

CHAPTER II

LITERATURE REVIEW



This chapter would survey the current situation of CSR practice, how it contributes to environmental protection, as well as changes in public policy and the role of the state and civil society regarding CSR and the environment. The last section would focus on the case of CSR practice in developing countries, and how it can be used to counter the negative effects of the current neo-liberal globalization.

2.1 The Context of Corporate Social Responsibility

Corporate social responsibility (CSR) is the product of growing public concern over environmental degradation due to human economic activities during the twentieth century. Although the activities of earlier transnational corporations such as the Dutch East Indies and the (British) East India company were causing deforestation and soil erosion through large scale plantation as far back as the seventeenth century, there was little public recognition or popular protest over their actions (Barrow, 2006: 112). By the 1960s, however, many factors contributed to the wide spread recognition and concern over the state of the environment. Some of these are improved standards of living for many people in industrialized countries, access to the media, the seriousness of many public environmental accidents, as well as the influence from environmental non-government organizations (NGO), consumer protection groups and trade unions (Cairncross, 1995:35; Barrow, 2006: 112). Many of these movements and organizations targeted corporations as one of the main culprits for environmental degradation, with justification. Traditionally, businesses tend to concentrate only on the 'bottom-line', or profit, as their main objective and environment degradation were not usually calculated into the production cost. The pressure from popular movements, the media, and the fear of litigation, however, means that corporations can no act longer irresponsibly about the environment.

International organizations such as the United Nations (UN) also had a crucial role in putting forth environmental issues as an important global concern through international conferences, beginning with the 1972 Conference on the Human Environment in Stockholm, and setting up institutions such as The UN Environment Program (UNEP), as well as identifying the role that the private sector should have in environment protection. The 1987 report of the World Commission on Environment and Development (WCED) stressed the need for economic development as well as environmental protection, and recommended an integration of environment and economics under the concept of 'sustainable development' (Barrow, 2006: 82). These international bodies encourage the business sector to take more responsibility for environmental protection, as well as foster openness and dialogue with employees and the public (ADB, 2005:19; Barrow, 2006: 112). Kofi Annan, former Secretary-General of the United Nations, through the Global Compact initiative, attempted to bring together private companies, UN agencies, and civil society together to address various development issues, including environmental protection (ADB, 2005:18). According to Annan, "Many business leaders still think these are problems for governments to solve and that business should just concern itself with the bottom-line. But most of them understand that in the long run the bottom line depends on economic and social conditions, as well as political stability. And increasing numbers of them are realizing that they do not have to wait for the government to do the right thing." (Annan, Quoted by Moore, 2003: 208)

This is a very different approach to environmental protection that has been advocated by early environmentalists. The report of the Club of Rome in 1974, *A Limit to Growth* advocated a limit to industrial production and a restraint on human consumption (Cairncross, 1995:5). For these early environmentalists, environmental interests and business interests are seen as irreconcilable (Menon and Menon, 1997: 53). Therefore, in order to protect the environment, there must be regulatory measures that would ensure strict control of industries. However, due to the widespread popularity of the concept of 'sustainable development' as put forward by the WCED, economic development and market-based strategies, rather than legal pressure or regulations, is now seen as the solution to environmental problems (Menon and Menon, 1997:54). In this new paradigm, the business sector is increasingly seen as the

leading actor in environmental protection, tackling issues that were once solely the responsibility of governments.

Through pressure from international organizations, civil society movements as well as through self-initiative, the private sector is increasingly taking up the role of environmental protection and management. One of the initiatives taken by the business sector is the formation of the World Business Council for Sustainable Development (WBCSD) during the same time as the Rio Earth Summit in 1992, under the chairman of a Swiss Businessman, Stephan Schmidheiny (Cairncross, 1995:178). Since then, there has been increasing efforts to integrate environmental concern into business practices under the concept of 'corporate social responsibility' or CSR. As mentioned in section 1.2, the definition of CSR in this research is 'voluntary actions taken by any business organization to ensure environmental protection and security or to provide some form of social benefit, which are beyond their legal obligations and are not in their direct economic interests, as well as a continuous effort by those organizations to engage in a transparent and interactive dialogue with all relevant stakeholders'. In the next section we will look at what types of activities actually constitute CSR, and how can they be classified.

2.2 Stages of CSR Activities

According to Nelson (2004), CSR activities can be classified into five stages according to their level of social involvement, beginning with the minimum level of social responsibility and each level progress towards more social involvement or a more integrated approach to social responsibility. These activities include:

1. Compliance and viability, which mean a company must comply with national laws and regulations, and also take actions necessary to remain profitable
2. Control risks, costs and liabilities, which means to go beyond legal compliance to minimize negative impacts of a companies' activities. For example, implementation of environmental codes of conduct and safeguards

3. Contribution to charity and community investment, which includes philanthropic giving, employee volunteering etc.
4. Create new value, this includes investing in the development of new products, services or business models that are more environmental-friendly
5. Collaborate to address broader agenda, this means to undertake joint efforts with other sectors, such as government or civil society, to tackle social, economic or environmental problems (p.11-12)

These five stages of CSR activities proposed by Nelson are similar to the four stages proposed by Swift and Zadek in *Corporate Responsibility and the Competitive Advantage of the Nations* (2002) which are: 1) Legal compliance; 2) Low-level business case which include risk management, implementing codes of conducts and philanthropy; 3) Strategic corporate responsibility, including product development and new business models; 4) Remolding competitive advantage, including multi-stakeholder partnership, institution building and policy advocacy (cited by Kraisornsuthasiness and Swierczek, 2006). Like Nelson, we can see that the early stages of CSR activities began with low levels of social involvement, while the later stages gradually involve more social responsibility. Therefore we can conclude that the higher the level of social involvement, the more advanced the level of CSR practice. In this paper, Nelson's five stages of CSR activities will be used to measure the level of CSR practiced by Thai business organizations.

2.3 The Practice of CSR and Environmental Protection

The practice of CSR can contribute greatly towards environmental protection and sustainable development. According to Cairncross (1995), in order to restrain the effect of human impact upon the environment there needs to be either a change of people's behavior or a change of technology (p.177). Changing people's behavior, however, can be difficult and is likely to have only a minimal effect, therefore the solution lies in the change of technology (Cairncross, 1995: 177). In order for this to happen there needs to be cooperation from industries and the business sector. Cairncross (1995) stated, "As some environmentalists, and some industrialists, now realize, industry can also help to reduce environmental damage"(p.177). In this

argument, it is easier to manage the environment through corporations than through individuals because corporations are the ones doing more activities, more production. Therefore it is better to change the action of firms, and presumably large firms, than the action of individuals. In this sense, CSR has the potential to promote environmental protection through company investment in research and development (R&D) in new, cleaner technologies, voluntarily adopting those technologies and transfer of technology.

Another way that CSR can improve environmental performance and contribute to sustainable development is through voluntary code-of conducts. This is an agreement, either between firms in the same industry or between business organizations and stakeholders, or the public sector to meet certain standards or carry out certain practices that are above the legal requirements for human rights, environmental protection or consumer safety (ADB, 2005: 58). According to the ADB Asian Environmental Outlook report (2005), although these voluntary standards do not have the force of law or government policy, in many cases they are becoming de facto or quasi-standards because it became the norms of the market-place (ADB, 2005: 58). One example of this is the ISO 14000 series, which is the environmental performance standard set by the International Standard Organization in 1996. Since it was launched it has been adopted widely. Certification was given to over 88,000 companies (ADB, 2005:64). The ISO 14000 series has become a quasi-involuntary standard due to the link that it now has with the WTO and that it has become a de facto condition of the market place (ADB, 2005:64). The voluntary agreement of business organizations in a particular sector to set a higher environmental standard for its members can also have the same positive effect of turning the voluntary agreement into an “involuntary” one because the higher standard has become the norm in that particular sector.

Eco-labeling is one way to award companies that comply with certain voluntary environmental standards. This is the marking of goods to show that they are environmental-friendly, it assesses the environmental impact of products and shows this to the consumers (Barrow, 2006: 122). Eco-labeling can be done by a state department or a private third-party organization. For example, in Thailand, the Organic Agriculture Certification Thailand (ACT) is an independent organization

established in 1995 by a network of NGOs. One of its main objectives was to “consolidate the integrity of authentic alternative farmers and their pesticide-free and chemical-free products from several business groups who market their self-claimed products by labeling as “hygienic food” or “non-toxic food”...misleading consumers.”(ACT Website, 2001; Retrieved May 7, 2007). Eco-labeling is therefore, a way to make good business practice concerning environmental protection visible to the public and the media, similar to how the Fair Trade label of the Fairtrade Labeling Organizations International (FLO) contributes to public recognition of good business practice concerning labor protection and human rights.

The drawback from these views, however, is that they only apply to the managerial view of CSR. They do not take into account the overwhelming power of corporations, especially transnational corporations, in present-day society. This can be putting too much faith in the actions of businesses. People also have a significant role in changing businesses and corporations; therefore the public or social view of CSR also needs to be considered. Many trade unions and civil society organizations that took part in the 2001 European Commission (EC) Green Paper, “Promoting a European Framework for Corporate Social Responsibility”, emphasized that voluntary initiatives are insufficient to ensure the rights of workers and citizens (EC, 2002:5). For these groups, CSR should not be adopted, implemented and evaluated unilaterally by the business sector, but with the involvement of all stakeholders (EC, 2002:5). In their letter to the European Commission, NGOs that have participated in the European Multi-stakeholder Forum on Corporate Social Responsibility stated that although there are many limitations to the voluntary approach, it is important to promote CSR through raising the level of understanding and fostering dialogue between business, trade unions, civil society and other stakeholders (Parent et al., 2004). Therefore we may conclude that, according to the public or social perspective, the most important way in which CSR can contribute to environmental protection is not through technological innovation or setting higher industrial standards, but rather by creating a more democratic form of market through transparent dialogues with the wider public.

2.4 The Role of Public Policy in CSR Practice

In this next section, we will examine the effect of public policy on CSR practice by looking at the case of the EC and OECD countries to see what has been recommended to policy-makers through debates involving a large number of stakeholders including business, international organizations and committees, NGOs, as well as consumer standard and labeling organizations.

Although the concept of CSR is concerned primarily with voluntary actions taken by businesses and firms, most would agree that the public sector still has to play a role in creating sufficient, as well as appropriate public environmental policy. According to many speakers at the EU Multi-Stakeholder Forum on Corporate Social Responsibility, held in October 2002, CSR should not be a substitution to legal requirements, rather it should be seen as a contribution to sustainable development *over and above* the respect of legislation (EC, 2003:19). In fact, there is a consensus among supporters of CSR in that there is need for the government to create a 'level-playing field' through its regulations that would ensure companies that are using higher environmental standards are not put at a disadvantage by companies using 'dirty' technologies to produce cheaper products (Cairncross, 1995: 188). With regards to CSR, policy-makers face a new challenge in finding the most appropriate and effective role in encouraging the business sector to adopt environmental protection measures and management facilities.

According to the report of the European Commission, *Corporate Social Responsibility: A Business contribution to Sustainable Development* (2002), on the responses to the 2001 Green Paper "Promoting a European Framework for Corporate Social Responsibility", most enterprises stressed the voluntary nature of CSR, this implies that there should be freedom for companies to adopt the measures that they see fit (EC, 2002:5; EC, 2003:14). In contrast to state-imposed environmental regulation, there should not be a one-size-fits-all solution to business environmental practices. Most businesses feel that the attempt to regulate CSR would have a negative effect on creativity and innovation among enterprises (EC, 2002:5). This is in accordance with the OECD report in 2007, *Business and the Environment: Policy Incentives and Corporate Responses*, which stated that more flexible policy measures

encourage investment in clean production and environment-related R&D (OECD, 2007: 9). Flexible policy instruments such as market-based instruments and performance standards have been shown to result in decisions to invest in cleaner production processes, which meant that environmental decisions are integrated into the production process (OECD, 2007: 74). On the other hand, direct regulations through technology-based standards, also known as ‘command and control’ regulations, likely resulted in the use of ‘end-of-pipe’ solutions, which are not necessarily the most effective measure (OECD, 2007: 74). Increasingly, the government is changing its approach towards business environmental regulation from command-and-control to more flexible, incentive-based policies. The role of the government also shifted from being mainly the regulator to being the *facilitator* of environmental protection. This is very different from the traditional view that the public policy framework is the primary ‘driver’ of environmental practices of firms, or that socio-environmental regulation is a unilateral process driven mainly by the government through state bureaucracies (OECD, 2007: 22).

There are many people who disagree with the new role of government concerning the social and environmental responsibility of business. South African Finance minister, Trevor Manuel stated at the 2002 World Economic Forum that “Understanding the respective roles of governments and markets is vital to ensuring growth and poverty reduction. The role of business is to make a profit. The role of government is to govern and govern for all. Weak institutions hurt the poor especially, as much in failing to protect their civil rights as in failing to protect their economic interest.”(Manuel, quoted by Moore, 2003: 208). Those who do not think that governments should rethink their role concerning socio-environmental issues are not likely to support using CSR as an environmental management tool. According to Martin Wolf of the *Financial Times*, CSR is “ill-defined,...ineffective and dangerous.”(Wolf, quoted by Moore 2003: 207). For these critics, social responsibility and business responsibility are completely separated between the public and private sector. Therefore, in their view, it is impossible for a business organization to claim to have ‘social responsibilities’. According to this argument, CSR practice is not the solution for current social or environmental problems, as it would allow businesses to undermine national institutions and legislations and would not provide sufficient

environmental protection or social benefits, as companies would look primarily to their own interests.

However, the fear that CSR practice would allow the business sector to take over the role of the public sector and undermine public authority appears to be unfounded. According to many at the European Multi-Stakeholder Forum, CSR is seen as a supplement rather than a substitute to environmental regulations (EC, 2003: 19, 28-30). This view was held by business organizations as well as NGOs and civil society. For environmental NGOs, voluntary business actions or CSR is not enough to ensure environmental protection; therefore, while CSR practice is welcome, there is still a need for sufficient regulatory measures (EC, 2003: 28-30). For businesses, a lack of regulations would only put companies that take their environmental obligations seriously at a competitive disadvantage; therefore to cut back on regulations would actually discourage the practice of CSR (Cairncross, 1995:188; Esty, 2005:139). Many studies, such as the 2007 OECD report, *Business and the Environment*, also showed that stringent public policy encourages better environmental performance by corporations (OECD, 2007: 8). Sufficient environmental regulations and strong enforcement is therefore, contrary to popular belief, a necessary condition for CSR practice to become feasible.

The voluntary nature of CSR, however, would require a different type of public policy or a different form of regulation. Certain types of existing regulations fail to facilitate or reward over-compliance, and in some cases may even discourage it. As mentioned, command-and-control regulations which specify the technologies and exact methods for business environmental management do not encourage companies to find innovative ways to reduce environmental effects (Kagan et al, 2003: 52; OECD, 2007: 59). However, performance based policies would give companies regulatory flexibility to adopt the most effective measures of environmental protection (Kagan et al, 2003: 52; OECD, 2007:58). For CSR advocates, this would contribute to greater degrees of environmental protection, as companies often know more about how to minimize the environmental effects from their production process than governments (Esty, 2005:141). One example which supports this view is a study of pulp and paper manufacturers in the United States (US) and Canada in 1998 and 1999. The study shows that while US law required

factories to adopt specific waste-water treatment systems, Canada had no such regulation. The result is that Canadian factories actually showed better environmental performance than US factories because their technologies were newer and more advanced (Kagan, 2003: 80). Therefore, encouraging CSR practice would require a more flexible form of regulation, and more cooperation between the public and private sector regarding environmental protection and management.

Another type of public policy that is very important for CSR practice is education, or making information available to the general public. In recent years, providing information has become a common policy instrument in areas such as health and safety, as well as environmental protection (Kraft and Furlong, 2004: 94). Providing information can also help promote CSR practice. For example, a consumer labeling campaign or certification scheme can encourage and reward good environmental practice, as it is believed customers would reward such behaviors. Other examples include setting multi-stakeholder guidelines or principles, such as the UN Global Compact or the Global Reporting Initiative's Sustainability Reporting Guidelines. At the EU Multi-stakeholder forum on Corporate Social Responsibility in 2002, consumer and labeling organizations called on governments to take the role in promoting ways to make good CSR practice available to the public and increase transparency in the way goods and services are produced, as well as to promote convergence of concepts and standards regarding CSR practice (EC, 2003:15, 32). Therefore, making a clear and transparent system of information available to the public is a very important policy action for governments to take.

In the case of public policy, both incentive-based (or "carrot") and regulatory (or "stick") measures are needed to ensure good environmental practice by businesses. The distinction between the business and social perspectives of CSR (see section 1.2), however, can still be used for analyzing different approaches in public policy. The business view tends to favor more flexible, market-based policies that would provide incentives for companies to adopt good environmental practice, while the social view tends to stress the importance of regulations and the involvement of all stakeholders. It should also be noted that although the term 'business' and 'social' is used to describe each perspective, we cannot clearly divide each perspective between different sectors. For example, some companies (from the business sector) adopt the

social view of CSR practice and called on governments and civil society to become more involved, while some NGOs (from the social sector) advocated the use of market-based instruments for environmental protection.

2.5 CSR and Developing Countries

So far we have mainly looked at the situation of CSR in industrialized nations. The transfer of CSR to a developing country might result in a slightly different interpretations of the concept, and due to the different local situations would most likely to involve a modification of the implementation as well. One of the main differences between the industrialized society of the North and the developing societies in the South, is that most large transnational corporations (TNC) or multinational corporations (MNC) have headquarters based in the North, while their production is mainly in the South. Taking this aspect into consideration, the concept of CSR is likely to face many potential problems when transferred to the context of the South. At the same time due to the weak regulations in many developing countries, there is also much more at stake if businesses fail to take into account the environmental cost of their actions.

The process of globalization has been characterized by increasing inequality between industrialized countries on one hand and developing nations on the other. As developing countries compete with each other to attract foreign direct investment (FDI), a lower labor and environmental regulation is seen as a comparative advantage (Velasquez, 2006:126). This can result in what has been termed a 'race-to-the-bottom' in terms of environmental or labor standards (ADB, 2005: 27; Velasquez, 2006:18). At the same time, TNCs have come to enjoy enormous power and influence. For example, TNCs hold 90 percent of all technologies and product patents worldwide and are involved in 70 percent of the world trade (Miller, 1995: 35; Dine, 2005:11). Comparing the income of TNCs with developing nations in the South, Janet Dine stated in *Companies, International Trade and Human Rights* (2005) that "...the combined revenue of just General Motors and Ford...exceed the combined GDP for all of sub-Saharan Africa"(p.10). Although there is a case that we should use the power and influence of corporations to bring about positive change (Moore, 2003),

TNCs and MNCs had not always been responsible concerning the environment. In fact, transnational companies have often moved highly pollution industrial plants to developing countries in order to escape environmental regulation policies in industrialized nations (Dine, 2005:12).

Many believe the main reason why the process of globalization has resulted in such problems is due to the neo-liberal approach to globalization that has dominated the twentieth century (Scholte, 2000:7). Neo-liberalism generally holds the idea that market forces will bring about the most efficient allocation of resources and is against any form of state intervention to guide or restrict the operations of the market, which in the case of globalization means that there should be no state-imposed restriction on movements of capital, goods and services between countries (Scholte, 2000:34). Neo-liberalist thinkers also urged a reduction in state provision of social welfare, such as guarantee of labor or environmental protection, which led to the many negative consequences of globalization such as increased poverty, worsening working conditions and, of course, ecological deterioration (Scholte, 2000: 9). Without an effective mechanism for environmental protection, citizens in developing countries may find themselves living in a polluted and degraded environment.

One solution that has been suggested is to promote corporate social responsibility among TNCs through voluntary codes of conduct, such as the Business Charter for Sustainable Development which sets out environmental principles for corporate conducts (Miller, 1995: 148). CSR can be seen as a 'reformist' approach to globalization, which stressed the importance of global public policy to mitigate the negative effects of neo-liberal globalization (Scholte, 2000: 36). In this approach, supra-state institutions, as well as national governments, have a major role in ensuring that economic development is achieved along with social equity, democracy or environmental protection and security (Scholte, 2000: 285). For example, with regards to CSR, intergovernmental organizations such as the United Nations should help in establishing and monitoring corporate codes of conduct, as well as ensuring harmonization among standards, as this would ensure that CSR practiced by TNCs would be transparent and accountable to the public (Miller, 1995:148).

However, while the reformist approach may bring many benefits, many are critical of CSR as an environmental strategy in developing countries. Some have suggested that the popularity of the concept of CSR has been due to the fact that it has been difficult to impose environmental practices on TNCs through legally-binding regulations (Dine, 2005: 222). As mentioned, the process of globalization has resulted in a high level of inequality. While power is increasingly shifting to global actors such as TNCs and MNCs, nation-states and local communities are losing control over the disposition of their resources (Miller, 1995:144). Most would agree that while TNCs are becoming increasingly powerful global actors, there is a lack of supranational institution that could control corporate behavior, or bring these TNCs to account for the harmful by-product of their activities (Brown, 1972:11; Miller, 1995:144). At the World Social Forum on Transnational Corporations in February 2002, representatives from NGOs Corpwatch and Global Exchange warned that the same corporations that claim to practice CSR are often opposed to measures for corporate accountability, or mechanism for enforcing rules on companies such as international treaties or national legislation, and suggested that corporations that claim to practice CSR should be closely monitored (Karliner and Lewis, 2002). On a positive note, they acknowledge that the CSR movement could be beneficial to social or environmental causes if it becomes a movement for greater democratic control over corporations (Karliner and Lewis, 2002).

The socio-economic disparities between the industrialized North and the developing countries of the South, however, can present problems for the use of CSR for environmental protection. In developing countries, attention is often focused on economic development, and environmental concerns are viewed as a luxury that can only be taken into account after sufficient economic progress has been made (Barrow, 2005: 33). For this reason, environmental actions directed from the North are often viewed by the South with mistrust. In many cases, environmental concerns can be interpreted by developing countries as trade protectionism, such as the case of the 1997 Shrimp-Turtle dispute, in which the United States restrict imports of shrimps from India, Malaysia, Pakistan and Thailand with methods that they claimed

endangered wildlife (Jha, 2002: 478). While there is a justifiable reason to worry¹, it has been argued that many environmental agendas and measures are determined too much by industrialized countries (Barrow, 2006:109). According to Veena Jha in *Development, Trade and the WTO: A Handbook* (2002), “[Developing countries] worry about a resurgence of protectionism and the use of unilateral measures under the guise of environmental concerns”(p.475). It was argued that environmental proposals from industrialized countries focus mainly on trade restrictive measures, as oppose to promotion of environmental goods and services, access to environmentally-sound technologies, or capacity-building (Jha, 2002:475). While industrialized countries demand more environmental protection from the South, they are often silent on the environmental agendas of developing countries, such as safeguarding markets against genetically modified organisms (Jha, 2002:473). Jha (2002) concluded that without taking the concerns of developing countries into consideration, unilateral environmental measures from the North can place a disproportionate burden on developing nations and exacerbate existing inequalities (p.480).

This view implies that in order to become an effective environmental strategy in a developing country, CSR concept and practice must be adapted to fit the local context. As was stated by business organizations from the European Community, there should not be a ‘one-size-fits-all’ approach to CSR and businesses should be allowed to find the most appropriate method of environmental protection, which could be different for each geographical area (EC, 2002:5; EC, 2003:14). This view should be kept in mind as we study the situation of CSR and the environment in Thailand.

¹ Studies have shown that unsustainable aquaculture has, in fact, led to severe environmental degradation in many developing countries. For example, Thailand has lost more than 50% of its mangrove forests since 1960 due to the rapid expansion of shrimp farming (Ramangkura, 2003).