial Enterprises Act of 1997. Registration and licensing procedures, moreover, have been made simpler. In addition, the Government has provided exemption to micro-industries from VAT. The Royal Government of Nepal's ninth five-year plan (1997-2002) also defines important policies for the small and cottage industry sector: i) implement an integrated techno-economic programme to assist small and cottage industries; ii) provide tax concessions to medium and larger industries, if they involve small and cottage industries in backward linkages; iii) provide entrepreneurship and management training and make special arrangements for loans to micro enterprises; and iv) provide a facility for refinancing to development banks to finance small and cottage industries. Special emphasis is placed on the development of particular sectors/industries: hydropower, tourism, energy, computer software, local non-metallic mining industries, agro-based industries, forest-based industries, leather-based industries, financial services, sericulture, and floriculture. The necessary legal framework for these industries also will be created.

**Thailand**

The Royal Thai Government's Eighth National Economic and Social Development Plan (1997-2001) has accorded high priority to community empowerment and local economic development with reference to both rural and urban settings. Traditionally, the emphasis of government policies and support programmes was placed on small and medium-scale industrial enterprises, many of which are classified as modern and formal enterprises.

In view of the great number of small non-formal enterprises, however, insufficient institutional support is being provided for those enterprises at the smaller end of the spectrum. The Government's major strategy in support of the small and medium industry (SMI) sector is now the national Industrial Restructuring Master Plan, coordinated by the Ministry of Industry. This was largely based on the findings of a recent World Bank-funded survey of small and medium industries. During late 1998 and early 1999, the Royal Thai Government has also formulated new policy measures and related support mechanisms to better promote small and medium enterprise development. To underpin these proposed new policy measures, the Government is making available 35 billion baht to facilitate the financing of the SME sector, and this will be implemented through existing financial institutions. Increasingly, several financial institutions are addressing the requirements of the micro and small enterprise sector, including the Bank of Agriculture and Agricultural Cooperatives (supporting non-farm enterprises) and the Krung Thai Bank, which plans to establish a development division in support of MSEs. The Small Industry Finance Corporation (SIFC) and Industrial Finance Corporation of Thailand (ICFT) both see an increasing demand for finance coming from the SME sector.

**Viet Nam**

As part of its follow-up to the Copenhagen World Social Summit, the Vietnamese Government established in 1995 the Bank for the Poor, and this became operational in 1996. However, prospects for a vibrant enterprise sector remain distant, and there continues to be much concern about overly bureaucratic government machinery responsible for promoting industrial development in Viet Nam. In early 1998, as part of the Government's efforts to cut red tape and improve the business climate, two "red tape hotlines" were set up, one each in Hanoi and Ho Chi Minh City, and the General Tax Department has set up a hotline to advise business people with tax problems.

### ***Hong Kong, China***

The Hong Kong, China set up the Small and Medium Enterprises Committee, in July 1996, to identify issues affecting the development of SMEs and to suggest measures to support and facilitate their further development. The Committee has identified eight priority areas of support: human resources development, financing, information access, technology support, market access, environmental support, quality support, and physical infrastructural facilities. The Hong Kong Productivity Council promotes productivity excellence throughout all business sectors. It established an SME Centre in December 1997 to provide focused support and one-stop information to SMEs. A business license information centre was set up in September 1997 under the Industry Department to provide free one-stop information service for government licenses, permits, certificates, and approvals required for business operation.

### ***Regional initiatives: APEC***

As part of its 1997 Framework for APEC SME activities, this organization of Asian member economies prepared the document “Common APEC SME action areas and desired APEC-wide outcomes”, which focuses on improved access to markets, technology, human resources, financing, and information, all of which emphasize best practice applications from various member countries. This framework document also provides guidelines to member economies for designing and implementing SME-related activities. APEC has been advising its member economies to address SME development priorities identified by SMEs throughout the Asia-Pacific region. Based on these priorities, a range of recommendations has been prepared covering major policies and actions to: i) reduce barriers to trade and investment; ii) help SMEs take advantage of new opportunities; iii) build a better business environment; and iv) improve government capacity to serve SMEs. (Please also see *Helping your business grow: A guide for small and medium enterprises in the APEC region* [APEC, 1997].)

**Source:** The above is excerpted from the ILO’s *Preparatory report for the follow-up meeting to the World Social Summit held in Bangkok in January 1999*.

179. The above set of national mini-cases illustrates the valuable and diverse work that Governments are implementing in the broader area of SBD practice improvement in the region, both independently and in partnership or collaboration with various international and multilateral institutions and bilateral donor organizations. This fact strongly underscores the value and the importance of attempting to bring international lessons of experiences and knowledge of best practices to bear in effective and constructive ways within national SBD practice. To this end, the ILO published a first edition of *Small enterprise development: Policies and programmes* in 1977, about 10 years after the Organization first became active in the field through technical cooperation, research, training, and other activities. It was one of the first international works to focus on the policies, structures, and initiatives for the small enterprise sector and its role in economic and social development. Because of the increased attention given to entrepreneurship and small enterprise development by governments and private sector organizations since the late 1970s, a newly revised and enlarged publication was issued in 1987. This covered the many new and interesting initiatives that had already been developed by that time for enhancing small enterprise development.

180. It is useful to trace some of the history of the development of SBD practice. A great deal of work already had been done in the 1970s on describing and analyzing integrated development approaches, and it was decided to attempt to provide information on then current policies and programmes from both the developing and the industrialized countries. In presenting wide-ranging experience from different countries, the ILO already recognized that no single approach to small enterprise development should be expected to accommodate all socioeconomic, cultural, or political systems.

181. A first discussion of general conditions to stimulate job creation in small and medium enterprises took place at the 1997 session of the International Labour Conference. The ILO prepared and communicated to the governments of its member states the text of a proposed recommendation and invited them to respond. The Office received replies from 37 member countries and incorporated their amendments and comments. A second discussion of entrepreneurship and small enterprise development issues took place at the 1998 International Labour Conference.

182. This reiterated and further emphasized that SMEs can play a significant role in national development by marshalling entrepreneurial initiative in the economic and social development of all countries, side by side with large-scale enterprises with which they ought to enjoy a balanced interdependence. SMEs were viewed as an important vehicle for social progress, for employment creation, for stimulating investment at lower cost, for performing complementary activities to those performed by large firms, and for supporting policies of regional and local decentralization of economic activities. Furthermore, they were seen as able to stimulate the development of pools of managers, entrepreneurs, and skilled workers.

183. Because of these factors many governments gradually adopted deliberate policies, including tripartite policies, establishing institutions and setting up programmes to promote SMEs. These initiatives varied from one country to another, and the pace of progress was uneven. It was recognized that governments could be more successful, in their various initiatives, by fully involving employers and workers and their respective representative organizations. This tripartite approach applied to all the conclusions of the ILC concerning the promotion of SMEs.

184. The International Labour Conference at its 86th session, in 1998, and adopted a recommendation entitled which provided valuable guidance for its Members in the design and implementation of policies for job creation in small and medium-sized enterprises and the value of the tripartite approach.

185. The ILO guidance to be provided to its Members was broadened to include assisting them to: i) create conducive policies and legal frameworks for SME development; ii) develop national enterprise cultures; iii) develop effective service infrastructure for training, consultancy, research, access to credit, marketing, product development, business start-up, information services, labour legislation for SMEs, trade opportunities, technology, physical infrastructure, innovation, accounting, business incubators, environmental management, and enterprise-based training; and iv) ensure the optimum relevance and efficiency of these services by adapting their delivery to the specific needs of SMEs, ensuring the active involvement of SMEs and the ILO's tripartite constituents in their design and delivery; involving the public and private sectors; decentralizing their delivery; promoting access through "single window" arrangements, aiming toward self-sustainability through cost-recovery; and ensuring professionalism and accountability in the practice of the development by establishing continuous monitoring and evaluation mechanisms.

186. Regarding the promotion of a national enterprise culture, Recommendation 189 argues that the development of SMEs is often limited by the existence of an institutional and social bias towards employment in large state or private organizations. For example, in many Asian educational and social systems, preferential status often is accorded to careers in the public bureaucracy. A career in small business is widely perceived as coming second best, or as being merely a stepping stone to employment in a larger organization. For example, a recent survey in Indonesia indicated that only 5 per cent of business graduates considered the development of small enterprises to be a career option. In contrast, in certain countries with strong small enterprise cultures, the necessary supporting values and beliefs for going into business are widely shared by the community. One of the most effective ways of developing a national culture favourable to enterprises in the long term is through pervasive education and training. Many countries have therefore recently started introducing entrepreneurial components at all levels of their training and educational systems.

187. Members should adopt measures, drawn up in consultation with their employers' and workers' organizations, to create and strengthen an enterprise culture that favours initiative, enterprise creation, productivity, environmental consciousness, quality, and good labour and industrial relations. To this end, Members ought to consider: i) pursuing the development of entrepreneurial attitudes through programmes of education, entrepreneurship, and training linked to job needs and economic growth and development that emphasizes good labour relations and multiple vocational and managerial skills; ii) encouraging a more positive attitude towards risk-taking in business by recognizing its value as a learning experience; iii) encouraging a process of life-long learning for all categories of workers and entrepreneurs; and iv) designing and implementing, with the full involvement of organizations of employers and workers, awareness campaigns that promote a) respect for the rule of law and workers' rights, better working conditions, higher productivity and improved quality of goods and services; and b) entrepreneurial role models and award schemes that also take due account of the specific needs of women, the disadvantaged, or marginalized groups.

188. Recommendation 189 also states that a second crucial factor for the success of enterprises is the existence of a policy and regulatory environment that favours SME development, rather than obstructing it. The national and sectoral regulatory regimes have to promote the achievement of social objectives without undermining enterprise competitiveness. Thus, this recommendation emphasizes the importance of a conducive policy and regulatory environment. Since regulations adopted in one set of economic or social circumstances can quickly become outdated, it is necessary to continue monitoring the application of policies, rules, and procedures and their consequences and adapt these as required. It is particularly important to review cooperative legislation, which in many developing countries is clearly outdated. In this respect, there is a general pressing need to reduce the role of the State in cooperative development and focus instead on measures that

can enhance the individual competitiveness of cooperatives. Effective policies and programmes to develop national human resources are also recognized as being fundamental to the creation of high-quality jobs in the long term. As the current financial crisis in many regions of the world has repeatedly shown, competitiveness policies that ensure transparency are critical to the sustained development and expansion of the economy.

189. In order to create an environment conducive to the growth and development of small and medium-sized enterprises in particular, ILO Members are further urged to: i) adopt and pursue appropriate fiscal, monetary, and employment policies that promote an optimal economic environment regarding inflation, interest and exchange rates, taxation, and social stability); ii) establish and apply appropriate legal provisions as regards property rights, including intellectual property, the location of establishments, enforcement of contracts, fair competition, and adequate social and labour legislation; and iii) make entrepreneurship more attractive by avoiding policy and legal measures that place aspiring entrepreneurs at a competitive disadvantage.

190. ILO Recommendation 189 further mentions developing effective business services as a third area key to SME development. Unlike larger enterprises, smaller units rarely incorporate or control the upstream and downstream functions necessary to create and sell their products and services. Because of their small scale, their lack of resources and their tendency to specialize, small enterprises often are very sensitive to the caliber of public and private services available. Quality services, institutions, and programmes are therefore needed that can facilitate the growth of small firms, expand their employment, and help them to meet social needs. This applies equally to cooperatives, which in many countries are under strong pressure and need to upgrade their productivity, efficiency, and innovation in an increasingly competitive marketplace, while governments are also removing their protected status. Enterprises in some countries already benefit from effective support programmes, but elsewhere service institutions are often ill-adapted to the needs of small firms or weak, particularly in the context of current global changes. Moreover, in many developing and transition countries, markets have failed to create an adequate infrastructure of private-sector-provided business services. Particularly important types of services include: i) training and development for managers and technical staff; ii) finance and credit; iii) information on markets, technology, and regulations; and iv) advisory services on productivity, quality, and related issues. It is important to develop an enabling environment for the development of private-sector-provided commercial business development services.

191. Member countries should also facilitate the development of organizations that can directly support the growth and competitiveness of SMEs and promote improved cooperative linkages between SMEs and larger enterprises to their mutual advantage. This can include the exchange of experience and the sharing of resources and risks, but can also encourage the formation of structures such as consortia, networks, and service cooperatives that also take into account the importance of the role employers and workers organizations can play. More specific measures also should be considered for persons aspiring to become entrepreneurs among particular disadvantaged categories of the population or those with distinct needs. These would include the long-term unemployed women, and minority, disabled, marginalized, war-affected, indigenous, or otherwise disadvantaged persons and peoples.

192. As a more specific response and organizational initiative to assist member countries in all the diverse and complex preceding ways, the ILO launched the International Small Enterprise Programme (ISEP) in 1998 to provide constituents with the informed support they need in implementing Recommendation 189 concerning the optimal general conditions to stimulate job creation in small and medium enterprises. ISEP is a comprehensive integrated programme managed by the ILO's Enterprise Department and designed to help small enterprises to unlock their job creation potential. It is based on a great deal of past experience; but it is a relatively new programme, and it is in the process of consolidating and extending itself to become an increasingly effective vehicle. ISEP operates through cooperation with local partners involved in small enterprise

development. At present, it includes components to Start and Improve Your Business (SIYB), promote a supportive framework of policies and regulations, facilitate access to financial services, improve access to business services, and promote quality jobs. It is deepening and broadening its intervention through the development of dedicated products, often in partnership with national and local initiatives. Its basic means of action are advisory services, publications, conferences and meetings, and technical assistance through SME programmes and projects initiated by ISEP's local partners. Please see Box 22 for a summary of the major categories of services provided by the ILO to support enterprise-based job creation.

**Box 22****Some ILO interventions to support enterprise-based job creation**

Level of intervention	Major types of interventions
<b>To improve the business environment: (the “macro” level)</b>	<ul style="list-style-type: none"> <li>* Promotion of a conducive policy and regulatory environment for small and medium-sized enterprises</li> <li>* Stimulation of a national enterprise culture</li> <li>* Promotion of national tripartite frameworks for productivity and competitiveness improvements</li> <li>* Design of collaborative national strategies for SME development</li> <li>* Reform of policy and legislation for cooperatives</li> <li>* Advice to central banks to improve the regulatory framework for improved access to credit and finance</li> </ul>
<b>To improve service delivery: (the “meso” level)</b>	<ul style="list-style-type: none"> <li>* Development of effective support service intermediaries and institutions, including tripartite productivity centres</li> <li>* Capacity-building for employers’, workers’, and civic society organizations</li> <li>* Promotion of business linkages among enterprises</li> <li>* National, enterprise, and cooperatives Human resources development policies and programmes</li> <li>* Development of effective financial retail agents</li> <li>* Development of SME credit windows in commercial banks</li> <li>* Support for associations of savings and credit cooperatives</li> </ul>
<b>To improve business development services: (the “micro” level)</b>	<ul style="list-style-type: none"> <li>* Training for business start-up and expansion</li> <li>* Entrepreneurship, productivity and management development training</li> <li>* Identification of business opportunities</li> <li>* Facilitation of access by cooperatives and SMEs to markets, information and export opportunities</li> <li>* Development of various modalities for credit guarantee systems</li> <li>* Design of micro-finance for self-employment schemes</li> </ul>
<b>Other cross-cutting interventions:</b>	<ul style="list-style-type: none"> <li>* Promotion of access to national social protection and services for the self-employed and small enterprises</li> <li>* Improvement of working conditions in the small enterprise sector</li> <li>* Development of cooperatives for indigenous and other disadvantaged peoples</li> </ul>

**Source:** International Labour Office, *Report for the Governing Body, Committee on Employment and Social Policy, Fourth item on the agenda: Job creation programmes in the ILO* (Geneva, November 1998).

193. Moreover, in connection with the development of the new ILO strategic orientation initiated in mid-1998, and its guiding overarching objective to achieve decent work, the ILO has elaborated four strategic objectives and eight InFocus programmes. (Please see Box 1 at the beginning of this report.) One of these InFocus programmes, “Boosting employment through small enterprise development”, will build and extend on the above work already initiated by ISEP. It will incorporate, extend, and deepen ISEP work in the following ways:

- i) It will develop a clearer conceptual framework, one that can more robustly underpin the setting of priorities for both ILO and other national and international SED development actors. This will place more emphasis on the most effective ways to boost employment through renewed focus on policies, the development of a conducive business environment, and the research that is required and essential to underpin effective interventions in these areas.
- ii) The programme will also place additional emphasis on issues that relate to the ILO core values and in particular to job quality, gender, and the ability of those in small enterprises to network, mobilize, and better represent their own interests.
- iii) Finally, the new InFocus programme will seek out and develop clearer and stronger strategic alliances and partnerships with key institutions and individuals working in SED. It will also try to place greater emphasis on learning and disseminating lessons from SED experiences and practice. It will also make a greater effort to convey and impart such lessons to constituents and other agencies working in SED.

All the preceding will render ILO’s internal “knowledge management” and advocacy in the area of SED more deliberate and intensive and more available to others, thus increasing both its leverage and the effectiveness of its application.

194. In the specific context of the Asian crisis, the ILO has undertaken a number of employment-related interventions, including some that have been supported by ISEP. ILO interventions on employment promotion have addressed both the immediate problems of economic hardship associated with labour displacement and falling real incomes, and also tried to support employment and income growth in the medium term. In this respect, the ILO has followed a broad, three-pronged approach: i) emergency employment creation as the cornerstone of social safety net programmes; ii) sustainable employment and incomes policies and programmes; and iii) labour market and human resources development.<sup>48</sup>

195. The generation of sustainable employment can only be planned on the basis of good estimates and analyses of the existing crisis in the labour markets. Indonesia and Thailand being perhaps the most strongly hit by the crisis, the ILO has undertaken major analyses of their labour markets. For instance, in Indonesia the ILO published, in mid-1998, a comprehensive study of the employment challenges of the Indonesian financial crisis, which quantifies the magnitude and composition of unemployment, underemployment, and poverty and propose strategies for emergency job creation in the short term and more sustainable employment generation in the long term. A comprehensive employment strategy mission was also fielded in Indonesia in mid-1999 to develop special recommendations for an employment-friendly post-crisis economic recovery. Its report is to be published soon. The ILO will also be undertaking follow-up activities to the . In Thailand, the ILO launched a major country employment policy review which will be completed shortly.

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<sup>48</sup>. Paragraphs 195-197 are drawn from the *First supplementary report: ILO activities in response to the financial crisis in east and south-east Asia*, 273rd Session (Geneva, GB.273/14/1, 1998).

196. The ILO has also assisted in the improvement of databases on the labour markets in China, Thailand, and Viet Nam. These activities are facilitated by the Employment Policy Convention, 1964 (No. 122), which emphasizes the development of national employment policies based on social partnership. China has ratified the Convention, and declared it applicable to Hong Kong, China in December 1997, becoming the latest among 11 countries in the region to have done so, including the Republic of Korea, the Philippines, and Thailand.

197. Finally, a special effort is being made to direct numerous ILO activities towards enhancing the job-creation potential of enterprise development, particularly labour-intensive projects in the short term and small and medium enterprises in the medium term. In October 1998, the ILO began a new project in Viet Nam funded by the Government of Sweden on a Start and Improve Your Business (SIYB) project as part of the global ISEP programme. (Please see Box 23 for a description of the SIYB programme.) This three-year project was designed prior to the crisis, but will help to develop national capacity in promoting employment creation and better management in new and existing small-scale enterprises. The ILO International Training Centre in Turin is also carrying out a range of training activities to promote entrepreneurship development for women in Viet Nam, and an ILO/Japan project in Indonesia is promoting women's entrepreneurship with the participation of employers' organizations.

**Box 23****ILO Start and Improve Your Business (SIYB) programme**

The ILO's SIYB programme is an integrated system of interrelated training packages and support materials, including a dynamic SIYB business game, that provides small-scale enterprise owners and managers in developing countries practical skills for starting, consolidating, and expanding their businesses. Although the programme is essentially a training instrument, it includes several components on counselling, the promotion of self-help associations, networking, and the development of linkages to financial institutions. Manuals are available in some 35 languages.

National small enterprise development (SED) institutions, including employers' organizations, government and semi-governmental small enterprise support organizations, government departments, government departments, and workers' organizations are introduced to the programme through the training of instructors, who in turn train the entrepreneurs. Some 3,500 instructors have been trained in total. Through this multiplier effect, it is intended that large numbers of entrepreneurs may benefit from the programme at low cost, while quality can be controlled in ongoing fashion by a monitoring and evaluation system that assesses the programme's impact.

The programme now has been used in some 70 countries world-wide, with more than 100,000 entrepreneurs in developing countries benefitting to date. In 1993, an evaluation by a major programme donor, the Swedish International Development Agency (SIDA), concluded that the programme has a substantial impact on entrepreneurs in terms of business performance, profits, and employment generation. A recent evaluation showed that one job is created for every two participants trained at an average cost of \$160.

198. The *quality* of jobs created in small enterprises is also a matter of great concern. Many SMEs are profitable, productive, and can provide good working conditions and wages. However, in some developing countries the productivity, efficiency, wage levels, and social protection standards of SMEs are often unacceptably low. Additionally, there can often be a high incidence of child labour in small enterprises. An increasing number of programmes have been developed specifically to address these issues of working conditions, including the elimination of child labour and the improvement of social protection. One example in the Asia-Pacific region is a programme specifically developed to improve job quality and address social protection concerns. It also includes components to enhance the productivity and income of entrepreneurs and workers. This programme, known as Work Improvement and Development of Entrepreneurship (WIDE), has been implemented in Malaysia, Nepal, and the Philippines. Based on its positive experiences, new strategies and tools are in the process of being developed to support improved social protection for workers in micro and small enterprises. (Please see Box 24.) These approaches continue to be implemented as an increasingly important component of all ILO enterprise-based job creation programmes. Measures and programmes to promote jobs, particularly in small enterprises, need to continue take into account both qualitative and quantitative aspects.

199. A seminal project also has been implemented to pave the way towards better coordination of policies and programmes for self-employment and micro enterprise development (SEMED) at national, provincial, and local levels in Indonesia. This project also includes a preliminary strategy for promoting the gender dimension in recognition that women have been the hardest hit by the Asian economic crisis. (Please see Box 25.) This project is now being followed up by the design and implementation of a national SME practice “strategy development” conference, and this in turn will be followed up by suitable technical cooperation projects to implement its recommendations. A January 1999 report by the United Nations Population Fund in cooperation with the Australian National University also examine the effects of the (then) 18-month crisis on reproductive health, education, and employment of women in Indonesia, Malaysia, the Philippines, and Thailand. The report indicates that unemployment has created a “new poor” and that the recession has been particularly hard on single mothers and women with heavy financial commitments.

**Box 24****The ILO's Work Improvement and Development of Enterprise (WIDE) programme**

Small- and micro-enterprises, many run by women, have provided employment and income to millions across the Asia-Pacific region. The Asian financial crisis sent millions into the informal sector to keep families going. Unfortunately, in many countries working conditions generally leave much to be desired and levels of income and productivity tend to be low. Despite their contributions to economies, owner-operators in small and micro-enterprises face difficult and interrelated problems in increasing their incomes and well-being. The ILO implemented the Work Improvement and Development of Enterprise (WIDE) programme to address these interrelated problems of low productivity, low profits, and poor working conditions in Malaysia, Nepal, and the Philippines in 1995-96. The long-term goal of the WIDE programme is to contribute to enabling small and micro-enterprises to grow, develop and increase income and productivity while improving their working conditions with the aim of generating increasing numbers of quality jobs over the next decade. WIDE focuses on developing and testing training courses that practically help small and micro-entrepreneurs improve the management, productivity, and working conditions in their businesses.

In the Philippines, WIDE activities culminated in 1999 with the development of a significant new ILO training programme designed to respond to the needs of the growing number of workers engaged in micro-enterprises and informal manufacturing. Improve Your Work Environment and Business (I-WEB) is a simple and comprehensive package that promotes healthy enterprise development in the informal sector. It is intended for small and micro manufacturing shops, particularly in the garments, woodwork, and metal-work subsectors. It has integrated and simplified the concepts of enterprise development and working conditions improvement in one package, as inspired by the ILO's earlier Improve Your Business (IYB) and Work Improvement in Small Enterprise (WISE) Programmes. I-WEB materials clearly demonstrate that many elements of enterprise development are very relevant to issues of working conditions improvement, in particular to those that deal with production management, materials handling, compensation, and recruitment. I-WEB has incorporated these aspects of the work environment within its training modules, emphasizing that significant business benefits often can be achieved through inexpensive and simple improvements to working conditions.

WIDE activities have supported the Governments of Malaysia, Nepal, and the Philippines in their objective of improving working conditions and productivity in micro-enterprises and the informal sector.

## **Box 25**

### **The ILO's Self-Employment and Micro-Enterprise Development (SEMED) programme in Indonesia: Taking into account gender issues**

In 1998, the ILO completed a project comprising a preliminary set of studies in the area of self-employment and micro-enterprise development in Indonesia. A new follow-up project based on this work was recently prepared by M. Iacono, Enterprise Specialist of ILO's Multidisciplinary Team in Manila, to further promote SEMED in Indonesia. The earlier work and its present context of application in Indonesia are summarized below.

Indonesia's prospects for achieving economic recovery are subject to a wider than usual band of uncertainty. For various external and internal reasons, the point at which the economy is likely to bottom out and start growing again is difficult to predict. But regardless of when recovery will come or how powerful it will be, it is clear that medium and large enterprises are not likely to generate anywhere near the number of new jobs required and that very large numbers of jobs need to be created just as soon as possible.

The Government of Indonesia has recognized the importance of micro and small enterprises in job creation and economic growth. A wide range of programmes in favour of these enterprises are being currently implemented by a number of government agencies at both the central and local levels. Various para-government organizations, NGOs, associations of micro and small enterprises, employers' and workers' organizations, and other bodies in the private sector have also initiated specific programmes addressing the various needs and constraints of micro and small enterprises. A number of international agencies and donors provided technical and/or financial assistance to some of the above programmes.

The SEMED project was completed in 1995, and produced seven studies covering the major issues and their recommended areas of intervention: i) the enabling environment and the role of the Ministry of Cooperatives and Small Business Development (DEPKOK & PKK); ii) a strategy for developing a programme for cost-effective mass communication and training strategies; iii) a strategy for developing a vocational training programme for self-employment; iv) a strategy for developing programme for improved delivery mechanisms; v) a strategy for developing a programme for integration of financial and non-financial services; vi) business opportunity identification activities for self-employment and micro-enterprise development; and vii) strengthening the role of women in the SEMED programme.

In particular, the study on the role of women in the SEMED programme pointed out that, because of their unequal position in the labour market, women are more adversely affected by the crisis than men. Significant constraints faced by women include: i) the great difficulties in developing their businesses, given the long hours which need to be spent on family, and other social obligations women entrepreneurs face; ii) a widespread belief that women entrepreneurs can only deal with home-based industries, and that there is no need to involve them in advanced training schemes on business management, financial management, marketing, and product development; iii) difficulties additional to those also faced by men in accessing both financial and non-financial service providers, in particular in rural areas where women cannot easily interact with male professional staff who provide such services; iv) minimum lending ceilings by banks that are too high for the financial needs of women entrepreneurs, and at sub-district levels a requirement for permission by husbands in order to apply for credit; and v) inadequate representation of women entrepreneurs in professional bodies dealing with entrepreneurship issues, and therefore inadequate reflection of the needs of female target groups in the mission and programmes of these bodies. It is essential to develop gender sensitive strategies that take into

account all the foregoing.

In recent years, the gender and development approach has emphasized the important relational aspects of women's participation in development. In this approach, the main emphasis is not just on women as a social category, but also on the gender-based relationships existing between women and men, both in the household and in the community. There is a need to conceive national and local policies and strategies that promote the progress of women as an integral part of development. To accomplish this, specific as well as general issues related to gender need to be taken into account in the strategy development process:

i) Training: As important as the development and scheduling of appropriate training programmes is, it is perhaps even more important to conduct "social marketing" efforts to raise women's awareness of the significance of training. Women need to be made aware that there are training programmes available to them, and that they can succeed as entrepreneurs. To help achieve this, it is important to strengthen the institutional capacity of the various organizations concerned with women's programmes and networks at all levels. Training efforts should also be clearly linked to access to credit. Helping women with business planning training is important not only so that they can develop and pursue a real business opportunity, but also so that they can gain access to many of the financing schemes. Business plan training should allow women to talk to bankers and to other providers of credit in terms and language that are mutually understood.

ii) Credit: There is a lack of gender-disaggregated data from the banking system, and it is therefore difficult to identify the extent of women's participation in the formal credit sector. In the informal sector, the use of credit for productive purposes is often mixed with credit for consumption, especially in poor households. Women often tend to be involved in small businesses as part of a general household survival strategy. Their need for credit is often for start-up capital, but they are handicapped by a lack of collateral and a lack of understanding and information regarding lending procedures. For many rural women, large distances from formal sources of credit is a further problem. Women often borrow from family and friends and from professional moneylenders and pawnbrokers. They prefer to pay the higher rates, rather than face the administrative bureaucracies and less flexible repayment conditions of formal lenders. Moreover, land, which can often be used as collateral, is typically titled in a man's name even when it is jointly owned. Local NGOs have been identified as offering the greatest potential for establishing and managing business service centres that can provide training, management, marketing, quality control, and other relevant subjects and also give specialized assistance to individual small-scale and micro enterprises at the community level in how they can go about obtaining credit.

iii) Institutional frameworks for delivery: A number of institutions and mechanisms are available to promote the empowerment of women in Indonesia. Some of these should be considered for inclusion and involvement in the development of the SEMED strategy nationally and, later, locally. From the Government: a) the State Minister for the role of women; b) consultation and coordination meetings between the state minister for the role of women and sectoral echelon I officials; c) working groups under assistant ministers from the State Ministry for the Role of Women; d) bureau of planning in each department which is the focal point for women in development; e) provincial and district management teams for the advancement of women; f) women's studies centres in government and private universities. From semi-government or NGOs: a) national commission on the status of women; b) Indonesian women's congress; c) Dharma Wanita and Dharma Pertiwi; d) Family Welfare Movement; e) community-based organizations and women's groups and cooperatives at district and village levels.

200. As indicated, the ILO's own studies also show that generally women are in lower positions in the labour market, and discriminatory practices are still common. Unfortunately, adequate data on the status of working women is still limited because of the lack of sex-disaggregated data, and because the majority of women work in the informal sector. The ILO is focusing particularly on gender analysis of the impact of the crisis and policy responses, including how best to defend promote the rights of working women during economic downturns. In cooperation with Bangkok's Asian Institute of Technology, the ILO is conducting such a gender analysis in Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand. An ILO/Japan project on employment expansion for women was launched in Indonesia and Nepal prior to the crisis, and was redirected to respond to the financial crisis to include a study of its impact at the community level. The project also includes a legal literacy campaign to empower women and to ensure the effective implementation of related legal instruments.

201. ILO activities in the priority area of gender related to employment are included within several projects, but are not limited to individual projects. The feminization of poverty still remains a daunting concern in all regions of the world. The ILO is therefore involved in trying to address the problem together with enterprises, governments, social partners and civil society. Addressing the increasing needs of constituents in this field, the WIDE programme in the Development Policies Department of the ILO, in collaboration with the International Training Centre, Turin, has developed a new broad-based capacity-building programme that brings together the inter-linked policy areas of gender equality, employment promotion, and poverty eradication. Using an interdisciplinary approach, the programme responds to the global priority areas set at the World Summit on Social Development in Copenhagen and the Fourth World Conference on Women in Beijing, providing an integrated package that can be used in a variety of contexts. This innovative programme is strongly applicable to the area of employment and small business development, and is summarized in Box 26.

**Box 26****Gender equality, employment promotion, and poverty eradication:  
An ILO capacity-building programme**

To assist constituents in responding practically to the kinds of foregoing issues and concerns, the ILO has developed a programme of global applicability that aims to facilitate the effective adoption of gender-sensitive policies and programmes, improve the quality of women's employment, and strengthen their bargaining abilities.

The programme mainstreams a gender perspective into action, including into legislation, policies, and programmes, by providing effective training and sensitization activities for the following stakeholders: i) government agencies; ii) local government structures; iii) employers' organizations; iv) workers organizations; v) the private sector; vi) the cooperative community; vii) NGOs; and viii) the international community, including UN system institutions and donor agencies.

This innovative package includes nine thematic modules, bibliographies, a reader's guide, a CD-ROM, and a user-facilitator kit that is useful for those conducting capacity-building training. The titles of the nine modules are: i) Trends, issues and approaches: An overview; ii) *Organizational and negotiating power: The ability to initiate change*; iii) *Access to assets*; iv) *Financial resources*; v) *Investing in human capital with a focus on training*; vi) *Expanding wage employment*; vii) *Extending social protection*; 8) *Social funds*; and 9) *Future challenges: An agenda for action*. Further information on these modules and the programme can be obtained from Ms. Azita Berar Awad, Programme on Women in Development, Development Policies Department, International Labour Office Geneva, Switzerland. E-mail: [berar@ilo.org](mailto:berar@ilo.org); and Ms. Daniela Bertino, Women in Development Unit, International Training Centre of the ILO, Turin, Italy. E-mail: [d.bertino@itcilo.it](mailto:d.bertino@itcilo.it)

**Source:** *Gender equality, employment promotion and poverty eradication*, An ILO capacity-building programme information brochure. International Labour Office, 1999.

202. In addition to the role that can be played by donors' projects, enterprises, or other national and local development institutions that are dedicated by their objectives or mandates to the promotion and development of entrepreneurship and SMEs, an important promotional role also can be played by trade unions and employers organizations. An important emphasis of this Round Table, and of the ILO's enterprise-based job creation activities, is to involve employers' and workers' organizations in the design and implementation of these activities and to develop their capacity to provide effective national services in the area of small business and self-employment promotion. Many of the projects described above already involve constituents, directly or indirectly. As part of ILO strategy to better respond to the Asian financial crisis, a number of Asian employers' organizations are being directly assisted in the design, development, and implementation of productivity workshops for smaller enterprises. The participation of our social partners is also strongly encouraged in productivity and competitiveness improvement programmes to ensure their effectiveness and sustainability at both the national and enterprise levels. Tripartite approaches are being promoted through the establishment of tripartite national productivity councils and centre, and through technical seminars and publications. Productivity training activities for employers' and workers' organizations have covered employers' organizations in several countries in the Asia-Pacific region.

203. A central objective of this Round Table is to encourage participants strongly to challenge their own thinking regarding how best to involve specifically their organizations and their networks in the important task of promoting entrepreneurship and SME development in their own countries. In its general conditions to stimulate job creation in small and medium-sized enterprises, the International Labour Conference has indicated that employers' or workers' organizations should consider contributing to the development of small and medium-sized enterprises in the following specific ways, which can be used as points of departure and plans for constituents to develop national action plans after this Round Table. The points below are drawn from Recommendation 189 Concerning General Conditions to Stimulate Job Creation in Small and Medium Sized Enterprises, as adopted by the International Labour Conference at its 86th Session in June 1998:

- i) articulating to governments the concerns of small and medium-sized enterprises or their workers, as appropriate;
- ii) providing direct support services in such areas as training, consultancy, easier access to credit, marketing, advice on industrial relations, and promoting linkages with larger enterprises;
- iii) cooperating with national, regional, and local institutions as well as with intergovernmental regional organizations which provide support to small and medium-sized enterprises in such areas as training, consultancy, business start-up, and quality control;
- iv) participating in councils, task forces, and other bodies at national, regional, and local levels established to deal with important economic and social issues, including policies and programmes affecting small and medium-sized enterprises;
- v) promoting and taking part in the development of economically beneficial and socially progressive restructuring (by such means as retraining and promotion of self-employment) with appropriate social safety nets;
- vi) participating in the promotion of exchange of experience and establishment of linkages between small and medium-sized enterprises;

viii) participating in the monitoring and analysis of social and labour-market issues affecting small and medium-sized enterprises, concerning such matters as terms of employment, working conditions, social protection, and vocational training, and promoting corrective action as appropriate;

ix) participating in activities to raise quality and productivity, as well as to promote ethical standards, gender equality, and non-discrimination;

x) preparing studies on small and medium-sized enterprises, collecting statistical and other types of information relevant to the sector, including statistics disaggregated by gender and age, and sharing this information, as well as lessons of best practice, with other national and international organizations of employers and workers; and

xi) providing services and advice on workers' rights, labour legislation, and social protection for workers in small and medium-sized enterprises.

204. The ILO strongly urges the preceding involvement and action on the part of employers, workers, and governments because of the crucial role that enterprises play in job creation. It is therefore useful to illustrate the job-creation potential and contribution and potential and contribution of the SME sector with a specific case that identifies a possible practical way forward.

205. There are many examples that illustrate SME development in the Asian region promoted by various bilateral donor agencies that point to be best ways forward. Enterprises too have helped to develop SME programmes in their local communities with a particular emphasis on their own specific comparative advantage, for example credit schemes in the case of local banks. Several examples of these enterprise practices have been emphasized in this paper through the cases provided in the sections illustrating good human resources management and corporate citizenship practices. These illustrate the significant interrelationship between the three focus areas and themes of this Round Table: advancing national and enterprise practice in i) human resources management practice (HRMP); ii) corporate citizenship practice (CCP); and small business development practice (SMDP).



# 5

## ADVANCING THE PRACTICE AREAS

206. The basic structure and background, the relevant conceptual-analytical frameworks, and the current best practices in the region have been described for these three important and interrelated enterprise development areas that form the focus of this Round Table: human resources management, corporate citizenship, and small business development. Ways to promote and advance good practice have been set out or illustrated in each of the relevant sections wherever clear lessons made this possible.

207. By way of summary, it may be useful to again point out that each of these areas has a history of development and that fresh progress is constantly being made. Corporate citizenship and social responsibility have evolved and developed in the last 30 years, in part emerging from earlier (and continuing) notions of corporate philanthropy practised for a much longer period and grounded in long-standing religious traditions and shared values. Human resources management is a more recent phenomenon, dating to the late 1970s and early 1980s, but it is anchored in a vast body of management theory and practice that developed as a separate discipline in this century beginning even before Frederick Taylor's landmark 1911 book on scientific management. And, as indicated previously, small business development as a promotional practice also has a relatively more recent history and development. But all three areas have developed and evolved substantially since their inception, and will undoubtedly continue to do so under the influences of various forces. For instance, the "three Cs" – conscience, compliance, and competitiveness – were described as global factors and forces in relation to the corporate citizenship area. Development of the other two practice areas are also driven by these, and by globalization.

208. How can interested actors and stakeholders and practitioners in these areas better involve themselves proactively and assist in advancing practice? This can be usefully conceptualized at three levels: enterprise, national, and regional. Each of the national and enterprise cases presented in this paper has pointed to specific ways in which the standard of practice in each of these three areas can and is being improved, suggesting guidelines for stakeholders. In general terms and by way of summary: leadership, management vision and initiative, and the participation, involvement, commitment, and contribution of all stakeholders to these areas in systematic and institutionalized fashion are strong contributing factors in the advancement of practice, particularly when accompanied by a clearer and shared understanding by all stakeholders and practitioners of the various forces and multiple objectives under which they must operate. It is also important to develop relevant enabling environments at each of these levels and for each kind of practice.

209. From the perspective of multilateral and national institutions committed to facilitating the advancement of these areas, any policies and actions that strengthen these preceding factors are useful. And the same is true from the special perspective of the ILO's tripartite constituents. More specific guidelines to action already have been offered for the small business development area. Based on the cases and the best practices and lessons of experience set forth in this report (and in other Round Table inputs), it will be useful for participants to take up this challenge and involve themselves in developing practical action plans for augmenting the contributions their specific institutions can make together with their related national networks, and decide how they can further develop their own internal capacities in order to best do so.

210. The ILO's social partners' attention is drawn to the Conclusions of the ILO Governing Body Symposium on 'The social Impact of the Asian Financial Crisis', Geneva, 19-20 March 1999, These are outlined in Governing Body paper GB.274/4/4 (March 1999) and are reproduce in Box 27.

**Box 27****The ILO's response to the financial crisis in East and South-East Asia**

**The Social Impact of the Asian Financial Crisis: An ILO Governing Body Symposium  
Geneva, 19-20 March 1999**

**Conclusions of the Reporter**

1. The social cost of the Asian financial crisis has been extremely high, with a substantial rise in open unemployment and underemployment and a significant decline in real earnings, concentrated mostly in sectors of the economy linked to international trade and financial flows.

2. The negative social impact has not been uniform across social groups. Workers and the emerging middle class in urban areas are the worst affected, since the rural economy was relatively insulated from the effects of the crisis. Among the victims of the crisis, vulnerable groups such as women, children, and migrant workers have suffered most.

3. The severity of the social impact was aggravated by the relative neglect of the development of institutions for social protection during the decades of the Asian economic miracle. Except in the Republic of Korea, there was no system of unemployment insurance, social assistance, or active labour market policies to relieve the distress of the large number of workers who lost their jobs or were pushed into poverty as a result of declining real incomes. Similarly, the relative underdevelopment of labour institutions ruled out any significant reliance on tripartite arrangements to moderate the extent of job losses.

4. While there are now encouraging signs that currency and financial markets have begun to stabilize and that the preconditions for recovery are in place, complacency must be avoided. Serious obstacles have still to be overcome in the task of financial and corporate restructuring. At the same time the reform of social policy and the building of new social institutions is a complex and difficult process.

5. In spite of these continuing difficulties, there is a clear determination to persevere with ongoing reforms. The crisis has forged recognition that the deficiencies of the pre-crisis economic and social systems need to be remedied. A common new vision for reform is emerging that consists of the following key elements:

(a) The importance of democracy as a guarantor of basic human rights, of transparent and hence sound economic and social policies, and of social justice. Within this framework, respect for the ILO standards enshrined in the Declaration on Fundamental Principles and Rights at Work is an important element. In particular, freedom of association and the right to collective bargaining are the foundation for building strong institutions for social dialogue.

(b) The recognition that social dialogue is invaluable for sustaining democracy and open policy debate will act as a bulwark against the adoption of corrupt, inefficient and inequitable policies, which contributed to the onset of the crisis. Social dialogue also confers substantial economic and social benefits in terms of its contribution to non-conflictual economic restructuring and to the weathering of economic crises. In the current Asian crisis, countries that engaged in substantive social dialogue have been successful in moderating the extent of retrenchments, reducing social and industrial unrest, negotiating wage restraint in support of eco-

conomic recovery, and achieving a more equitable sharing of the social costs of the crisis.

(c) The highest priority should be given to the strengthening of systems of social protection. Possible measures include the introduction of unemployment insurance and the expansion of social assistance schemes to relieve extreme poverty.

6. In considering the lessons of the crisis the following key points emerged:

(a) The proper response to the crisis was not to turn against globalization but to try to make the process work better. Efforts should be made to correct defects in the current international financial system in order to reduce the vulnerability of countries to financial crises and improve the regulation of financial flows, including short-term financial flows, as well as national efforts to strengthen financial systems.

(b) In responding to crises, the international financial institutions (IFIs) should take into account the particularities of different national situations and avoid a "one size fits all" approach. The trend towards greater transparency on the part of the IFIs with respect to their analyses and systemic and country risk assessment should be reinforced. In addition, every effort should be made for meaningful dialogue with the social partners in the design and implementation of stabilization and structural adjustment programmes. The social partners should be given adequate advance notice and full access to the relevant information in order to be fully prepared to engage in serious discussion of issues.

(c) Greater integration of economic and social policies should be striven for. The social implications of economic policies should be taken into account at the initial stage of policy formulation, and there should be clear recognition that economic policies that impose a heavy social cost are not viable. Every effort should also be made to minimize the trade-off between economic and social objectives.

(d) The availability and quality of research and data in order to allow for better policy design and more effective monitoring and evaluation of policy implementation should be improved. This is particularly important for social policy, where interventions are most effective when they are tailored to the special needs of different social groups.

(e) Immediate short-term preoccupations during a crisis should not detract attention from the fundamental importance of promoting the growth of productive enterprises and employment generation. The removal of regulatory and other obstacles to enterprise growth, especially that of small and medium enterprises, should be a priority. Reforms to improve the functioning of labour markets that are achieved through tripartite agreement also have an important role to play in this connection.

7. The ILO and other agencies with a social mandate on the one hand, and the IFIs on the other, should work more closely together in order to be better prepared to deal with future crises. In particular, closer collaboration between the ILO and the IFIs could be achieved through measures such as giving the ILO representation in the IMF Interim Committee and the World Bank/IMF Development Committee as well as the working out of agreed priorities for joint action, including -- but not limited to -- active cooperation at both the policy-making and operational level to promote implementation of the ILO Declaration on Fundamental Principles and Rights at Work by the IFIs, and the assignment of high priority to the design and implementation of efficient social insurance systems by the ILO.

8. In reviewing ILO action in response to the crisis, the symposium highlighted the following issues:

(a) The ILO needs to strengthen its capacity to respond rapidly to major crises. This involves greater flexibility in reallocating internal resources as well as an augmented capacity to mobilize external resources to put in place emergency programmes to deal with the most dire social problems during crisis situations.

(b) There should be a strengthened capacity to anticipate the onset of crises in order to allow for preventive action and a greater degree of preparedness to mitigate the social costs of crises. This will involve improved information systems for the monitoring and analysis of economic and social developments.

(c) ILO action should be based on the clear recognition that policy reform and building new institutions is complicated both in terms of design and implementation. It requires sustained effort that is backed up by high-quality technical studies and policy advice.

9. The ILO should act as a catalyst and facilitator to put in place well-designed programmes of training, retraining and job placement, and for the promotion of self-employment targeted at the specific needs of retrenched workers.

Geneva, 21 March 1999.

**Resource:** Governing Body paper: The ILO's response to the financial crisis in East and South-East Asia, The Social Impact of the Asian Financial Crisis: An ILO Governing Body Symposium, GB.274/4/4, 274th Session, Geneva, March 1999.



# 6

## CONCLUSIONS

211. The common elements in these very different cases suggest that countries may be more successful in achieving competitiveness and development, and in weathering crises with less social and economic pain, when they have a long-term, phase by-phase and step-by-step vision and strategy for their economic development process and the acquisition and maintenance of their national competitiveness. Countries are more likely to be successful when they pursue, in addition to current economic policies, ongoing and flexible economic strategies and implementation plans. Countries may also be more successful when they are able to manage their national development and competitiveness process, broadly and in the long term, in light of all evolving internal and external dimensions and conditions existing nationally and at the enterprise level.

212. To be effective, such a national-level strategy must reflect, sector by sector, the country's economic and social circumstances and history as well as its current assets and liabilities. It must also include a phased, practicable development of its economic and social sectors (rural and urban, agricultural and industrial, financial and infrastructure, educational and health, etc.), and a mustering of political support for the development of these goals, taking into account their interrelationships and the timing of their development. Such a strategy is best developed – and its implementation is best managed – through political, economic, and social leadership and vision exercised through broad consultative processes, preferably with the involvement of the major actor groups and institutions in society, whichever these may be in the specific country. A strong contributing element is a disciplined and gradualist approach that is bold when required, but which is consonant with national cultural values and traditions. Other important features include government capacity and skills and their upgrading, the systematic and ongoing review of results, and the adjustment of national development strategy, plans, and methods – and their supporting requirements – in light of incremental outcomes.

213. Successful enterprises also point to the importance of this same concept of participatory, consultative, broad-based, and well-managed strategy development and implementation and ongoing revision processes at the enterprise level. Enterprises are more successful when they recognize and adopt a longer-term and broader view of their own performance and development in economic, financial, market, cultural, and social terms, both internally and externally in relation to all their stakeholders – and then manage present survival problems and contingencies within such a perspective. The development, implementation, and ongoing review of an enterprise vision and strategy for competitiveness and for the management of challenging contingencies – such as restructuring and the need for organizational transformations arising due to globalization or crisis – is more likely to be successful in implementing the adjustments required in the present, and the repositionings required for the future, when it is conducted with taking into account the views and needs of employees, customers, communities, and the other main stakeholders to enterprise performance.

214. With respect to human resources management practice (more specifically HR-ABCDE – allocation, best-utilization, commitment-building, development, and employment relations as described in Paragraphs 95 and 99), experience clearly shows that companies are impacted by numerous forces and requirements generated both by globalization and by the immediate crisis, and that they must respond effectively to these or risk going under. Those companies that already have in place, in addition to ongoing business plans, a longer-term company development and competitiveness vision and strategy, and those that continue to take into account both the economic and the social development dimensions of their performance, are in a better position, in

times of crisis, to make effective decisions with respect to HRM-ABCDEs at the same time they pursue legitimate concerns of short-term survival. The methods of employee involvement, consultation, transparency, and communication are essential to this process and can be exercised through a variety of mechanisms and internal or external institutions and activities.

215. With respect to CCP (corporate citizenship practice), it is clear that companies are under the evolving influence of each of the 3Cs: conscience, compliance, and competitiveness – societal factors and forces described in Paragraphs 152-3. In relation and in response to these forces, enterprises and their stakeholders adopt and develop internal shared company principles, policies, and programmes (the 3Ps discussed in Paragraph 153). It is important to understand that the 3Cs simultaneously influence one another while shaping each of the 3Ps and their own interactions. Within this complex interactive picture, it is important for companies to develop and maintain a clear understanding of the main external forces that impinge upon them and of how these impact them practically. It is even more important for them to internalize and develop a strong awareness of the importance and benefit to their competitiveness, legitimacy, and adaptability of a strong corporate citizenship profile, implementing and upgrading the 3Ps, particularly in those ways and areas most appropriate to their present context and most responsive to the internal and external needs and possibilities of their stakeholders.

216. With respect to effective promotional practice for small business development (SBD), the key aspects upon which interested social actors and practitioners need to focus are i) the promotion of an overall national enterprise culture; ii) the creation of a conducive business environment; iii) the development of effective business services and access to credit and financial services; and iv) the various forms of institutional development and capacity building that permit these. These key areas of assistance to SMEs are formally recognized and described in Recommendation 189 Concerning General Conditions to Stimulate Job Creation in Small and Medium Sized Enterprises. This Recommendation provides the basic framework to guide the ILO and its constituents in implementing projects and programmes to support business development in small and medium enterprises.

217. Finally, it is important to remember that good national and enterprise practice in HRM, CSR, and SBD – the three main foci of this Round Table – is interrelated, sometimes in subtle and complex fashion. All three areas depend on the development of a national policy and opinion environment conducive to economically efficient and socially equitable enterprise development. Governments, the private sector, and civil society organizations – employers' and workers' organizations in particular – can all exercise increased initiative in order to play constructive and collaborative roles in bringing about such an environment.

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