

CHAPTER I

INTRODUCTION



1.1 Background of the Study

One of the key challenges for development today is how to balance between economic progress and environmental protection. During the twentieth century, many people have come to realize that the conventional path to development through industrialization and measured solely by economic growth has led to widespread environmental deterioration, such as air and water pollution, soil degradation, resource depletion, and climate change. Some of these problems are so severe they may threaten our very survival. At the very least, they will threaten our quality of life and future development opportunities. Many steps have since been taken to ensure that our development options will not lead to irreversible problems in the future. One of the most important of these is the establishment of the concept of ‘sustainable development’ by the World Commission on Environment and Development (WCED) in their 1987 report, *Our Common Future*, as a framework for future development policies.

In the report, there was a call for the integration of environment and economics in the processes of institutional decision-making (WCED, quoted by MacNeill, OECD 2007: 20). While traditionally, environmental protection was seen as mainly the responsibility of the state, there have been many initiatives taken by the business sector as a response to the growing public concern. One of these is the formation of the World Business Council for Sustainable Development in 1992 during the time of the Rio Earth Summit by a group of business leaders with a shared commitment to sustainable development and the development of the concept of ‘corporate social responsibility’ or CSR. Since then there had been recognition of the potential of the business sector to contribute to environmental protection through the practice of corporate social responsibility by policy-makers, the public, as well as the business sector themselves.

For developing nations, there is an increasing realization that the conventional path of development, while bringing economic prosperity, also brought with it many social and environmental problems. Many would agree that the current forms of development that many developing nations, including Thailand, are following are not sustainable in the long run. There is a need for a change in the way developing countries pursue their economic interests. The private sector may be the key actor in promoting environmental protection among developing countries through the practice of CSR, for example by providing investments in research and development for more environmental-friendly products or production method.

But although the private sector can make major contributions toward creating a more sustainable development through CSR, there are still limitations to voluntary initiatives, and most supporters of CSR still acknowledge that corporations should not be left to regulate themselves. The public sector still has a role to play in regulating and promoting CSR practice, as well as take responsibility in areas where it is not economically feasible for the business sector to be involved. Civil society also has a role in demanding better corporate environmental performance, as well as ensuring that CSR practice by the business sector is transparent and accountable to the public. This research would study the limitations of the business sector, through the concept of CSR, in pushing for more environmental protection and sustainable use of natural resources in a developing nation, using the case of the Thai business sector as a case study. It would also study the role of the state and civil society sector in promoting, guiding and compensating voluntary business environmental management, comparing the case of Thailand with other industrialized and developing nations.

1.2 Definitions of ‘Corporate Social Responsibility’

The definition of corporate social responsibility had been subjected to many interpretations. According to Holme in *Executive Perceptions of Corporate Social Responsibility* (1976), we can distinguish three different perspectives on business responsibility: the classical view, the managerial view and the public view (Holme, cited by McGee, 1998:379). The classical view follows the principles of classical economics which regards business activities and organizations as isolated from other

kinds of activities and organizations, and believes that the public good can best be promoted through the individual use of self interests. The managerial view, on the other hand, sees that managers of corporations are responsible for balancing the rights and claims of different groups other than shareholders such as employees, customers, suppliers or local community (Holme, cited by McGee, 1998:379-380). Last of all, the public view is concerned also with the need to ensure that businesses operate in harmony with the public interests (Holme, cited by McGee, 1998: 380). These different perspectives of CSR will be discussed in further details below.

According to Milton Friedman in his essay, *The Social Responsibility of Business is to Increase its Profit* (1970), the social responsibility of firms lies in making as much profit for their shareholders as possible (Friedman, cited by McGee, 1998: 378). This is directly in accordance with the classical school of economic theory which believes that the public good can best be promoted through the market system, led by the individual pursuit of self interests. However, in the case of the environment, we can see that the market often fails to take into account the full environmental costs of a company's production activity. All too often, industries would externalize their environmental costs on to wider society through polluted rivers, or loss of wildlife or plant species. These market failures need to be addressed and it is dangerous for businesses to ignore the impact of their actions on the environment. This definition of corporate social responsibility is therefore too narrow, and will not be sufficient for the environmental problems that we now face. In fact, many see the concept of CSR as antithetical to the classical view of corporate responsibility (Dine, 2005: 223).

Many authors such as J. Backman (1975) in *Social Responsibility and Accounting*, C.D.Stone (1975) in *Where the law ends: the social control of corporate behavior* and W.C. Frederick (1987), puts forth the idea that a firm's responsibility should incorporate, at least partially, actions that goes beyond the firm's direct economic or technical interest, and should also extend beyond the legal and economic obligations to include certain responsibility to society as well (Mc Gee, 1998: 378). Last of all, the action of the firms must be voluntary (Manne and Wallich, 1972; Jones, 1980; cited by McGee, 1998:378). This is similar to the 'managerial view' of CSR according to Holme, which regards business managers as the leading actors in

pushing for positive social action. This view of CSR, which focus on voluntary actions taken by business leaders, can be regarded as the mainstream perspective because it is the one adopted by international organizations such as the UN and the Asian Development Bank (ADB) and also by mainstream business organizations.

Certain authors placed importance on the ethical aspect of corporate social responsibility, defining it as the compromise between society's expectations and the ethics of business (Hay et al. 1976; Zenisek, 1979; cited by McGee, 1998:378). These authors argue that business must take into account social and environmental costs along with their economic ones, or that business performance should be measured by the 'triple-bottom line' of society, environment and economics (Marsden and Andriof, 1997; cited by McGee, 1998: 384). This is according to the stakeholder theory of business responsibility which argues that corporations have a responsibility to all groups that it affects, either positively or negatively, which are called 'stakeholders' (Evan and Freeman, 1993; cited by Kraisornsuthasinee et al, 2006). Many business leaders now take the view that apart from the legal and economic licenses that is required for a company to operate their business, there is also a 'social license' to operate, which means that companies need to earn the rights to operate in society by proving they are responsible corporate citizens (ADB, 2005:42). These views are what Holme called 'the public view' of corporate social responsibility.

Although there is still a lack of common definition for the concept of 'corporate social responsibility' (McGee, 1998: 377; Nelson, 2004:6), there is now an emerging consensus as to what are the key trends in the field of CSR. These are to go beyond mere legal compliance and philanthropy to a more integrated approach in environmental management and social responsibility, as well as provide greater accountability to all stakeholders (McGee, 1998: 379; Nelson, 2004:6). This goes according to Holme's managerial and public perspectives on business responsibility that companies must take social and environmental costs into account along with economic ones, as well as adopt a transparent relationship with the society in which they operate. This paper also adopts the definition of CSR that is based on Holme's managerial and public perspective. The practice of 'corporate social responsibility' in this paper will mean '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’.

Different groups of supporters of CSR, however, would emphasize different aspects of this definition. Mainstream development institutions and large business organizations would emphasize the voluntary, business-led and global aspects of CSR (EC, 2002:5; EC, 2003:14). Civil society organizations, trade unions and non-governmental organizations (NGO), on the other hand, tends to emphasize the accountability and transparency aspects of CSR practice and encourage dialogue among business and stakeholders (EC, 2002:5). The difference between the ‘business’ and ‘social’ perspectives of CSR has many implications for how CSR is practiced, and what form of interaction exists between the business sector, the state and civil society, as well be discussed in section 2.3 and 2.4 of the next chapter.

1.3 The Situation of CSR in Thailand

In the case of Thailand, there is currently a small, but growing CSR movement, led by a few organizations concerned with the social and environmental responsibility of enterprises. The Thai Business Council for Sustainable Development (TBCSD) was established in 1993 by Mr. Anand Panyarachun with the objective to promote environmental awareness within the business sector under the concept of sustainable development (TBCSD Website, 2007). Another influential organization is Social Venture Network (SVN) Asia whose mission is to promote business awareness leading to more social and environmental responsibility (SVN Asia Website, 2007). At the moment, however, the CSR movement in Thailand is still at an early stage. Efforts are still unsystematic and there is also a lack of common understanding on what is the actual meaning of CSR, with many businesses confusing the concept of CSR with charity or merit-making (Interview with Paiboon Wattanasiritham, *Business & Society*, Vol 7, 2006).

The adoption of CSR in Thailand has been greatly influenced by the civil society sector. This is largely through the efforts of the CSR Centre in Thailand, which was created “to provide an open platform for exchanges, discussion, training and networking among business leaders, and between business leaders and stakeholders” (Business & Society, Vol 7, 2006). The center provides a good example of how the concept of CSR can be adapted into Thai society by including community leaders, religious leaders as well as NGOs and consumer groups into the debates. These interactions resulted in many interesting interpretations of CSR and how it can be used by businesses in developing countries such as Thailand. For example, Sulak Sivaraksa, a prominent Thai intellectual and social critic, believes that CSR is not a new concept imported from the west into Thai society, but in fact a part of our traditional value of ‘Right livelihood’ (Business & Society, Vol 7, 2006). For Prida Tiasuwan, former president of SVN Asia, CSR can help to strengthen local ownership in small and medium size enterprises (Business & Society, Vol 7, 2006). This is quite contrary to what is normally expected of a company that adopts CSR, namely that they are usually large, transnational enterprises that are ready to compete in the global market. This might hold an innovative way for a developing country to combat the negative effects of globalization. If CSR is adopted by small and medium size enterprises owned by local people, there is a chance to develop the local business sector, which can create an alternative form of market which is more sustainable and environmental friendly. In the April 2006 issue of the CSR Journal *Business & Society*, which focused on the issue of the role of business in environment protection, Viboon Khemchalerm, a community leader and agriculturalist, stated that, “It is good that our society has a group of people including business leaders that care about society and the environment. Let us join hands to inform and move people to learn together” (p.3) The involvement and cooperation among the business sector and civil society may be one of the most important factors that can contribute to the success of CSR adoption in Thailand.

The responsibility of environmental regulations and policy-making in the Thai government belongs to several different Ministries, most importantly the Ministry of Agriculture and Cooperatives, Ministry of Industry, Ministry of Energy and Ministry of Natural Resources and Environment. Each ministry is responsible for different environmental issues, for example, the Ministry of Agriculture and Cooperatives

(MOAC) is responsible for environmental protection in areas concerning agricultural production such as soil conservation, the Ministry of Industry (MOI) is responsible for industrial air and water pollution, the Ministry of Energy (MOEN) is responsible for energy conservation, the Ministry of Natural Resources and Environment (MNRE) is responsible in areas concerning forestry, wildlife conservation and so forth (MOAC website, 2005; MOI website, 2007; MOEN website, 2007; MNRE website, 2007). Regarding CSR practice, the Ministry of Social Development and Human Security has set up a CSR Promotion Center in July 2007 with the task of promoting, as well as monitor, evaluate and disseminate information on CSR practice in Thailand (CSR Promotion Center website, 2007).

At the moment, Thai government policies concerning environmental protection are still primarily in the form of legislations and regulatory control which can be classified into “Acts” passed by the parliament, the most important being the Enhancement and Conservation of Natural Environmental Quality Act of 1992, and “Regulations” and “Notifications” enacted by different ministries, such as the Notification of the Ministry of Industry Concerning Factory Wastes or Regulations on Prevention and Combating of Oil Pollution (Tan, 1998). There are also guidelines or environmental codes of practice such as the Industrial Sector Code of Practice for Pollution Prevention issued by the Department of Industrial Works (DIW) for certain key sectors such as the rubber plantation industry or dairy products (DIW, 2001; DIW, 2001). While these regulations are necessary for the protection of the environment from human production and commercial activities, they often involve very specific command-and-control measures for pollution prevention or environmental management. In conclusion, although there is recognition of the growing importance of the business sector and CSR by the public sector, at the moment there is very little or no government department or policy to involve the business sector in environmental protection and management issues.

1.4 Statement of the Problem

While the concept of CSR is being promoted as the latest and most cutting-edge solution to environmental management and sustainable development, there has been recognition by most supporters from both the public and private sector, including civil society organizations, that there are limitations to the role of the business sector. There is a need for the public sector to create a level playing ground and provide certain support through its policies for CSR to become more established. There have been many studies regarding the connection and interactions between public environmental policy and business environmental management strategies such as CSR, but most of these studies are centered on industrialized countries, such as OECD countries and the countries of European Communities. There is a need to study how the transfer of CSR to the context of developing countries made any changes to the understanding of its concept and to how it is practiced.

While CSR practices has been adopted in Thailand and is gaining support from the business communities and civil society organizations, there has not been a research into the limitations of CSR effectiveness in promoting sustainable development in the Thai context, as well as how existing public institutions and policies affect the adoption of CSR by the business sector for environmental purposes. There is still a need to study how the state, private and civil society sectors interact, and what dialogue exist between them concerning environmental protection and sustainable resource management.

To study CSR in the Thai context would present a unique opportunity to study how the concept of CSR, which originated in the industrialized regions, is modified or adapted when it is put in the context of a developing nation such as Thailand. The change of place may result in different kinds of limitation on the use and effectiveness of CSR practices, for example, because current environmental regulations are not strictly enforced, producers with good environmental practice may find themselves at a competitive disadvantage. Another constraint can be due to less consumer demand for environmental-friendly goods, which means they are unwilling to pay a premium price for a product which used CSR standards in its production method.

The differing environmental priorities between developing and industrialized nations may affect the understanding and use of CSR. There is a need to take both perspectives into considerations, as CSR should not mean that industrialized nations may impose their environmental standards on developing countries even when it is not appropriate. The private sector, civil society and public policy makers in a developing country should work together to look for the most appropriate way to achieve a more sustainable form of development in their own context, suited to their own environmental objectives.

This research, therefore, would attempt to study the limitations of the role of the private sector, through the practice of CSR, in environmental protection and sustainable resource management in Thailand. It would also look at the existing environmental regulations and discuss the role of public policy on the adoption of CSR in the Thai context. It is hoped that this would result in new and useful information on the role and limitations the business sector, as well as the state and civil society organizations, in using CSR practice to pursue the goal of environmental protection and sustainable use of resources in Thailand, as well as other developing nations.

1.5 Objectives of Research

- To study the current situation of CSR practice in Thailand regarding environmental protection and sustainable resource management
- To study the limitations of CSR practiced by Thai businesses regarding environmental protection and sustainable resource management
- To survey the existing public institutions and environmental policies in Thailand concerning CSR, as well as examine the interactions between the public, private, and civil society sector regarding business environmental management
- To assess how current public environment policies and civil society movements effect the adoption of CSR practice in Thailand

1.6 Research Questions

- What is the current situation of CSR in Thailand regarding environmental protection and sustainable resource management?
- What are the limitations or constraints to the adoption of CSR by the business sector in Thailand concerning environmental protection?
- What are the existing Thai government policies on business environmental regulation? What interactions exist between the public, private and civil society sector concerning CSR and environmental protection?
- How do current public environmental policies and civil society movements effect the adoption of CSR by the private sector in Thailand?

1.7 Hypothesis

The use of voluntary business standards is likely to lead to innovation and more effective environmental management. In the context of Thailand, the practice of CSR is rapidly gaining popularity among the business sector. However, there are still many constraints that may limit the use and/or effectiveness of CSR in environmental protection. Some of the problems are due to the existing socio-economic conditions, for example, there is little consumer demand for products that use above-compliance environmental standards which bring high production costs, leading to prices which consumers are unwilling or unable to pay. Other problems come from within the concept of CSR itself, for example, the difficulties and extra costs of applying for an eco-label would mean that only a small number of companies are able to participate in CSR. Therefore, the concept may be used only marginally and with a small group of elite businesses, as the eco-label is now used only on certain premium products. If this is the case, the effect of such a concept of CSR on environmental improvement will be too small and limited.

While mainstream business organizations tend to emphasize CSR as a voluntary, business-driven and global approach to environmental protection and management, civil society organizations such as NGOs and community groups tend to

stress the participatory aspect of CSR which involves transparent dialogue with business and stakeholders (EC, 2002:5; EC, 2003:14). The civil society sector has a major role to play in interpreting and adapting the concept of CSR to fit the Thai context, in order for it to be most effective in pursuing the objectives of environmental protection. For example, by using the concept of CSR to support small, local enterprises with good environmental practice, consumers would be able to buy more environmental-friendly products that are not too expensive for Thai society. The development of Thai environmental product standard such as the Green Label by the Thailand Environment Institute (TEI) and the Thai Industrial Standard Institute (TISI), which is more affordable than an international label, also allows more businesses to participate in CSR.

At the moment the Thai government, through related ministries, such as the Ministry of Industry, the Ministry of Agriculture and Cooperatives and the Ministry of Natural Resources and Environment, has very few policies which would provide incentives for voluntary business environmental management or involve the private sector in realizing sustainable development. There are, however, a few exceptions. The most notable examples are two organizations under the Ministry of Industry, the Department of Industrial Works which has an award for best practice, and TISI which provides training for businesses on how to achieve ISO 14001 standards, as well as started a Green Label program with TEI (DIW website, 2007; TISI website, 2007; TEI website, 2007). However, for the most part, there is still a lack of policy by the Thai government to involve the business sector in any decision-making process or one that provides incentives for motivation. Most policies concerning environmental protection are in the form of strict command-and-control format. Most government agencies that are involved with the private sector also adopt a rather top-down approach, using a one-way dialogue rather than interactive ones.

There is currently no government department and very few policies that directly address the issue of CSR in the environmental domain. There is still a lack of clear policy or frame of action on what should be done by the public sector regarding CSR. Therefore, we may conclude that the current Thai environmental policy has little or no effect on the adoption of CSR by the private sector.

1.8 Research Methodology

The information used in the research would be from two main sources of data. First is documentary research, including published books, research papers, journals, government documents, magazines, newspaper articles, as well as websites on the subject of CSR and environmental protection. The second source would be from in-depth interviews with key informants. This includes employees from three Thai business organizations that are practicing CSR: Bangchak Petroleum Public Company Limited, Wonderworld Products Company Limited, and an organic farming group in Supanburi province which is pioneering community-shared agriculture (CSA) in Thailand. These three very different organizations would represent the perspectives of large, medium and small enterprises that are practicing CSR in Thailand.

These three businesses were chosen as case-studies due to their respected and highly-regarded status in the field of CSR practice in Thailand, as well as for their clear policy or activities towards environmental protection. However, due to the constraint of time and availability of interviewees, only three businesses well-known for their CSR practice were interviewed. Therefore, the information gathered in this research is not representative of all Thai companies practicing CSR, nor does it represent the view of the Thai business sector regarding CSR in general. Another limitation is due to the fact that the three businesses in the case-study are all from different sectors: energy, manufacture and agriculture. This limits the ability of this research to make a clear comparison between small, medium and large companies, as the different situations between industrial sectors may also be an important variable. This limitation in the methodology may affect the ability of the study to make precise conclusions on the situation of CSR practice in Thailand.

Beside the three business case-studies, interviews were also conducted with a Thai environmental organization and relevant government authority: the Thailand Environment Institute, for their perspectives on the situation of CSR and environmental protection in Thailand, and the CSR Promotion Center under the Ministry of Social Development and Human Security, for their perspectives on the role of the public sector in promoting CSR practice in Thailand.

1.9 Significance of the Research

This research aims to contribute to the knowledge of how the concept of CSR can be used to contribute to the goals of environmental protection in a developing country. It is hoped that it would provide useful practical knowledge to how a more sustainable form of development can be achieved by the use of CSR, in which both the business and the public sector both has a role to play towards achieving that aim. This research is intended to benefit students, academics, and policy makers in the public as well as private sector, who are concerned about the issue of environmental protection among developing countries in the age of globalization.