

## CHAPTER I

### INTRODUCTION

In our current complex and evolving world there is no more important desire than to achieve “development which meets the needs of the present without compromising the ability of future generations to meet their own needs”(UN 1987). Sustainable development, thus, is not just about the environment but, also about the economy and how we shape our society. It involves equitable distribution and sharing of economic and development benefits to enhance our well-being and maintain an equilibrium with our environment and natural resources. Pursuing sustainable development requires a fostering of sustainable ethics and morality with regards to our current lifestyle, and to minimize the impact it has on the environment involves actions by individuals, governments and the private sector (Hardin 1968).

Today interest in the role of businesses in society has been promoted by increased sensitivity to, and awareness of, environmental and ethical issues. It is now widely recognized that the negative impacts on the environment are of such magnitude that they are also of global concern (ADB 2005; IPCC 2007). Issues such as improper treatment of workers, child labor, and environmental damage including faulty production that could endanger customers are increasingly reported by the media. Business corporations throughout the world today recognize this relationship, of the benefits and harm of its operation, making corporate social responsibility (CSR) an important concept in the 21<sup>th</sup> century.<sup>1</sup>

The field of corporate social responsibility (CSR) has grown exponentially in the last decade. More businesses are integrating CSR into all aspects of their operation, making it one of the key priorities (BSR 2007). It is also now recognized that social and environmental sustainability depends on the emergence of a growing

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<sup>1</sup> Proliferation of CSR voluntary standards and performance tools together with increasing businesses practices evidence from prevalent promotion of CSR through Medias and literatures, e.g. 1,392 companies adopted ISO 14000 in Thailand (TISI 2007).

number of responsible entrepreneurs, small and medium enterprises (UNIDO 2006). New voluntary CSR standards, performance and evaluation tools continue to proliferate through transnational corporations, enterprises and governmental support such as Global Compact 2000, ISO 2006, and Triple Bottom Line for Social Responsible Investing<sup>2</sup>.

Globalization has changed the role of the state in the market and consequently the basis on which private enterprise operates. Yet despite the globalization of the supply chain, governments have a fundamental role in setting the parameters for the private sector. It is interesting to note, however, that voluntary standards developed at the international level are influencing the way in which industry operates around the globe. This is certainly the case in Thailand given its dependence on export-led, trade-oriented economic growth.<sup>3</sup>

Thailand recognizes and initiates CSR through forces of globalization and international trade. To maintain its competitiveness in the global market it is essential to comply with product standards and CSR requirements from global market pressures and individuals buyers. Although, the concept of CSR has its roots in the North the “ethics” of it is also fundamental to the Sufficiency Economy philosophy currently advocated in Thailand. A re-examination of the relationship between business and society was provoked by 1997 financial crisis, and led to demands that government improve regulatory control in the private sector. Most recently, attempts were made build elements of the Sufficiency Economy into the drafting of the new Constitution and 10<sup>th</sup> National Social and Development Plan, by involving and integrating business in its development.

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<sup>2</sup> Triple bottom line “People-Profit-Planet” captures an expanded spectrum of values and criteria for measuring organizational (and societal) success; economic, environmental and social ratify by the UN International Association of Local Governments for Sustainability (ICLEI. The concept is common among financial sectors for social responsible investing. (TBLI Conference (2007) Landmark Hotel, Bangkok)

<sup>3</sup> According to recent study carried out by Chulalongkorn University Faculty of Economics export account to 65 percent of Thailand GDP. Reflecting that numbers of business operations are subject to importing countries both regulations and buyer requirements which will be elaborated in following chapters.

## 1.1 Statement of the Problem

World development and globalization in the past centuries have been accompanied by a corresponding rise in inequality, poverty as well as degradation of the environment and natural resources. Many of these negative impacts such as, rise in pollution and losses of biodiversity, and sanitization are of such magnitude that they are of global concern (ADB 2005; IPCC 2007). Driven by an increasingly aware and environmentally concerned civil society, governments are engaging the private sector as a partner in development to address social and environmental issues. A notable global movement assert by Agenda 21 in the year 1992, the launch of Global compact 2000 and recognition of private sector role in development at 2006 World Economic Forum. This has resulted in a significant increase in CSR pressures through more stringent regulations and social pressure, and more corporations are obliged to accept and voluntarily implement the concept. However, the basis on which a business operates is to maximize profits and shareholder values and this contrary pose a challenge to CSR, which frequently pose burden in the form of additional financial and human resources requirements.

The original challenge is how to encourage business corporations to apply the concept of CSR? The evolution of the concept has emerged variations of voluntary measures amid the ongoing debate on the level of legal requirements, thus, the current and future important challenge is how to effectively apply CSR activities? This requires business comprehension, enthusiasm and efforts toward CSR. Nevertheless, business alone can not achieve this, public and private partnership (PPP) is crucial in entrenching a coherent framework and guideline for CSR (WEF 2006).

The government has a fundamental role in setting public policy, such as establishing mandatory minimum requirements of CSR for private sector to conduct business in an ethical sound manner. However, in the case of Thailand egregious governance has left the country ranked the eighty-ninth most corrupted countries in the world (TI 2007). As an export-oriented country, substantial economic activities

are subject to CSR pressure through numerous international regulation and standard requirements. The dynamic of CSR in Thailand has led the interest of this paper to search for main driving force of the concept, specifically in Industrial sector.

Although, CSR is often a visible trade dimension, the role of civil society is also important, and should not be overlooked. Since 1950s civil society movements has been the main driving force, demanding more responsibilities from businesses in social and environmental spectrums of the economy. Following Rio Earth Summit (UN 2004; Agenda 21)<sup>4</sup>, UN Secretary General Kofi Annan launched the global compact “to bring companies together with UN agencies, labor and civil society to support universal environmental and social principles” (UN 2000).<sup>5</sup> The role of civil society hence extends to include advocacy and development of CSR concept, continuously producing new voluntary standards and measurements.

Existing NGOs, are initiating CSR campaign, and proliferation of independent CSR related organizations providing social and environmental aspects consultancy to businesses. Social pressures demanding more responsible business operation through product standards such as green label and organic products standards are also becoming a non-neglectable factor in the consumer base and ever more competitive global market. Nevertheless, civil society sometimes put unrealistic demand on business corporations due to inadequate understanding of business fundamentals, creating communication barrier.

The ample availability of voluntary standards makes available appropriate CSR approaches in accordance with nature of the industry and business activities. However, different choice of standards by each stakeholder can result in contradiction and confusion of CSR implementation, sometimes putting excessive pressures and impracticable requirements throughout the production supply chain. The increase

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<sup>4</sup> A first formal action plan on Environment & Sustainable Development. Act as a guideline for government and pertinent organization worldwide.

<sup>5</sup> This initiative is noteworthy as it represents the first solid effort of the UN to formally integrate the private sector in its development activities.



stringency of environmental management standards in the OECD markets has demanded a corresponding improvement in Thai industrial sector. These standards impact throughout the life cycle of the products, include consideration of the way in which products are produced and disposed of - not just the final product (WTO 2007). Thai industry complains that diversity of management standards - both voluntary and mandatory – from global pressure (e.g. ISO) and within OECD markets are too strict, undermining their competitiveness through non-tariff barriers.

## **1.2 Objectives of Research**

The purpose of this research is to examine the driving forces for CSR in Thailand through a case study undertaken with the electrical and electronic industrial sector. And to provide answers to the question raised – What is the main driving force of CSR in Thailand from a electrical and electronic manufacturers' perspective? This thesis aims to examine drivers of CSR, including its obstacles and impacts of its implementation. The objectives are to;

- Identify the main driving force of CSR in Thai electrical and electronic sector from the manufacturers' perspective.
- Identify obstacles in applying CSR according to the manufacturers' perspective.

## **1.3 Research Questions**

- Why Electrical and Electronic manufacturers practice CSR? What motivation?
- What are the difficulties for Electrical and Electronic manufacturers in applying CSR?

## **1.4 Hypothesis**

Since Thailand is dependent on export-led trade oriented economic growth,

our economy is vulnerable to global market and consumer demand. Manufacturers are frequently obliged to respond to global market pressures, such non-tariff barrier issues of CSR in order to retain their market share. Thus 'global market pressures' is one of the main driving forces of CSR. These manufacturers adopt CSR as part of their rational choice.

### **1.5 Analytical Framework**

Driving forces of CSR are to be accessed by using case study of electrical and electronic manufacturers in Thailand. The idea of CSR stretches back to development of corporations and social investment in the 19<sup>th</sup> century. By late 1950s started the beginning of the rise of consumer power as a force to influence corporate behaviour, joined by the early 1970s by environmental concerns and the growth of civil society (WBCSD 1998). The 1960s world capital flight, the north outsourced jobs to the developing world brought CSR to a global level. Civil society in each country concerned about power, flexibility, and unaccountability of corporations at home and abroad generated a powerful global civil society. Such collective movements mutually created powerful influence for consumer safety, labor union, environmental protection and social justice in every part of the world. Developing countries, exposed to the world market thus automatically subject to global market pressures or "non-tariff barrier", shaping local market standards to be internationally competitive.

The conceptual framework adopted here categorizes CSR drivers into four key influential players; 1) "government" concerning political and legal aspects; 2) "civil society" as NGOs, independent organizations and social pressures; 3) "buyers" including corporations, and market pressures; 4) "suppliers" regarding product manufacturers. An assumption that CSR demands only comes from four main key players that are different in nature as shown in the Figure 1.5. In addition, supplier and manufacturers are used in accordance with case study on "industrialization" which should be changed according to other industry, such as 'bank and financial institutions' for financial sector and 'farmers' for agriculture sector.

Figure 1.5 Corporate Social Responsibilities Conceptual Framework



Although CSR standards are fundamentally voluntary in nature but they are implicitly mandatory through economic instruments and incentives. Therefore, manufacturers act upon "rational choice" to practice CSR, that individual choose the best action according to preference functions and constraints facing them (Kenneth 1996).

### 1.5.1 Theoretical Framework

Rationale choice theory or rational action theory is a framework for understanding and often modeling social and economic behavior, based on a view of behavior as purposive. That choice is seen as governed either by a system of aims or goals, or by an incentive-based learning process (Heckathorn 2000). Sociologists and political scientists have built theories around the idea that all actions are fundamentally 'rational' in character and that people calculate the potential costs and benefits of any action before making decision (Scott 2000).

Rationale choice in philosophy of economics discerns rationality like reasons which involves evaluation. This approach tries to assess the rationality of individual choices that also reflects social choices and examine how to relate to the preferences and judgments of individuals (Health 2005). Within sociology and political sciences,

rational choice scholars recognized the diversity in different disciplines; reflect by incorporating economic sociology, social movements and collective action in exchange networks (Heckathorn 2000). Thus, the basic to all forms of rationale choice theory is the assumption that complex social phenomena can be explained in terms of the elementary individual actions of which they are composed, called 'Methodological individualism' ( Scott 2000).

According to Max Weber articulation of the central precept of methodological individualism concept in the following way: When discussing social phenomena, we often talk about various "social collectivities, such as states, associations, business corporations, foundations, as if they were individual persons", and stipulate that "these collectivities must be treated as solely the resultants and modes of organization of the particular acts of individual persons, since these alone can be treated as agents in course of subjectively understandable action" (Weber 1968, 13; Health 2005).<sup>6</sup> Therefore, analysis will treat each key player as an individual in the system of social exchange, in which there is competition for the resources held by each actor (Coleman 1990). The resource with which each key player holds is control of their own operation and action.

In rationale choice theory, individuals are seen as motivated by desire or goals that express their 'preferences' as rational and reason. The theory holds that individuals must anticipate the outcomes of alternative courses of action and calculate that which will be best for them. Rationale individual choose the alternative that is likely to give them the greatest satisfaction (Coleman1990; Scott 2005). Nevertheless, the fundamentals to individual preference are relatively influence by normative values of the economy and society in which they live in. Values and judgments about the historical development and consequences, certain aspects of the economy and related policies to achieve the desirable goal, and the affect of culture which regulate the function of social activities.

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<sup>6</sup> Various scholars from sociology and political science including Hayek, Popper, Marx and Elster have contributed to the development of methodological individualism concept, invoked controversies providing alternative interpretation and approach.



This thesis research will present current rational by electrical and electronic manufacturers in applying CSR. The aim is to analyze such findings to determine major driving forces of CSR of CSR in Thailand electrical and electronic industry. Since rational choice is 'purposive', analysis will focus on 1) the actors who demand CSR, 2) the alternatives available to manufacturers, 3) the possible outcomes of alternatives, 4) actors' preferences regarding these outcomes, and 5) actors' expectation. In addition, facts on implementation obstacles and overview on environmental impacts will also be incorporated to form recommendations.

## **1.6 Methodology**

This research report is a result of a combination of documentary and field research. It will examine written documents and a qualitative field research with site observation in some factories. Documentary research is to be collected through literatures, government documents, national statistical, publications and by attending seminars and conferences. These secondary data are to be examined and analyzed to present literature review, overview of Electrical and Electronic Industry and global market pressures.

The findings of this research study are based on field research in-dept interviews and factory observation of the five Electrical and Electronic factories. Interviews target at key management personnel including supervisor, plant manager, production manager and general manager Activities consist of several visits to each factory, and by upon approval observe the production process, its management as well as overall environmental management. The visits also implicitly aim to build rapport with the informant and factory employees, in order to gain trust to ensure information accessibility and reliability. The duration of field research conducted was within three months from September to December 2007 in Bangkok, Thailand. Furthermore, additional in-dept interviews with Electrical and Electronic Institute, Industrial Environment Institute and Electrical and Electronic Alliance Industries Club of the

Federal of Thai Industries were conducted to complement the industry overview as well as research findings.

The purpose of this thesis is to conduct a basic research by using qualitative approach collecting in-site information from manufactures perspective. Although qualitative inquiry typically focuses in dept or relatively small sample, a purposeful maximum variation sampling will be used. Maximum variation sampling aims at capturing and describing the central themes or principal outcomes that have emerged in adapting to different conditions, and identifies important common patterns that cut across variations (Patton 1990). See selection of case study 1.6.2.

Field research includes field observation and strategic interview. The field visit observation used "sensitizing concepts" to help orient field work, highlighting the importance of environmental management (water, air and waste) in each production process, including leadership and employee attitude<sup>7</sup>. The concept aims to observe factory waste management, inputs, implementation, process, outcomes and impacts. Due to information sensitivity researchers will be outsider onlooker with no participation. Researcher is to overtly observe that program staff and participants know that observations are being made and who the observer is with partial explanation to key important persons.<sup>8</sup>

In the interview, strategic in-dept interview will be used in conjunction with creative interview to ensure information accessibility by taking into account indirect quote and people reaction. Since an inductive nature of qualitative inquiry emphasizes the importance of being open to whatever one can learn during fieldwork (Patton 1990:218), interview will be done with a combination of interview guide approach and informal conversational interview. This allow researcher to specified topics and issues to be covered in advance, in an out-line form that interviewers decides sequence and working of questions in the course of the interview, while allowing

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<sup>7</sup> Qualitative methodology "sensitizing concepts" provide a basic framework highlighting the importance of certain kids of events, activities, and behaviors (Patton 1990).

<sup>8</sup> Who to tell is upon case-study factory discretion.

questions to emerged from the immediate context and are in the natural course of things.

### 1.6.1 Selection of Electrical and Electronic Industries

The criteria in selecting the industry is the industry significant level of impacts on the environment as specify by the Bureau of Water Technology and Industrial Pollution Management, Department of Industrial Works.<sup>9</sup>

*Table 1.6.1 Industries' Level of Environmental Pollution by Categories*

Category	Polluting Industries
Water	Pulp & Paper, Palm oil extraction, Petrochemical, Sugar, Heavy metal, Food processing (Potato-flour) and Textile industry,
Air	Electricity generating, Cement, Oil refinery, Petrochemical
Waste	Electronic circuit board Hazardous waste, <b>Electrical and Electronic products</b> , dumping ground,

Furthermore, noticing that electrical and electronic sector may not have grave impacts on the overall environment, but its major impacts on waste management in turn detrimentally affect land quality and natural resources. In addition, the industry potential economic growth projected to be a minimum of 10 percent per year<sup>10</sup> will also stimulate resemble production rate, and that the associated environmental problems will eventually be of concern.

<sup>9</sup> Information collected through phone interview with anonymous technician personnel on 27/9/07.

<sup>10</sup> As by projected demand growth in both domestic and international market by The Federation of Thai Industry Electrical and Electronic Alliance Industries Club.

### 1.6.2 Selection of Case Studies

Five manufacturers are chosen in order to gather in-dept information of each manufacturers operation and to compare the results of finding in testing hypothesis. Electrical and Electronic businesses are listed and categorized according to the nature of business; manufacturer, trader, supporting services, non-specific and software (EEI 2006). Reminding the industry selection criteria base on the most environmental impacts, case studies will therefore only focus on manufacturers. The first criterion is that manufacturers must be of large size factory. Second, the factory must have significant environmental impacts of more than 70 percent. Thirdly, each manufacturer should have the same range level of export. Lastly, three manufacturers are chosen based on prominent good practice and on the contrary two unknown practiced manufacturers in order to attain rational and obstacles in implementing CSR as well as environmental management.

*Table 1.6.2 A Summary of Case studies Selection*

Case Study	Corporate Structure	Export (%) of production	CSR practice
1. Case A	TNC	90%	Prominent
2. Case B	MNC	100%	Prominent
3. Case C	MNC	100%	Prominent
4. Case D	Thai	90%	Unknown
5. Case E	Thai	60%	Unknown

### 1.7 Scope of the Study

This inductive research study focuses on Electrical and Electronic (EE) Manufacturers in Thailand, especially the factory which make the most impacts on the environment. The aim is to examine each key player' CSR pressures including promoting and supporting activities, its effectiveness from manufacturers'



perspectives. It does not explore extensively views from others key players (government, civil society, and supplier), such facts and findings will be based on documentary research and informal conversational interview during seminar. The analysis of the case-studies stems from their characteristic. Therefore, the approach is partly case-specific which can be used as a case study basis for other industries, but does not lend itself to wide generalization of the research results.

Even though this research is case studies base, making several simplifications and assumptions has been necessary. Information on EE business operators and manufacturers are varied according to the sources. Department of Industrial Works categorizes EE business by products from categories 69 to 74, where as Electrical and Electronic Institute uses nature of business categories with continuous data update (Table 1.7). The aim has been however to confirm from as many sources as possible that the data used in this research are the most reliable data.

While analyzing results of findings, no attempt to quantify or put a numerical priority on each of the driving force shall be made, because it will not coincide with the research purpose. Analysis was based on both qualitative and collected documentary research data. Additionally, facts on CSR obstacles and impacts are also presented and used as a basis for recommendations.

*TABLE 1.7 A Summary of Electrical and Electronic Business Operators in Thailand*

Categorized by Size and Product cluster

	Small	Medium	Large	Total
<b>Electrical</b>	503	121	<b>98</b>	772
<b>Electronics</b>	431	135	<b>103</b>	669
Trader	103	7	4	114
Supporting service	16	2	4	546
Non- Specific	396	101	65	564
Software	93	2	5	98
	1,542	368	277	2,189

*Source: Electrical and Electronic Institute (EEI)*

Table 1.7.1 Electrical and Electronic Industrial Categories

Category	<b>Business:</b> Production - Product assembly- Services / Maintenance and Modification
69	Digital or Analog Computers or associated electronic data processing equipment or accessories, cash registers.
70	<b>Electrical products that uses non electricity , assembly, machinery, raw products, washing machines, stackers, tractors, elevator, escalator.</b>
71	<b>Business producing category 70 that uses electricity, motors, adapters, router, transmitter, molder.</b>
72	Semi-conductor or related sensitive semi-conductor devices. Fixed or variable Electronic capacitors or condensers. Including related equipments and raw materials production.
73	Electrical products that have not been categorized including related equipments and raw materials production.
74	One or more Electrical products factory

Source: Department of Industrial Works (DIW) 19<sup>th</sup> January 2007

Table 1.7.2 Factory Size Classification

Level 1 (Small)	Level 2 (Medium)	Level 3 (Large)
Machine ( $\geq$ ) 20 horse power	Machine ( $\geq$ ) 50 hp	Machine ( $\leq$ ) 50 hp

Classification according to size and level of impacts on the environment

Table 1.7.3 Numbers of EE business operators in Thailand

<b>Electrical Business</b>					<b>Electronic Business</b>					
Category	S	M	L	Total	Category	S	M	L	Total	
70	130	274	491	895	69	35	56	99	190	
71	197	152	416	765	72	160	149	487	796	
73	41	57	163	261		195	205	586	986	
74	58	79	350	487						
	426	562	1,420	2,408	<b>Total</b>	<b>3,394</b>			<b>Total-Large</b>	<b>2,006</b>

Source: EEI 2007

## **1.8 Ethical Issues**

Ethical issues are highly vulnerable in conducting in-dept interview research. Information sensitivity and its confidential status posed a minimum risk to research informants, consist of breaking company code of conduct, undesirable feedback and his or her career jeopardy. Such risks hinder information accessibility and accountability. Therefore, no information on case studies and informants used in this thesis research shall be provided. Since this research deals with personal and professional experience, voluntary participation and confidentiality will be emphasized. In addition, indirect quote information necessitates simplification and certain assumptions need to be made.

## **1.9 Structure of the Report**

This study is structured into six main chapters. The following chapter 2 illustrates Corporate Social Responsibility literature, its development and future outlook. It also extends to include development of CSR in Thailand. Chapter 3 describes conceptual framework, explaining roles and responsibilities of each key players in CSR, specifically in EE sector. Chapter 4 illustrates the global market pressures based on main exporting markets legislations and regulations, the underlying principles, requirements specifications as well as process. Chapter 5 presents research findings on CSR driving force from the five EE manufacturers' perspectives and rational for implementation as well as obstacles. Chapter 6 ends the report with main conclusions and recommendations for further study and future development of the concept in Thailand.