

Csr in asia: india, china and japan



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Abstract

Investment in social and environmental issues are becoming dramatically important in our modern day world. This has led to an increased reliance on corporate social responsibility reporting. There is a growing debate about how the information about this should be reported. The purpose of this paper is to find out how the governments and the companies in India, China and Japan compare in addressing this issue. While neither of these countries appears to have any sort of mandatory regulation of CSR reporting, Japan seems to be more progressive on the issue.

Keywords: corporate social responsibility, India, China, Japan

Introduction

“ The phenomenal economic growth of India and China has led to worsening environmental and social problems with social responsibility implications for businesses in those countries”

Wong et al., 2010, p. 299

The previous quote suggests the seriousness of the questionable level of Corporate Social Responsibility (CSR) in China and India. It is widely known that the economies of India and China are booming, but up to this point has there not been much research done on the negative effects of this growth on their CSR. Consequently, this paper seeks to find out whether the previous quote is valid and how the level of CSR in India and China compares to that in an already well established Asian economy like Japan. Namely, Japan is Asia’s most developed and largest economy. In addition, Japan is doing

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economically well for a longer period of time so one may assume that Japan is ahead with regards to their level of CSR compared to the other two rising economies China and India.

Furthermore, after an extensive literature review, it became clear that there has been done a lot of research about the level of CSR already, such as comparisons between the US and the EU. Tschopp (2005) describes in his paper that neither the US nor the EU has any sort of mandatory CSR reporting, but Europe seems nevertheless to be much more progressive on this issue. However, something that still requires further exploration is the different level of CSR in the different Asian economies. Since financial markets must adapt and need to remain flexible to meet the needs of the investors, Asia must meet the growing need of CSR. Due to the fears that globalization is ruining the environment and is causing social disorder, companies and governments around the world are adapting since investors do not solely care about financial performance anymore. In other words; greed and exploitation are being replaced by compassion and sustainability and this is where the need for CSR reporting comes in.

This paper will thus look into the level of CSR in Asia's three biggest economies and since they are very diverse are they especially interesting to compare. Moreover, it is very relevant to look into the level of CSR in booming economies like India and China; as the quote indicated that if they will not take this into consideration, their growth may not be sustainable. Consequently, the specific research question of this paper is " How do India, China and Japan compare with regards to their level of CSR?" In order to answer this research question this paper will first look at the concept CSR, <https://assignbuster.com/csr-in-asia-india-china-and-japan/>

and how CSR can be measured in Asia. Reporting on CSR means focusing on environmental, social and economical issues. Different from a normal annual report, CSR reporting focuses on a company's performance on other factors. A CSR report, for example, includes elements as pollution, health and safety, human rights, child labor and other social and environmental issues. Then, this paper will analyze India, China and Japan to see where they stand with regards to their level of CSR. The comparative analysis in the fifth part of the paper will be a reconciliation of the CSR level of the three Asian countries on how they compare with regards to their level of CSR. Finally, the discussion part of the paper will be the part in which the major contributions will be made. This part will describe why the situation is as it is, what can be done to improve it, the implications this will have for the future and whether an Asian way of measurement would bring different results.

Corporate Social Responsibility

First of all, it must be made clear that the concept of CSR originates from the West. Carroll (1979) already came up with a CSR model more than thirty years ago in which he proposes a model that will categorize CSR into four different components. Although there have been made some minor adjustments to this model is it still a widely acknowledged model for describing the essence of CSR. First there is an economic component that obligates firms to perform economically well and to meet the consumption needs. The legal component requires firms to fit their economic goals with the law of the specific country. Third, the ethical component requires businesses to abide by society's moral rules. Finally, the last component is a bit vaguer, but it obligates companies to be benevolent and philanthropic in

nature. The paper is thus aware of the fact that CSR is a Western concept. However, it still decided to use a Western concept due to the following reason. Since Asia is in the globalization process, they have to follow the general international standard based on western ideals. Of course there are other approaches to deal with this, but this approach is internationally recognized and the paper will follow this. Moreover, a growing involvement has been observed in the past decade by Asian public authorities and companies to start adopting CSR practices and reporting standards. It should nevertheless be mentioned that third-party monitoring of standards in general is still very rare. In an empirical study, Tulder and Kolk (2001) discovered that third-party monitoring was included in only three of 138 companies. Notwithstanding, as mentioned before there is a significant increase in the number of companies starting to verify their sustainability reports on an independent basis.

The primary reason for CSR reporting is to provide investors (both foreign and domestic) with the information they desire to make decisions. Currently there is a trend that shows the increase in social and environmental funds, resulting in an increasing need for such information. Consequently, many corporations in the EU and US, such as Shell, McDonald's and the Body Shop, already provide such information voluntarily (Tschopp, 2005). These specific companies are celebrating their achievements on an environmental and social scale via their annual report or in a separate open to the public stand-alone report. There are also other companies in industries such as energy, forestry and manufacturing that are using similar ways to respond to any negative publicity. In itself is this not a bad thing, since it forces companies

to make some good effort on these issues. However, the only problem with this is that there is not much consistency and comparability in the standard of the current reports; they are rather environmental spins than a factual representation of the company's actual position. It has thus become a necessity that there are reporting standards or guidelines to follow because most of the current reports are nothing more than a strategic marketing strategy that put the specific company in a good position. Habermas (1996) states that the reason to implement and use internationally accepted global standards comes from the idea of free riding. Namely, to prevent free riding from taking place, political institutions and the civil society need to establish frameworks of laws and internationally related codes within which economic pressures are managed, so that moral behavior of firms (via the implementation of these standards) can not be exploited by free riding competitors that do not comply with the standards.

This increase in demand for a standard way of CSR measurement has led to the current situation in which there are many different and also competing standards of accountability. Logically, there are many scholars that worry that the reports of the individual regulating organizations can not provide the same assurance as an internationally accepted global standard.

Consequently, this paper will list some of the more common standards that are internationally recognized:

The Institute of Social and Ethical Accountability (ISEA) AA1000S. The AA1000 Assurance Standard started off in 2003 and became the world's first assurance standard. This standard was developed with the aim to maintain the credibility and quality of an organization's public reporting on specific

issues such as social, environmental and economic performance (AA1000 Framework, 2010).

Global Reporting Initiative (GRI). The GRI was developed in 1997 by the United Nations and the Coalition for Environmentally Responsible Economies (CERES), a Boston-based business group. This initiative has the aim to make one standard sustainability reporting procedure and it promotes companies to take environmental practices into consideration. The only disadvantage of this initiative is that it is about disclosure and not really about performance since a lot of company reports are not being evaluated (Organizations Using the Guidelines, 2010).

SA8000. The SA8000 was developed by the Council on Economic Priorities Accreditation Agency and is the international standard for social responsibility. The SA8000 standard is based on “ the principles of international human rights norms as described in International Labor Organization conventions, the UN Conventions on the Rights of the Child and the Universal Declaration of Human Rights” These principles include issues such as child labor, working hours, discrimination, health and safety and compensation. Besides evaluating equitable working environment, this standard is also there to ensure transparent business practices (SA8000 Certified Facilities, 2010).

ISO14001. This standard is specifying the requirements a company or a government has to comply with when establishing an environmental policy. The ISO14001 standard determines the impact of products, activities and services on the environment, it checks whether targets are measurable and

achievable and reviews the management and operation of the programs (Peglau, 2010).

Since the AA1000 Assurance Standard only started off in 2003 not many companies are known with it so it is not a very good standard to compare the three Asian countries. This paper will therefore use the three latter standards when comparing India, China and Japan. The role of the government will also be included in the comparison

India

Indian Business is relatively young. Industrialization practically started after independence in 1947 but it only gained a clear direction after India became a republic in 1950 and an industrial policy was formulated. Consequently, the government began to enforce social altruism values and since there was a centrally planned economy based on the former USSR the public sector was assigned a greater role and was the main engine for the growth of these values. Some public sector companies invested up to five per cent of their profits on CSR activities. Soon, however, it was apparent that the propound policy of the public sector as the main contributor to economic growth was not working. In the post-1980 era the industrial policy took a U-turn and the privatization of the public sector was the new mantra for economic growth. Another reason why the privatization was further necessitated was because of the new WTO regime. This resulted in that Indian companies first had to comply with global quality standards like ISO9000 and QS9000 (Wong et al., 2010). Then, when the environmental legislation became more strict, the Indian companies were forced to meet all the legislative requirements if they wanted to continue with their current operations. In 1984, the Bhopal

disaster resulted in a paradigm shift on environmental and safety issues. It showed how fragile the Indian companies are with regards to the environment and the difference with the multinational companies on environmental behavior. So the Indian government had to make a change in their environmental policy. Though some environmental laws existed in India from 1974 onward, the Indian government began to seriously make some changes in 1986 when the Parliament enacted the Environmental Protection Act. This new Act is framing new rules and regulations every now and then to which the companies have to comply. Some examples of important new rules and regulations are Hazardous Wastes Rules (1989), Public Liability Insurance Act (1991), Biomedical Waste Rules (1998), Manufacture, Storage and Import of Hazardous Chemicals Rules (1999), The Ozone Depleting Substances (Regulation and Control) Rules (2000), The Municipal Solid Wastes (Management and Handling) Rules (2000), Forest (Conservation) Rules (2003) etc. (Sahay, 2004)

Due to the rise of environmental legislation a lot of Indian companies thought it was wise to comply with the ISO14001 standard. This obliges them to meet all the legislative standards and to install an Environmental Management System. In total there are over 1500 companies in all different industries in India that have complied with the ISO14001 standard; the motivation to do so is not any different from Western companies since both want to meet the legal requirements adhering to the industrial norms (Peglau, 2010). According to Sahay (2004), social pressure, financial markets and customer demand were of lower priority to meet these standards. Nevertheless, some companies, like Jubilant Life Sciences Ltd. and ITC

Limited, can be found that are aiming for environmental excellence. These two companies, however, are only two of a total of nine Indian companies that have taken environmental practices into consideration through reporting via the GRI in 2010 (Organizations Using the Guidelines, 2010).

All in all, the current status of India's environment shows that even the current mechanism are not able to control the level of industrial pollution. The level of pollution in India has already come up to unbearable proportions, comparable to that of the developed world in the 1950s & 60s. The reason for this is that the policies and the institutions controlling the policies are not strong enough. If the level of pollution continues to grow at this rate there will be community and civil protests and ultimately the Indian Supreme Court will have to intervene in these environmental issues due to public complaints. Similarly, a lot of foreign clients have demanded new CSR activities, such as advancing women into the managerial and leadership teams, grass-roots action for eliminating adverse impacts on the environment, human rights and child rights. Fortunately Indian leaders have recognized that they need to link economic growth with social development, especially because the foreign clients demanded a higher level of CSR before investing into India (Hasegawa & Noronha, 2009). This effort is reflected in the high number of 508 Indian companies accredited with the SA800 social accountability standard, representing 333, 507 workers (more than 25% of the international total) (SA8000 Certified Facilities, 2010). Concluding can it be stated that it is in the industry's own interest to take a proactive stance on environmental management.

China

Environmental degradation, income inequality, regional differentials are all very apparent in China. Chan and Ma (2004) believe that China keeps continue to push for rapid economic growth at the costs of the environment, which is being supported by economic growth theories. Geng et al. (2007) consequently urge China to implement a more sustainable approach in their policy because the environmental and resource problems are escalating at the moment. Despite the fact that in the late 1970s already The Chinese Communist Party (CCP) acknowledged that China falls short of developed countries with regards to energy efficiency and pollution reduction, thereby showing its commitment to a sustainable development.

Then, in 1995 China established the eco-construction program in which it recognized, managed and promoted the development of sustainable communities. This because, one of the main problems in China regarding sustainability comes from the growing imbalances between urban and rural regions. Participation in this voluntary program includes the development of Eco-Provinces, Eco-communities and Environmental-Protection Model Cities. These eco-areas are accredited according to a set of criterion standards developed through the years by the Ministry of Environmental Protection (MEP) of China. From 1995 to 2008, MEP accredited 320 Eco-Communities and since 2003 MEP also closely monitored China's 509 cities (MEP, 2008). As a result, it publicized the names of the 43 cities that were classified as 'the most polluted cities', having severe air and water quality pollution. Nevertheless, it just does not stay with mentioning or simply acknowledging the problem. For example, Liu (2008, 2009) found out that China's eco

communities accredited before 2004 tended to have become poorer as well as the smaller provinces situated away from the more developed eastern part of China. Instead of an improvement researchers have thus noticed a decline in the results of the projects initiated by the MEP.

A commitment that started 40 years ago is now also apparent in China's Eleventh Five Year Plan (2006-2010), which addresses the negative consequences of growth by calling for the creation of a harmonious society. This Eleventh Five by the CCP is trying to achieve this by addressing regional differences, income inequality, global trade surpluses and environmental degradation. These objectives are only achievable through the joint action of industry and government where the focus should be on the discharge of corporate responsibility in the wider social and microeconomic contexts. Therefore, industrial restructuring should be towards high-tech production to diversify exports products and improve consumer discernment at home. While the government is making some effort to direct enterprises to clean production through technical guidance and financial assistance, the manufacturers still feel themselves constrained by the conflict between environmental protection and economic profit. This is especially the case in the high-polluting, labor intensive sector which still plays a huge role in the economic growth in China. One can thus see that although China is still controlled by the CCP, it is nevertheless undergoing a significant change in its institutional environment from a state-run to a market economy (Hasegawa & Noronha, 2009). These kind of changes are expected to influence business decisions with CSR implications. One can see that these kind of changes already have effect as the number of companies in China

having an ISO14001 certification is just over 19, 000, just slightly under Japan (Peglau, 2010). Moreover, in 2010 48 companies in China that have taken environmental practices into consideration by reporting their progress at the GRI (Organizations Using the Guidelines, 2010). Therefore, China has become an important recipient of foreign direct investment (FDI) from Western nations. For example, the provision of social welfare by enterprises to induce employee commitment is an area where foreign-invested companies have taken the lead. The Chinese state industrial enterprise or danwei is being replaced by nationally legislated welfare; the state sector is trying very hard to equal the private insurance benefits and assistance with mortgages provided by foreign-invested ventures that entered China under the terms of the World Trade Organization. Consequently, the number of companies in China that are accredited with the SA8000 standard for decent work conditions is 316, coming down to 241, 308 workers (SA8000 Certified Facilities, 2010). Furthermore, the concept of loyalty as in Western settings has been slowly installed by foreign companies to replace the familial type of solidarity (Hasegawa & Noronha, 2009).

In addition, besides the flow of foreign investment into China, a recent trend that is being observed by scholars is the flow of China's investment into other countries (Frost & Ho, 2005). China's conglomerates, the jituan, both state and private, are increasingly engaged in globalized operations as multinationals through outward investment, and this is then very likely to have a growing impact on managerial areas like corporate social responsibility. China's outward FDI started in the 1990s when there was a growing need for minerals and oil; therefore China now has trade relations

with states in Central Asia, Africa and South America. Increasingly, however, China's outward FDI is expanding into the EU as well as in the US through for example the purchase of Lenovo of a controlling stake in IBM's personal computer businesses in 2004 and Haier, the white ware manufacturer's construction of a production base in the US (Hasegawa & Noronha, 2009). Therefore, it is expected that the level of corporate social responsibility and the commitment to ethical standards of Chinese companies will automatically evolve as they become major players in global management .

Japan

In the 1960s Japan experienced numerous pollution problems. As a result, awareness of the natural environment began to prevail over the push for economic growth and enterprises generating pollution faced severe social criticism. In 1967 Japan officially recognized that the economic growth caused pollution and basic laws regulating the level of pollution were installed. Laws and regulations were further strengthened in 1971, and the Environmental Agency was established to deal with these environmental affairs. To overcome pollution problems the Japanese government established strict environmental standards, promoted the development and spread of new antipollution technologies, and extended fiscal, taxation and financial support to corporations to facilitate the implementation of these advanced technologies. Emission standards were based on the Air Pollution Control Act, established in 1971. These standards were generally much stricter than those in developed countries; the permissible amount of SO_x and NO_x in Japan, for example, was under one-third of the standard in the US and Germany. Since the late 1960s the government is supporting private

enterprises that have, for example, been making great efforts to develop waste smoke desulphuration and heavy oil desulphuration technology to counteract pollution and the introduction of the unleaded gasoline by the automobile industry. Supported by these successful technological results, investments in plants and equipment to prevent pollution rapidly increased. At one of its peaks in 1975, private sector investments in antipollution measurements amounted to ¥1 trillion – 17.7% of total capital investment. These increasing investments were backed by the Japanese Government via special tax incentives, reduction of fixed property taxes, and financial support by the Japanese Development Bank. As a result of all these aforementioned measures, emissions in 1985 dropped with 16.8% compared to the 1970 level, and the emission volume per unit of power generated was about one-eighth of the average output of OECD countries (Fukukawa, 1992). Recycling activities have also actively been undertaken: 51.3% of newspapers and 53.8% of bottles were successfully recycled in 2008, an extremely high average on an international scale.

Currently, the level of CSR is generally very good in Japan, but also very mixed; being excellent in some areas and poor in others. Service to society is in the DNA of Japanese business and is therefore one of the highest in the world. Firms are also very much concerned with the well-being of their stakeholders, including employees, society in general, customers, suppliers, and also shareholders. Larger firms in particular contribute significantly to the Japanese society in areas such as the arts, education, and sports.

Moreover, corruption is relatively low, both at home and in the activities of Japanese firms abroad. Japan has also actively participated in numerous

environmental groups such as the Intergovernmental Panel on Climate Change, United Nations Environmental Program, United Nations Population Fund and the Global Environment Facilities. All in all, since the environment has received so much attention since the late 1960s, Japan now occupies a leading position among high-density populated countries in terms of environmental sustainability (Hasegawa & Noronha, 2009). This is reflected in the high number of Japanese companies having an ISO14001 certification; currently 21, 779 Japanese companies have received this certification, which puts Japan in the number one position in the world (Peglau, 2010). Moreover, there are currently 95 Japanese companies that have reported their organizational performance based on the GRI framework, this puts Japan in one of the leading international positions (Organizations Using the Guidelines, 2010).

However, there are some aspects of CSR that are less developed in Japan. For example, one of the main weaknesses is that Japanese firms have a tendency to attempt to cover up major problems when they occur, such as nuclear accidents or food poisoning cases. This seems to be related to efforts to protect the firm against sanctions from society. Among other areas of weaknesses are privacy policies for customers, CSR standards for suppliers, improving employability of personnel and opportunities for women, the publication of sustainability reports, joint work with non-governmental organizations and transparent corporate governance. One of the main other areas of weakness is the opportunities for minorities in Japan, such as Koreans, and the opportunities for minorities in Japanese firms abroad, such as Afro-Americans in US plants (Hasegawa & Noronha, 2009). Consequently

is this also reflected in the low number of Japanese facilities certified with the SA8000; of the 226 certified companies only 2 (1%) are from Japan (SA8000 Certified Facilities, 2010).

Comparative Analysis

To sum this all up, when comparing India, China and Japan, it cannot be stated that one country is far ahead of the other two. The Indian economy only started to grow after independence and in the beginning years its centrally planned economy was based on social altruism values, leading to a high level of CSR. However, slowly the situation worsened until the Bhopal gas tragedy in 1984, which led to a paradigm shift in environmental and safety issues. From 1986 onwards the Indian Government began to seriously make some changes started by the establishment of the Environmental Protection Act. This new Act was framing new rules and regulations from time to time so companies felt pressured to first comply with global quality standards like ISO9000 and QS9000 and currently also with the ISO14001 standard. In total there are now just over 1500 Indian companies that qualify for the ISO14001 standard, which is not a whole lot for such a large economy and which puts India worldwide on a 16th place (Peglau, 2010). When it comes down to voluntary reporting are there only nine Indian companies that have taken the effort to report to the GRI (Organizations Using the Guidelines, 2010). The current status of India's environment reflects this as the current mechanisms are not enough to control the industrial pollution, which has come up to unbearable proportions. Fortunately, Indian leaders have recognized the need of foreign clients to raise the level of CSR before investing into India, so economic growth is now more linked with the social

development of human & child rights. This effort is reflected in the fact that 508 Indian companies are accredited with the SA8000 standard, which is more than China and a whole lot more than Japan (SA8000 Certified Facilities, 2010).

The biggest problems in China are environmental degradation, income inequality and regional differentials. There is escalation of resource problems despite the fact that the CCP was already committed to a sustainable development in the late 1970s by acknowledging it needs to its energy efficiency and pollution reduction. A specific example showing that the policies are not working is the eco-construction program initiated by the MEC in 1995; namely, the eco-accredited communities all seemed to get poorer and less developed instead of the other way around. This negative downfall is addressed in China's eleventh five year plan, ranging from 2006-2010, in which approaches the negative consequences of growth via industrial restructuring to a more market economy. These type of changes already have a positive effect as the number of Chinese companies with an ISO14001 certification is slightly over 19, 000, the second highest amount in the world just behind Japan but far better than India (Peglau, 2010). Since China is an important recipient of FDI and is currently also exporting a lot of FDI into other countries 48 companies have voluntarily reported their level of CSR to the GRI, a whole lot better than India (Organizations Using the Guidelines, 2010). These foreign investors into China and countries invested in by China are also requiring good working conditions so the number of companies with an SA8000 standard is 316, the only standard in which China is doing less than India (SA8000 Certified Facilities, 2010).

Japan was the first of the three countries to officially recognize that economic growth is causing pollution and in 1971 the Environmental Agency was established to deal with these environmental affairs. Immediately emission standards, recycling activities, special tax incentives, reduction of fixed property taxes, and financial support by the Japanese Development Bank were all established to reduce the level of emissions. Therefore, since Japan is taking serious care of the environment since the 1960s, the level of CSR is generally very good in Japan. 21, 779 Japanese companies have received an ISO14001 certification, which is the highest amount in the world being thus better than China and much better than India (Peglau, 2010). This is reflected in a remarkable 96% of the Japanese corporations claim to have special units dealing with CSR and 90% also claim a regular CSR report. These findings set Japanese CSR apart from that found in other Asian countries (Fukukawa & Moon 2008). Japan also has a very active participation in environmental groups such as the Intergovernmental Panel on Climate Change, United Nations Environmental Program, United Nations Population Fund and the Global Environment Facilities. In addition, there are currently 95 Japanese companies that have reported their organizational performance to the GRI, which puts Japan ahead of both China and India (Organizations Using the Guidelines, 2010). The only element in which Japan is seriously lacking is that Japanese companies are not seriously improving the employability of personnel, the opportunities for women and the opportunities for minorities. This is then also matched in the significantly low number of 2 Japanese facilities certified with the SA8000, compared to 316 and even 508 in India (SA8000 Certified Facilities, 2010).

Based on the ISO14001, SA8000 and GRI internationally recognized standards this paper is able to state that Japan is slightly ahead of the other two countries since it comes out best in two of the three standards, only in the SA8000 standard is Japan lacking responsibility. China is also doing very well in the ISO14001 standard and average in the GRI, India on the other hand comes out best according to the SA8000 standard but is doing not so good in the ISO14001 and GRI. Therefore can one conclude that China comes second and India third, but the implications and reasons of this will be described more elaborately in the discussion part of this paper.

Discussion

Evaluation of the outcome

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