

# Corporate social responsibility of multinational companies



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Corporate responsibility describes positive ways through which multinational companies may affect the society in which they operate. The World Bank and the World Business Council on Sustainable Development (WBCSD) define CSR as “ the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for development” (SIDA, 2005).

Additionally, even though the term has been subject to many different meanings, CSR includes (ibid.):

ensuring that the private sector does not contribute to violations of human rights and promotes the respect of these rights

the respect of core labor standards

ensuring that local communities benefit from large companies’ operations in developing countries

responsible management of environmental impacts of a company’s operations, including emissions, waste and use of sustainable resources

avoidance of corruption and the increase in transparency in business practice

incorporation of social and environmental criteria in procurement decisions

The significance of corporate responsibility has become increasingly important because of (UNIDO, 2002, p. 1):

## Globalization and the growth in competition

increased size and influence of companies

retrenchment or repositioning of government and its roles

war for talent; companies competing for expertise

growth of global civil society activism

increased importance of intangible assets

Over the past decades, a fundamental change occurred in the relationship between business and society, and corporate responsibility activities have become an important part of the business environment. So far, CSR has mainly been a response to pressure from consumers, civil society, large enterprises and governments which have forced companies to become more environmentally and socially responsible due to environmental pollution, human rights abuses and exploitation of labor in supply chains. In the meantime, multinational companies have realized strategic importance of being further responsible (ibid., p. 2f). A major problem is that the corporate responsibility debates have been mainly focused on the large MNCs behavior and their impact on developing countries and emerging markets. It should be highlighted that attempts are increasingly being made to widen the scope and to include SMEs, as well as to motivate domestic companies in developing countries to include CSR in their strategies. This point is crucial since many SMEs do not have the adequate technology, environmentally friendly inputs, credit, information and training, and this often prevents social and environmental progresses.

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It is interesting to notice that corporate responsibility in Serbia has been driven by the efforts of consumers, NGOs and MNCs:

Many SMEs in Serbia do not really see the importance and usefulness of CSR policies and believe that its implementation costs will be higher than its rewards.

MNCs which conduct their business activities in Serbia play a crucial role to increase awareness about CSR and also work as good examples to follow.

The lack of interest in implementing the CSR policies constitutes a major barrier to development in Vietnam. Even if some companies receive a CSR-certification, there is a need for appropriate control measures to follow up the CSR activities in these companies. Despite all obstacles, there is potential for transferring CSR guidelines and a sustainable way of thinking from MNCs to domestic workers and companies.

Other spillover effects in terms of information spread, new design and techniques, production methods and different firm-specific knowledge from MNCs to domestic companies have been registered in Serbia, even though it is highly difficult to measure their extent. This has been exemplified through four case companies. Vietnamese enterprises that become contracted as suppliers by the Swedish company IKEA have a great chance of developing and creating a network of customers and contacts. However, the company must be large enough to have a chance to be contracted and there is thus a risk that the gap will widen between Vietnam's vast amount of SMEs and the country's few strong suppliers. There is also potential for spillover effects

when IKEA demands new modern products from its suppliers since domestic  
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companies get access to new design and new techniques. Safety and social rules have been adopted in the French-Swedish company GM Workwear's factory, such as an eight-hour work day, working clothes, free healthcare and maternity leave for four months. It is likely that the employees take their experiences and knowledge about corporate responsibility with them when changing job, hence there is scope for spillovers. When the management or workers in the GM Workwear factory want a new or modified component, the employees in the factory either create a new product or the company demands a new product from its suppliers. The suppliers can then in turn sell the new product to other customers, which creates potential for spillovers to other firms. In the same way, firm-specific knowledge about production methods and techniques can be transferred to other companies.

Vietnamese companies that are suppliers to a MNC have a great possibility of

developing and creating a network of customers.

Multinational companies are offering to the host country, not only their products and services, but also their business standards, values and principles and codes of conduct. There seems to be potential for these practices to be adopted by domestic companies but there is a need for such incentives to come from Vietnamese companies themselves. The government can work as a catalyst and play a crucial role by viewing CSR and codes of conduct as cost-effective ways to enhance sustainable development strategies and as measures to compete on the world arena. This requires a transparent and accountable government that is a good

example to follow by being socially responsible. CSR boards that include government, civil society and businesses at national and regional levels can work as intermediaries and spread information and sustainable ways of thinking. The non-democratic one-party system in Vietnam that controls both trade unions and the media hinders these possibilities as it is neither transparent nor democratic. Vietnam's membership in international institutions such as the WTO will hopefully shed new light on such problems and thus force the government to review its procedures and legal framework.

According to the literature, MNCs which decide to come and invest in the host can be an important factor for capital formation, transfer of technology and management skills, the sharing of information and ideas and market access. As it has been previously elaborated in this DBA thesis, CSR should also be considered and discussed as a spillover effect. However, this would require for that MNCs put more pressure on their suppliers in the host country to follow their Codes of Conduct together with all phases in the supply chain and not just being satisfied with delivering the guidelines.

Trade unions in Vietnam must make efforts to approach more SMEs and spread information and understanding about the meanings and advantages of being a member. VCCI can continue to work together with large MNCs, Vietnamese companies and trade unions and carry out projects and seminars about CSR. It is fundamental that the media in Vietnam to a higher extent highlights the importance CSR plays for the long-term survival of Vietnamese companies and how CSR can increase their competitiveness on international markets. MNCs that provide good examples to follow in <https://assignbuster.com/corporate-social-responsibility-of-multinational-companies/>

Vietnam and abroad highlight these aspects but more spreading of information about CSR is needed. This is crucial in order to enable large as well as small companies to better refer to CSR and thus make it more valuable to implement CSR-related actions.