CORPORATE SOCIAL RESPONSIBILITY: The Business Case for Sustainable Development

Corporate Social Responsibility (CSR) is "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." As part of their core business principles, companies that are committed to sustainable development adopt high standards in areas that include environmental protection, gender equity, working conditions, employee benefits, capacity development and community development.

Businesses can demonstrate corporate responsibility by obtaining any of a number of internationally recognized credentials and codes of conduct (CoCs); indeed, a small number of Vietnamese companies have already done so. However, SMEs that cannot access or afford such certification can still reap tangible business benefits by adopting CSR standards.

CSR in Vietnam

CSR is a relatively new concept in Vietnam, and thus, implementation has been limited to date. According to recent World Bank research, barriers to CSR implementation include: 1) lack of awareness of the concept; 2) production inefficiencies that result from implementing multiple CoCs at once; 3) lack of financial and technical resources to implement CSR standards (particularly true for SMEs); 4) confusion that arises due to differences between the national Labor Code and CoCs; and 5) national regulations that impede CoC implementation.

Given all these difficulties, should Vietnamese SMEs be concerned about CSR, and if so, why? The answer is YES, because consumers, investors, policymakers and non-governmental organizations (NGOs) around the world are becoming increasingly concerned about the impact of globalization on workers’ rights, the environment and community welfare. Companies that do not adhere to CSR standards could find themselves shut out of international markets.

The business case for CSR

Companies around the world that engage in CSR achieve benefits that include cost savings, higher revenue, a better image, lower staff turnover, increased productivity and access to new markets. Some examples are presented below to help Vietnamese SMEs better understand how they can implement CSR standards for their own economic benefit as well as for the environment and the community.

Reduce costs and increase productivity

Businesses can save money by committing to cleaner production. One example is a large paper producer in Poland, which saved approximately US $12 million over five years by installing new equipment which reduced water use by 7% and water and air pollutants by 70% and 87% respectively.

Effective human resource management can also cut costs and boost productivity considerably. Fair wages, a clean and safe work environment, training opportunities, and health and education benefits can all help make a company more profitable by increasing productivity, reducing absences and lowering costs of recruiting and training new staff.

Increase revenues

Investment that supports local economic growth can lead to a better qualified pool of labor, cheaper and more reliable suppliers, and ultimately, to increased revenues. For example, Hindustan Lever, a subsidiary of Unilever in India, was operating at only 50% capacity and incurring significant losses because of inadequate supplies of milk. To combat this, the company established an integrated program to help farmers increase milk production. This included training farmers in animal husbandry, improving basic infrastructure and setting up committees to organize local suppliers. As a result of these efforts, milk-supplying villages increased from six to more than 400. With production matching capacity, Hindustan Lever has become Unilever’s most profitable enterprise in India.

For many companies, obtaining a credential that demonstrates social responsibility can generate higher revenues. Aserradero San Martin, a Bolivian logging and wood producer, was able to access the North American market where prices are 10-15% higher after the company obtained Forestry Stewardship Council certification.

Enhance reputation

There can be significant benefits to brand value and reputation for companies that are environmentally and socially responsible. An enhanced reputation can help build sales, attract capital and business partners, and recruit and retain employees. Multi-nationals such as The Body Shop (a UK-based producer of skin and hair care products) and Swedish furniture retailer IKEA are good examples of this. Both are well-known not only as suppliers of affordable, quality products, but also as good corporate citizens who are concerned about the environment and social welfare.

Attract and retain quality labor

A quality workforce is crucial for a business that wants to achieve high productivity and product quality. In emerging markets where there are often large pools of workers but few quality workers, attracting and retaining well-qualified, committed workers can be a significant challenge. Employers who offer their workers fair wages and benefits, training, healthcare and a clean working environment are much more likely to attract and retain good staff.

Grupo M, a large textile producer in the Dominican Republic, provides subsidized transport, day care centers, medical and dental services for employees and their families, as well as training and salaries that are double the country’s minimum wage. Rather than worry about the costs of these investments, the company’s founder and president considers it smart business: “everything that we give to our workers gets returned to us in terms of efficiency, quality, loyalty and innovation.”

Examples from Vietnam

In recent years, a small number of Vietnamese companies have implemented CSR programs, mostly at the request of buyers. A recent MOLISA survey of 24 garment and shoe
...of Relevant Vietnamese Authorities

- As a government, we have the responsibility to view CSR from different angles. The goals of CSR - voluntary adoption of high environmental and humanitarian standards are excellent. However, in the past CSR has been manipulated by some to create barriers to international trade. Thus in my opinion, CSR should not be forced - it should be voluntary. However, the government will contribute to CSR by providing information to businesses through conferences, workshops and working through professional associations so that businesses can make well-informed decisions.

There are thousands of different codes of conduct, and it should be understood that there are two types of CoCs. The first type are those developed by large, prestigious multinational companies like Nike, Adidas, etc. which have their own standards. The second type is those developed by human rights groups, NGOs or associations and include SA 8000, WRAP, etc. These two types of CoCs have different goals and bring different benefits.

Businesses should not "jump on the bandwagon" and obtain CSR certification that their customers might not require. Instead, they should take time to interact with potential customers to gain a better understanding of their specific CoC. For example, to supply to Nike, it is necessary to fully understand Nike’s CoC.

Above all, businesses should comply with the Vietnamese Labor Code, because CSR CoCs are not dissimilar to the Labor Code. There are currently companies that are successfully implementing 20 different CoCs, because [by following the Labor Code] they are already meeting high standards and thus, have no problems in meeting the requirements of the various CoCs.

Mr. Nguyen Minh Cuong, Deputy Director General, International

...of Vietnamese Manufacturing Companies

- Viet Tien has SA 8000 and WRAP certification, and we also apply the CoCs of our big buyers including Nike, Adidas, FILA and JC Penny. This year we plan to implement two major changes to benefit our workers, which are air-conditioning in all of our manufacturing plants and a minimum wage of VND 550,000/worker/month.

To achieve this year’s revenue target of US$20 million from our garment manufacturing operations, the Board of Directors must not only seek new sources of materials, markets, and machinery but must also improve employees’ working and living conditions. We want our workers to consider themselves part of a big family and commit themselves to achieving the company’s goals.

We know that multinational companies always check to see whether a supplier meets safety and environmental standards before placing an order. Thus, we are proactive in applying SA 8000 because it is an internationally recognized standard that gives our buyers a clear picture of working conditions in Viet Tien’s plants. I must admit, when we first started applying various CoCs, our senior management and plant managers felt a certain degree of pressure. But we set goals to meet all of our buyers’ requests, because we knew that if we did not adopt CSR standards we could not survive. As a result of our high CSR standards, nearly 50% of Viet Tien’s export turnover has been earned from the US market in

- Bitis gives priority to environmental and social responsibility and considers it a means to increasing its competitiveness. Although there are no official statistics on benefits of CSR within the company, employee loyalty is a very good indication. Many of our employees have stayed with the company for 10 to 20 years; most stay at least 5 years. This loyalty enhances sustainability, increases productivity, and reduces costs for recruiting and training new employees.

Bitis has implemented many CoCs, including those of Mark Spencer and Nexx. We are currently in the process of doing our research about SA 8000 as we hope to export to the American market. Through preliminary surveys, we have learned that although multinational companies like Wal-Mart and Pay Less have their own CoCs, they consider SA8000 a good reference point.

Employees in Vietnamese garment and apparel enterprises, and especially in wood processing enterprises, are working in very polluted environments. Companies making products for the domestic market do not usually pay attention to environmental, health, and labor standards. I think the government should vigorously promote CSR to the general public, because informed consumers can have an impact on the producers who are not following good standards. I know that in Europe, enterprises that do not implement CSR often find their products boycotted by consumers.

Let me just add that to Bitis, we find it quite easy to implement our buyers’ CoCs and uphold high standards of CSR, as most of these standards are required by Vietnamese law.
I think that SA 8000 offers many benefits. It contributes to long-term health and well-being, and makes workers feel more secure and satisfied with their working environment - a decisive factor for an enterprise's success. In my 36 years working in the textile industry, I have witnessed many generations of male and female workers whose health has deteriorated due to poor working conditions. Generally they can only work for a maximum of 10 to 15 years. Therefore, if we don't find a way to protect the health of workers, we will eventually lose valuable human resources. For me this is the critical importance of CSR.

We are simultaneously applying ISO 9001, ISO 14001, SA 8000 and OHSAS 18001 to our operations. Doing so is not at all a burden, first because the management processes of these systems are not that different from one another, and second because we are doing this proactively and voluntarily to help ourselves rather than defensively. These systems help workers to ensure a stable working environment and policies, no matter who is on the Board of Directors. These systems are also periodically examined and evaluated by a third party to ensure that the company is meeting its promises to our workers.

CSR has not yet been implemented very widely in Vietnam because the majority of enterprises have not seen its benefits and many buyers do not require it yet. This is an area where the government should be proactive. For example, as a result of countless training courses and conferences conducted by offices of the Ministry of Science and Technology, ISO 9001 and ISO 14000 quality management systems are widely known in Vietnam. CSR needs to be promoted the same way. Vietnam highlight cheap labor as our competitive advantage - in some ways it's a shame, because [the cheap labor is a result of] our workers having low levels of education and skills. CSR application will help workers have better health and develop better professional skills through training, and this, in turn, will boost productivity and sustainability. I suggest that the government and donors support programs that educate enterprises about CSR and its benefits to create favorable conditions for its application. I would also recommend to enterprises that they should apply CSR standards to their operations, because doing so truly does benefit both business...

...of multinational companies

Nike only begins doing business with manufacturing plants when they meet requirements for product quality, price, time delivery and CSR standards. CSR standards apply to the working environment and conditions, employee wages and benefits, workplace relations, health, safety, and compliance with labor regulations. In addition, Nike requests its suppliers to invest in training for both workers and management, and that the suppliers contribute to the communities where they are located to show their commitment to remaining in those communities long-termin, similar to Nike's commitment to remaining in the countries where Nike has a presence, and the localities where Nike suppliers are operating. For the past seven years, Nike Vietnam and its plants have provided more than US$100,000 per year for basic education of their workforce. Over the past seven years, Nike has also supported a micro-credit program for poor women in Cu Chi and Dong Nai provinces.

Nike’s CoC is a voluntary agreement between Nike and its suppliers. It is considered an effective tool for ensuring that suppliers follow government regulations related to CSR, especially those that concern employer/employee relations. It should be understood that this CoC does not replace the Vietnamese Labor Code.

Worldwide there are over 1,000 CoCs that have been developed by different multinational companies and organizations, most of which are based on ILO conventions. Nike’s CoC is among 10 CoCs that have been highly praised because it is used in more than 50 countries where Nike has manufacturing operations. MOLISA and the Vietnam General Confederation of Labor (VGCL) have assessed Nike’s CoC as being very good; some of its requirements are even higher than those of Vietnam’s Labor Code, e.g. the minimum age for workers according to the Labor
... of Organizations that promote sustainable business standards

- MPDF is running pilot implementations of CSR in the Mekong region to ensure that producers are aware of the key standards and/or codes in the CSR area that might impact their business. The benefits of CSR certification are potentially many. Short-term benefits relate mostly to getting orders from companies that require CSR, while longer-term benefits are largely internal, such as improved working relations and productivity, fewer accidents, less staff turnover.

MPDF is piloting WRAP in Vietnam because the United States is a relatively new market for Vietnam. This code is endorsed by the American Apparel and Footwear Association, which represents about 80% of the wholesale market in the US. MPDF has helped a local company, Global Standards, get the training necessary to become a certification company for WRAP, so that Vietnamese manufacturers can easily access the support they need to implement the code.

Mr. Len Cardiner, Senior Advisor, Export Development Program, MPDF

- The Vietnamese Government is starting to look closely at CSR and needs to find ways to encourage good corporate citizenship among businesses. Government should not legislate CSR, but instead facilitate it through incentives such as tax breaks.

CSR can be applied to every industry, not just labor intensive ones such as garments and footwear. For Vietnamese companies, it is a big challenge, first, to understand CSR and then to implement it on a day-to-day basis. This may require policy changes, new management structures, reviewing wages and benefits and/or making physical improvements to the factory or workplace.

We always encourage businesses to find out what their buyers want, in terms of both product quality and CSR. Many Vietnamese businesses have heard about SA 8000, but whether it makes sense for a particular company depends on the industry, the company’s buyers and their requirements. Some buyers may require WRAP certification, while others may require their own CoC.

I would say the main benefits of CSR are in the process of becoming certified, not in the actual certificate itself. Proper CSR implementation will result in management efficiency, employee retention, reduced training costs, etc. In Vietnam, sometimes companies place too much value on the actual certificate... but a certificate is meaningless if there isn’t proper compliance behind it.

The biggest barrier to CSR compliance among Vietnamese companies, especially SMEs, is not money; it’s management commitment. In Vietnam, CSR is still driven by buyers, and some manufacturers feel that they are being pushed into engaging in CSR without fully understanding it or being fully committed. But I think that the companies which will benefit most from CSR will be those that take the initiative themselves and make it part of their corporate culture.

In the longer term, CSR can be a tool for raising Vietnam’s competitiveness. This is an important issue for Vietnam right now. There is a lot of competition in the region, and Vietnam will only remain competitive if it can offer a total value proposition, including quality, price and compliance with CSR standards. CSR is an area where China is relatively weak and an area where Vietnam can be quite strong. So I think for small countries like Vietnam and Cambodia, CSR is a very important practice is illegal in that country and may only exist in a few factories, it will be seen as a national problem and the stigma will take years to remove. There are many NGOs who police CSR issues and who make statements that are sometimes exaggerated or unfair about issues that can destroy a company even after the issues have been corrected.

The future success of the Vietnamese garment industry will depend on many factors. These include efficient labor utilization, local fabric and accessory manufacture, the introduction of new technology, training of middle and upper management, and the ability of Vietnam to portray an efficient and dynamic industry that is willing and able to adjust to new markets. All these will spread the positive message that Vietnam is in full support of safe, fair, and socially acceptable labor practices.

Mr. Colin Scott, Senior Advisor, International Garment Training-Center Vietnam