Corporate Social Responsibility in Vietnam

- A Study of the Relation between Vietnamese Suppliers and their International Customers

Erik Bergelin & Martin Wastesson

Master’s Thesis LIU-IEI-TEK-A--07/0001--SE
Linköping’s Institute of Technology
Industrial Engineering and Management
Industrial Marketing
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Abstract

Vietnam is a developing country in South-East Asia with borders toward China, Laos and Cambodia. As other countries in the same area are far more developed, Vietnam can gain a lot from international trade. It is an important factor for a country to build prosperity and gain economic growth and thereby reach a higher standard of living. But for a company to succeed in the international market is a demanding task. Both internal and external factors that influence a company’s competence need to be taken into consideration. The awareness of Corporate Social Responsibility is increasing every day and it is becoming a more and more important factor for the end-customer as well as the buyers and suppliers. This Master Thesis deals with the relationship between Vietnamese suppliers and their international buyers and how Corporate Social Responsibility affects that relation.

The result of the study shows that there are advantages for both the Vietnamese supplier and the international buyer. Companies that work together and care for each other will end up with a strong and long-term relation. Both the quality and the productivity increased and that the staff turn-over decreased when introducing CSR. One also has to understand that the international customers are in command and that the suppliers are merely following the customer’s demands. Furthermore, quality, price and delivery time are the most important factors when choosing a supplier but by working with CSR these factors will also be affected positively.

It was also, apart from the main focus of this thesis, interesting to discover how corruption and cultural differences affected the supplier-buyer relation and also the discussion about whose responsibility it actually is to work with these issues; the buying rich customer or the relatively poor supplier?
Preface

“Go before it’s too late” is a famous slogan used by Kilroy Travels who provide travels for youths and students, and in one way maybe they are right. This Master’s Thesis is the last part of our education and we are about to enter a new phase in life, namely the working life. As working men it might be too late to use Kilroy Travels as a travelling agency, get funding from SIDA for living abroad or taking a couple of days off to go exploring the archipelago of Ha Long Bay. However, it is never too late to try to change the conditions in developing countries or making life an adventure. By carrying out this Minor Field Study in Vietnam we feel that we had the opportunity to do both. And in one way or another we will keep doing this as long as we live because it is never too late. Hopefully, this report will inspire you to do this as well!

There are many people whom without their help this Master’s Thesis wouldn’t have been possible. So, thank you: The Swedish International Development Authority (SIDA) for giving us this scholarship and arranging a preparation course. The Stockholm Chamber of Commerce and our tutor there Sophia Nygård for giving us the assignment, providing an office and financial help. Our tutor at Linköping University, Jakob Rehme, for helping us out during the thesis and providing sightseeing tips for Kuala Lumpur. Our opponents, Dan Törnqvist and Daniel Millione for reading this thesis probably more times than we have and still finding places for improvement. August Wingårdh and Mrs Hang for making life in Hanoi much easier both when working on the thesis as well when drinking Bia Hoi.

Finally we would like to thank each and everyone else that made our time in Vietnam unforgettable and this thesis possible. We will remember you!
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1 Introduction

The following chapter will give an introduction to Corporate Social Responsibility and its effects on multinational companies and their suppliers on a global market. Furthermore, Vietnam and the project that we are involved in and the purpose of the project will also be presented. With that background we will present the purpose of the study and its disposition.
1.1 Corporate Social Responsibility

Hardly a day goes by without reading in the newspapers about miserable conditions for workers in least developed countries and the multinational companies’ lack of knowledge about it. If it isn’t strikes in China due to McDonald’s low wages (n24.se, 2006) it’s Swedish clothing companies’ lack of responsibility for their suppliers (Johansson, 2006). The term Corporate Social Responsibility (CSR) was coined in the 1960s (Carroll, 1991) but the idea of corporations taking a broader responsibility for society goes back to the 19th century (Smith, 2003). As for today the importance of CSR is increasing (Smith, 2003) although there’s still a debate whether it is actually the companies or the governments that should take more responsibility (Friedman, 1970).

Many non-governmental organisations (NGOs) are working hard for stricter rules and regulations concerning CSR, for example the United Nations (UN) and the International Labour Organisation (ILO). Many MNCs have created their own code of conducts that are according to most of those regulations and MNCs are not only presenting their financial results but also their environmental and social results.

There are two cases for companies to engage in CSR. The first one is the normative case which is a desire to do good and the second one is the business case which is based on self-interest. The normative case suggests a moral basis and that CSR is the right thing to do. The business case, on the other hand, suggests that companies engage CSR because of the shareholders added value and that CSR activities create goodwill among consumers. (Smith, 2003) We believe that the right mix of the normative and the business case will create the best corporate CSR strategy.

1.2 The Design, Decoration and Gift Project

In May 2006 the Swedish Chambers of Commerce (SCC) in cooperation with the Federation of Norwegian Commercial and Service Enterprises (FNCSE) and the Vietnamese Chamber of Commerce (VCCI) started the Design, Decoration and Gift
The project is intended to run until February 2008 and the objective is to help Vietnamese handicraft industry develop products that have potential on the international market. This will be done by using two European designers to design products that are based on the Vietnamese raw materials but are more attractive on the international market.

The products will be manufactured in Vietnam by handpicked manufacturers and sold both under an own brand and by intermediaries on the Swedish and hopefully other European markets. When the Swedish Chambers of Commerce ends their part of the project there will hopefully be long-lasting relations between the Vietnamese manufacturers and European buyers and the trade itself will continue.

Our part in the DDG project will be to visit the chosen factories and investigate if they work with any CSR activities and their knowledge in CSR-related issues.

1.3 Vietnam

Here we will give a background to Vietnam, its history and its economic development and the Swedish-Vietnamese relation. We will also describe the handicraft industry in Vietnam and the labour laws that affect it.

1.3.1 Background

The Socialist Republic of Vietnam or Cong Hoa Xa Hoi Chu Nghia Viet Nam as it is called in Vietnamese was founded on the second of July 1976 after more than a decade of war. Since the founding of Vietnam there has only been one party allowed which is the Communist Party. The country is 1600 kilometres long and has an area of 331 114 km² and borders to China, Laos and Cambodia. Vietnam is split into 57 different provinces and the larger cities Hanoi, Ho Chi Minh City, Haiphong and Da Nang hold the same status as provinces. These provinces have their own budget and the lack of common conceptions of
the law there is much room for corruption and fraud. Vietnam has a population of approximately 82 million inhabitants and the capital, Hanoi, has about 2.5 million inhabitants. (Länder i fickformat, 2006)

Vietnam is one of the countries that is defined as a developing country according to the OECD’s committee DAC and 2004 their GDP was USD 43 891 million and USD 535 per capita. Since 2002 the GDP has been growing with approximately 7% per year. Service and industry stands for about 40% each of the GNP while forestry is about 20%. During the time around the Vietnam War Soviet and other communist countries contributed economically but in the early eighties the Vietnamese economy had hit rock bottom. Since 1986 Vietnam has been trying to implement a market economy and during the 1990s the economy grew quickly and except for a decrease around 97-98 the economy is still growing and is one of the fastest growing economies in the world (Swedishtrade, 2006).

**Doi Moi**

In 1986 the government in Vietnam began the reform of the economy and society; it was called Doi Moi meaning renovation. Before Doi Moi Vietnam was centrally planned, as most communist countries, but after Doi Moi the country is becoming more and more driven by the market’s demands and most of the industry has been deregulated. Although the state still protects stately owned companies with favourable loans and tax-cuts, the private industry is growing and makes up for more than half of Vietnam’s GDP. (Länder i fickformat, 2006)

Even though the effects of Doi Moi have led Vietnam towards a market economy there is still much to be done and new reforms are continuously being made. Apart from larger cities as Hanoi and Ho Chi Minh City and the areas surrounding them, most provinces in Vietnam has felt little effect when it comes to increased wealth. More than 50% of the provinces haven’t been affected at all. Vietnam has trade agreements with USA and is
member of the Association of South East Asian Nations and applied 2006 to be a member
of the World Trade Organisation, WTO. (Swedishtrade, 2006)

Vietnam Today
When the Communist party held their ninth congress in April 2001 important changes
were made towards a more liberal view on the political life and economic reforms, almost
half of the 150 members of the central committee were replaced. The Vietnamese
Communist party had for a long time a good reputation among the Vietnamese but lately
there has been several cases of corruption and power abuse which has lead to that these
two issues were highest on the agenda on the tenth congress in April 2006. (Länder i
fickformat, 2006)

Since the late 1980s the stately owned enterprises has fired more than 3.6 million
employees. Some of the unemployed have started working for the private sector but
unemployment is one of the greatest problems for Vietnam today. Officially the
unemployment is about 7% but at least 20% of the Vietnamese work force doesn’t have a
job that can cater for their economical needs. (Länder i fickformat, 2006)

A majority of the employees in stately owned enterprises are part of an official trade
union and since 1994 the Vietnamese workers are allowed to go on strike as long as it
doesn’t hurt the society. In foreign enterprises where the official trade unions aren’t
represented there often exist more spontaneous unions. (Länder i fickformat, 2006)

Swedish – Vietnamese Relations
Since Sweden was the first western country to establish diplomatic relations with
Vietnam in January 1969, Sweden has had somewhat of a unique position in the country.
Even though Sweden is no longer one of the biggest donors of financial aid to Vietnam
they still have a lot of respect that makes it possible to work with human rights and
corruption. (Swedishtrade, 2006)
The trade between Sweden and Vietnam has since the 1990s mostly been in balance. In 2004 the Swedish export was SEK 975 millions and consisted mostly of iron, steel, paper, chemicals among others. The import from Vietnam was SEK 1056 millions the same year and Sweden mostly imported clothes, textiles, shoes, shellfish and fish. There are about 50 Swedish companies present in Vietnam such as Ericsson, Electrolux, SAAB, Tetra Pak, Alfa Laval, Atlas Copco, SKF and IKEA. Swedish investments in Vietnam amount to USD 454 millions. (Swedishtrade, 2006)

1.3.2 Vietnam and the Handicraft Industry

According to August Wingårdh (2006) the supply chain of the Vietnamese handicraft industry is divided in four levels, the cottage industry, the industrial village, the consolidators and the small and medium sized enterprises.

At the beginning of the supply chain there is the cottage industry. The producers work with non-industrialised material within the handicraft sector. It is often farmers who produce simple products or components at home. The production unit consists of the family or the village. The material used is nature fibre, everything which contains some kind of grass; cane, willow/fern, seaweed, raffia, banana bark and bamboo. Methods of working are braiding, knitting and embroidery.

Next level is the industrial village with simple industrial production. The whole village work with the same material but there might be several producers. The different materials are bronze, jute, silver, forging, cast iron and carving. The materials are horn, bone and silk for example. The industrial village may consist of several producers and as within the cottage industry it is often made up of farmers.

Between the villages and the factories there are the consolidators or middlemen. The consolidator add something in the supply chain, it might be details, design, drying, finishing, adjustments or packaging. Sometimes the different materials/products from the cottage industry
are put together in one collection. The consolidator is close to the village; he/she might be the most successful individual in the village. Sometimes the consolidator has the competence to secure the quality of the goods. Often the consolidator has a factory location and a warehouse. The factory does not usually employ more than 25 people.

Above the consolidator there are the small industries. The small industries have 400 to 500 people employed. They have mechanical equipment, industrial owners and tools. The materials are most of the time ceramics, glass, metal, pipes, jute, sheet metal and wood. If furniture is produced in the small industries it is only individual pieces.

The difference between small industries and medium industries is that the medium industries produce all components by themselves. The material consists of nature fibre, clothes, textiles and wooden furniture. SMEs in Vietnam employ up to 1500 people. (Wingårdh, 2006)

In the Vietnamese footwear industry (Twose and Cranmer, 2006) a supply chain with export is based on the input suppliers, the producers, the intermediaries and the wholesalers and retailers. Input will be suppliers of raw materials, unfinished goods and equipments, production consists of inspecting, finishing, machining operations, laying and
cutting and sourcing inputs. The intermediaries include contractors, agents and trading companies whose roles are to find and contract manufacturers on behalf of wholesalers/retailers and often handle production logistics and new product development. Wholesalers are responsible for the deliveries to the retailer; transports to warehouses near final market and consolidate orders from suppliers. Retailers take care of the sale to final customer and branding and advertising.

Figure 1.2: The supply chain for the Vietnamese footwear industry.

In this thesis the focus will be on the relation and interaction between the supplier and the wholesalers and retailers. The suppliers are the Vietnamese manufacturers and intermediaries are the Swedish Chambers of Commerce and they will only provide contacts between the suppliers and the customers. The SCC will never own the products or make any profit out of this project. As for the wholesalers in this case, it is not clear exactly who they will be.
The handicraft industry has a lot of potential in Vietnam. There are currently about 1500 handicraft villages in Vietnam, where 10 million, a third of the total regional workforce are employed. The handicraft industry in Vietnam has an annual sale of 3 billion USD. The income of handicraft-associated labourers is said to be the triple or quadruple of that of farmers. The handicraft industry has increased income in the rural area and contributed significantly to poverty reduction. (Asiaseed, 2006)

The Ministry of Trade (2006) reported that Vietnamese handicraft shipments to the European market have grown incredibly recent years, with only China and Thailand that have a bigger export. New markets such as Africa and Southwest Asia have been discovered and the industry is expanding.

Vietnamese handicraft villages face many problems. For example, inadequate exploitation of their tourism resources, lack of management ability, inadequate management organization, lack of funds and equipment, lack of market data gathering ability or marketing skills and insufficient infrastructure. Due to their lack of marketing skills, most of the villagers depend on the middlemen for their sales, and therefore receive less profit for their products. (Asiaseed, 2006)
According to the Vietnam Chamber of Commerce and Industry (VCCI, 2006) the Vietnamese handicraft sector lacks competitiveness though full of potential. The Industry is small and “disconnected” and enterprises have difficulty landing contracts overseas, pushing potential foreign partners to turn to China, Japan and Thailand. The VCCI also say that poor design and the lack of product promotion are two inherent weaknesses in the Vietnam’s handicraft industry.

Vietnam lacks raw material zones serving the handicraft industry, although there was an available supply of naturally occurring materials like rattan, bamboo or clay. Small-scale production, little contact with potential foreign customers and almost no internet access to e-commerce limits the industry development. (Ministry of Trade, 2006)

1.3.3 Vietnam and Labour

Vietnam has a very extensive labour code which is based upon the labour laws of Vietnam since the August revolution in 1945. The labour code that is being used today was made to institutionalise the “Doi Moi” policy and was published in 1994. There have since been some amendments to the code.

“The Labour Code protects the right to work, benefits, and other rights of employees and, at the same time, protects the legal rights and benefits of employers, thereby creating conditions for harmonious and stable labour relations, contributing to the development of the creativity and talents of intellectual and manual workers and of labour managers in order to achieve productivity, quality and social advancement in labour, production, and services, effective utilization and management of labour, and contributing to industrialization and modernization of the country, for a wealthy and strong country, and a fair and civilized society”.

- Ministry of Planning and Investment and Phillips Fox, 2002
The labour code is made up of 17 chapters and 198 articles covering most aspects of labour in Vietnam. In comparison with the UN’s Global Compact that will be discussed later in the Frame of Reference the labour code states that:

Regarding human rights: “Every person shall have the right to work, to choose freely the type of work or trade, to learn a trade, and to improve his professional skill without being discriminated against on the basis of his gender, race, social class, beliefs, or religion.” Article 5.1

Regarding labour standards: “An employee shall have the right to form, join, or participate in union activities in accordance with the Law on Trade Unions in order to protect his legal rights and benefits; he shall be entitled to collective welfare and be permitted to participate in the management of the business in accordance with the internal regulations of the enterprise and the provisions of the law.” Article 7.2

“Maltreatment of workers and all forms of forced labour are prohibited.” Article 5.2

“An employee shall be a person of at least fifteen (15) years of age who is able to work and has entered into a labour contract.” Article 6

“Junior workers are workers under the age of eighteen (18) years. Enterprises which employ junior workers must establish separate records containing the full names, dates of birth, current employment positions, and regular health reports of the junior workers, and must produce these records upon request by a labour inspector.” Article 119

Regarding Environment: “Any organization or individual engaging in labour activities or production must comply with the laws on occupational safety and hygiene and environment protection.” Article 95.1

(Ministry of Planning and Investment and Phillips Fox, 2002)
Environmental issues are hardly mentioned in the labour code and it doesn’t mention corruption except that you are not allowed to bribe governmental inspectors. On labour laws, the code is very thorough and these excerpts only cover what we find most important for the thesis.

1.4 Presentation of the Problem

As stated earlier globalisation is increasing and so is sourcing manufacturing of products from least developed countries such as Vietnam. With the increasing awareness of the negative effects of sourcing from developing countries such as child labour and damages to the environment, CSR has become more and more relevant and most multinational companies have developed their own code of conduct and are working actively with these issues. But why are they actually doing this, is it just to avoid bad reputation, is it because they want to be good citizens and do the right thing or is it actually a business case for CSR? There are many different views on this subject ranging from Milton Friedman’s (1970) that CSR has nothing to do with a company to Klein’s (2002) anti-globalisation manifest No Logo where CSR has all to do with it.

However, focus has long been on the MNCs and CSR but what happens to their suppliers when a code of conduct is introduced? Are the costs of implementing CSR just pushed upstream to the MNC’s suppliers or is there a reason for the suppliers to work with these issues? Or are the reasons to work with CSR the same for the MNCs and the suppliers? We believe that these questions are especially important in less developed countries, where survival is much higher on the agenda then a sustainable future and CSR issues. Furthermore we believe that the next big challenge in the field of CSR is to get the manufacturers in developing countries to work with the issue, not because they have to but because they want to.
1.5 Purpose

With this background, the purpose of this Master Thesis is to:

*Explore and explain how the Vietnamese manufacturers and their international customers can manage the demands on Corporate Social Responsibility.*

To fulfil the purpose the following questions need to be answered:

- Who demands CSR and how do the companies deal with the pressure?
- How does CSR affect relations between companies?
- What are the obstacles and benefits from working with CSR?

To answer these questions we need to build a Frame of Reference with recognised theories with which we later can compare our empirics in the analysis. We begin with theory on CSR which is fundamental for our thesis and how different external forces push for CSR in a business relation. We also need theory on the relation between a supplier and their multinational buyer. Theories on what benefits that can be gained and what obstacles that can be seen are also important both for the supplier and the MNC to understand the effects of CSR.

1.5.1 Embryo to an Analysis Model

To understand how the increasing demand on CSR affects the Vietnamese suppliers, we need to see what forces that are affecting the relation between the buyer and the supplier. We believe that there have to be external forces that increase the companies’ CSR-awareness. These external forces affect the relation between the buyer and the supplier and there are some sorts of effects coming out of the increased CSR-awareness. At least two main stakeholders are included in any supplier-buyer relationship in this case it is the Vietnamese supplier and the multinational buyer. With the information we have at this stage, an embryo to an analysis model could look something like this:
1.6 Target Groups

It has been impossible for us to concentrate on one target group only when writing this thesis because of the multi-angled purpose and the demands from different stakeholders. One can say that different parts of the report will focus on different target groups.

Our main target group has from the beginning been the Vietnamese suppliers; a lot of the analysis and conclusions has been focused on them. However, we feel that the analysis and the frame of reference might be too academic to help them with their future progress in the CSR-area. They might only be interested in the recommendations and the conclusions where they can get useful information on how they should act in CSR-related issues and how to benefit from it.
The frame of reference on the other hand could be interesting for NGOs because of the more general information about CSR and what different stakeholders think is important. They could also be interested in the analysis, conclusions and recommendations where we express what we think they should focus on to increase the CSR-awareness and not only to spend money on short-term charity.

The MNCs are of course also in focus and they could find information in the thesis on how they should act in CSR-related issues and also on how the suppliers act and what they feel is important for a successful relation. The top management in a MNC could probably be interested in all the chapters in the thesis.

1.7 Outline of the Thesis

Chapter 1 – Introduction:
Here, we will introduce the reader to the background of CSR, the project that we are involved in and the purpose of the thesis. We will give a background on Vietnam in general and its economic development. We will also describe the handicraft industry more specific.

Chapter 2 – Frame of Reference
This chapter will give a relevant theoretical background to the thesis.

Chapter 3 – Analysis Model and Focused Research Questions
Chapter 3 presents the analysis model that will be used in the thesis and is based on the Frame of Reference. The analysis model will be broken down to focused research questions.

Chapter 4 – Method and Performance
This chapter describes the methods used in the thesis and its consequences. The quality of the study in terms of validity and reliability is also discussed.
Chapter 5 – Empirics
In this chapter the results from the interviews will be presented. The data, how it has been collected and presented, is influenced by the Frame of Reference and the Method and Performance.

Chapter 6 – Analysis
The theories in chapter 2 will be applied to the data in chapters 5 by using the analysis model in chapter 3.

Chapter 7 – Conclusion
This chapter presents the conclusion and further research recommendations based on the analysis.

Chapter 8 – Recommendations
This chapter presents our recommendations on how CSR-practice can improve in Vietnam.

Chapter 9 - Reflections
Here, the thoughts and impressions of the authors will be presented.

These nine chapters will be followed by a List of References and an Appendix.
2 Frame of Reference

The following chapter is the Frame of Reference and will be presented in order to create a theoretical understanding of Corporate Social Responsibility, relationships between customers and suppliers and competitive advantages. Focus will be on the suppliers but to understand the subject multinational companies will also be handled. Finally the different theories will be synthesised to explain how the relationships between the multinational companies and their suppliers are affected by CSR.
2.1 The History of CSR

Even though CSR is becoming more and more important these days the idea of companies having a social responsibility goes back much further. Already in the 1960s the subject of CSR was discussed (Carroll 1991) but the idea of companies taking a broader responsibility for their actions can be traced as far as to the 19th century (Smith 2003).

In 1851 Sir Titus Salt (1803-1876) founded the industrial community Saltaire just outside Bradford, England. Bradford was on that time the world’s textile capital but also one of the most polluted towns in England with an average life expectancy of 20 years for its inhabitants. By moving his factory to Saltaire the workers’ conditions improved considerably but it wasn’t only out of philanthropically reasons that Sir Salt moved his factory, he also realised that the workers were more productive if the working environment and living standards improved. By the time of Sir Salt’s death, Saltaire had 850 houses served with fresh water as well as a park, church, hospital and a library. (Smith, 2003)

There are some specific reasons why CSR has evolved to being one of the more debated issues in today’s society. Some of the more recent factors (Henderson, 2001) are globalisation and its effects, the growing strength of NGOs and the bad publicity that large MNCs have gotten after campaigns by NGOs.

Although the above mentioned factors are all important, they all demand knowledge about the issue. By the widespread use of Internet it is today possible for the public to read about mistreatment of workers in Africa from an NGO’s web page or in other ways collect information that would otherwise been very hard to find. (Henderson, 2001, Smith, 2003)
2.2 Defining CSR

“... the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and the society at large”


As mentioned earlier the concept of CSR has evolved over the years and is evolving quickly (Löhman & Steinholtz, 2003). By defining CSR according to the World Business Council for Sustainable Development, synonyms and close subjects such as Corporate Responsibility (Nike, 2005), Corporate Social Performance (Wartick and Cochran 1985) and Corporate Citizenship (Löhman & Steinholtz, 2003) will also be covered by this definition and we will use these interchangeably throughout the report.

Although we believe that the WBCSD’s definition is useful in this thesis it is rather vague and we will now present some theories and models that can be used to clarify what CSR is and how it evolves. The pyramid of CSR is a tool for measuring the level of CSR at the companies based on how they fulfil their responsibilities towards the society. We will use this one later to analyse the suppliers’ level of CSR. The CSR Cycle is a model of how CSR usually evolves and the outcome. This model can hopefully be used to explain how CSR is evolving in Vietnam. Lastly we will present two different theories that are also two different views on CSR to get a better picture what CSR is.

2.2.1 The Pyramid of CSR

A good visualisation of the concept of CSR is The Pyramid of CSR, which consists of a company’s economic, legal, ethical and philanthropic responsibilities towards the society. The economical responsibilities are the foundation upon which all rests and refer to the companies’ responsibilities towards their shareholders. These responsibilities are required by the society. (Carroll, 1991)
The legal responsibilities are something that a company is obliged by law to follow so even though Carroll depicts them as the next layer of the pyramid they are more or less on the same level as the economical responsibilities and are also required by the society. (Carroll, 1991)

![The Pyramid of CSR](image)

Figure 2.1: The Pyramid of CSR.
(Modified from Carroll, 1991)

Ethical responsibility refers to acting according to the society’s norms about fairness and justice and is expected by the society. This might sound rather straightforward to most people but as Henderson (2001) points out it is hard to tell which voice is actually mirroring the society at large and which is from critical nongovernmental organisations.
Furthermore there is a dynamic process between the ethical responsibilities and the legal responsibilities since what have earlier been ethical often become laws when there is a strong enough consensus in the society (Carroll, 1991). An example of these dynamics is the stricter pollution limits proclaimed by the EU.

At the top of the pyramid there are the philanthropic responsibilities of the company, which responds to the society’s expectation of the company to be a good citizen. These responsibilities can be fulfilled by contributing to education programs or in other ways promote human welfare but are not mandatory as the other three layers. (Carroll, 1991)

2.2.2 The CSR Cycle

The CSR cycle as described by the Worldbank (2005) is an expected scenario of how CSR evolves through actions and reactions. MNCs tend to be concerned about macroeconomic performance, governance and political risk plus their reputation in markets where high standards are seen as desirable. The CSR Cycle is market-based and is demonstrating how standards can be raised for logical business reasons.

![Figure 2.2: The CSR Cycle.](Modified from Worldbank, 2005)
A basic condition is that a multinational company that is selling their products in the industrialised countries of the world contract suppliers located in developing countries to manufacture their products. Suppliers are most frequently located in countries where wage costs are low and the regulatory environment is often underdeveloped. (Worldbank, 2005)

Stakeholder groups draw media attention to environmental and social issues within a globalising economy, which leads to increasing reputational risk for any firm that is unable to demonstrate a supply chain that is taking CSR issues seriously. (Worldbank, 2005) Consumers want reassurance about the supply chain behind the products they buy. (Middlemiss, 2003) CSR advocates have in the past helped organize boycotts, lawsuits and lobbying against corporate offenders that don’t act as a good citizen. In many highly visible cases these efforts have made direct hits on companies’ margins and market shares and forced changes in policies and strategy and sent warnings to others. (Hickie et al, 2005)

MNCs respond to these pressures with CSR investments, often in the form of codes of conduct for their suppliers. These codes are an instrument to ensure that the investments can help protect reputation and where possible create increases in productivity, quality, and cost savings at the supply factory level. (Worldbank, 2005)

The end of the cycle for the multinational company is market reward by maintaining brand reputation, an increased share of existing markets, access to new markets, and access to capital from socially responsible investment portfolios. For suppliers of these MNCs, one of the primary market rewards is maintaining or winning new contracts. This CSR cycle though, only tells half of the story, with the other half relating to the challenge of compliance to the MNC’s codes by suppliers whose capacity in this area is often underdeveloped. (Worldbank, 2005)
The CSR-cycle fails when companies only use CSR as a marketing tool that only consists of documents, statements and highflying words instead of actions, policies and honest concerns for the welfare of the company’s stakeholders. Many companies are concerned about social, environmental and ethical issues, but the question is whether the focus is still on the financial bottom line and the concern only a way of marketing themselves? (Cowee, 2001)

2.2.3 Shareholder Theory

Nobel Price winner Milton Friedman (1970) has a clear idea that companies are responsible to their shareholders and no one else. He writes, when asked about CSR, that the corporate executive would be spending someone else’s money for a general social interest. So if a corporate executive through social responsibility reduce returns to shareholders, he is spending the shareholders’ money and if his decisions raise the price of the products, he is instead spending the customers' money.

With this Friedman means that the companies’ only obligations are towards their shareholders. By maximising their profit without breaking the law and staying inside the norms of society they are able to give as much return as possible to their shareholders. According to Carroll (1991) this statement would actually correspond to the three first components of the CSR pyramid economical, legal and ethical and furthermore Friedman (1970) states that the shareholders’ objectives might be others than a high return. This is for example proven through increased investments in projects that are social and environmental responsible (Nelson, 2001).

Friedman (1970) also states that the justification for permitting the corporate executive to be selected by the shareholders is an agent serving the interests of his principal. That justification disappears when the corporate executive imposes taxes and spends the proceeds for social purposes. He calls this the principal-agent problem.
Fombrun et al (2000), Sherman (2003) and Smith (2003) have a different opinion than Friedman and say that successful CSR investments often lead to added shareholder value. The company that hire subcontractors that use child labour or a forest company that don’t re-forest or re-introduce plant and animal species are placing shareholder value at risk through ignoring important stakeholders.

Frooman (1999) and Henriques and Sharma (2005) say that profit-maximizing strategies need to be tempered by CSR considerations. An example of this is the problem a company faces when trying to raise the wages of their employees, which will lead to more motivated workers and maybe a more effective production but might also lead to lower profit that will harm the shareholders. Together, the different stakeholders ironically hold both the key to success while also posing the biggest threat to embedding corporate social responsibility (Frooman, 1999 and Henriques and Sharma, 2005).

It might seem that Friedman’s view on shareholder theory has transformed during the years. However there are still several economists who share Friedman’s opinion today and the arguments are the same which is why we use Friedman and not theories that have been publicised more recently when explaining his views.

2.2.4 Stakeholder Theory

Lee (2006) and Smith (2003) say that most companies understand the importance of managing relations with key stakeholders. Companies that have been successful in this area have done more than simply issuing press releases and responding to enquires.

Stakeholder refers to everyone being affected by the company’s business, that is, having something at stake (de Wit et. Al, 1998). According to Carroll (1991) there are five major stakeholder groups: owners, employees, customers, local communities and the society at large. There are several others groups that can be added as stakeholders: media, suppliers and competitors (Karlsson, 2006) as well as social activist groups and the public at large (Carroll, 1991).
Stakeholder management is a term used for handling the relations between the company and its different stakeholders. There has been an explosion in the literature dealing with stakeholder management (Elias et al., 2000). A very important task is to transform management theory and practice so that they positively contribute to sustainable development (Gladwin et al., 1995).

The public opinion stakeholders, such as newspapers, are very important to the corporation and not listening to them could lead to serious damage of the firm. Of course, the reputation of a company does not necessarily have direct effects on the economic sustainability of the company but in most cases a bad reputation will also affect politics and the market. (Hockerts, 2001)
Fombrun (2000) uses the stakeholder theory when managing the upside and downside reputational risk of a company. The upside refers to the different opportunities of the company and the downside is for constructing a safety net for when reputational risks occur. Applying this model to the company’s suppliers or partners means that the opportunities could be an enhanced partnership or increased trust, as illustrated in the CSR Cycle. The downside that has to be taken care of could for example be that suppliers are using child labour and that bad reputation will spill over from the supplier to the company as in several acknowledged cases. (Fombrun, 2000)

It is given that companies have limited financial, human, physical and natural resources and it isn’t seen as efficient or effective to deal with all stakeholders equally. The question that regards how individual firms formulate their CSR strategy should reflect an understanding of whether and why greater attention to CSR is warranted by a particular organization. (Lee, 2006) This question is raised to consider the complexity of a stakeholder engagement strategy. The WBCSD (2006) warns that a “one-size-fits-all” approach to CSR strategy, for example through universal codes of conducts, may not provide the right answer.

In this Master Thesis we will focus on the relationship between the customer and the supplier to analyse how and why manufacturers in Vietnam should work with CSR. Since demands on CSR and codes of conduct often come from the customer, in this case an MNC, this is the most interesting stakeholder.

2.3 Relationships

It is obvious that the Vietnamese suppliers and their customers have some sort of relation to each other. We need to define what a relationship is, how it evolves and what activities it consists of. Furthermore the relationship is affected by the supplier’s level of export which is why that theory will be presented. To be able to decide who is actually demanding CSR, three categories of CSR will be presented.
Business relations are created by interaction between the buyer and supplier. What is first a straight purchase can in time by increasing communication and interaction such as samples, evaluations and modifications grow to a business relation. (Johansson et al 2002)

In the late 1970s the International Marketing and Purchasing (IMP) project showed the importance of the relations between suppliers and customers when doing business. The investigations done showed that 20% of the customers stood for 80% of the value of the products sold. (Johansson et al 2002) This is also true for today according to Van Weele (2005).

![Diagram of Customer-supplier relationship.](Modified from Johansson et al 2002)

The IMP-project also showed that these business relations are not restricted to two single companies. Instead there are several other companies intertwined in these relations such as the customer’s customers, the supplier’s suppliers other customers and competitors. These different connections create a network where for example the relations between the supplier and the supplier’s suppliers affect the customer. (Johansson et al 2002) We believe that these relations can be strengthened by the implementation of good CSR-practice.
According to Rehme (2006) the activities that take place in a relationship between the customer and the supplier can be divided into four parts; technical activities, logistics activities, commercial activities and social or contact development activities.

The technical activities refer to the activities needed to fulfil the customer's demands regarding supplying correct technical data and administering possible product adaptations as well as helping in developing application knowledge. The logistics activities refer to managing the information about distribution and adaptation in logistics processes. The commercial activities are those activities that deal with the coordination of negotiation, the management of contracts and payments etc. Social or contact development activities are the activities associated with developing relationships on different levels and for different functions in the relationship. (Rehme, 2006) The social and contact development activities will, for the simplicity, in this thesis be called Communicational activities.

We believe that the activities that are being affected by CSR are the technical activities, since CSR can affect the way a product is manufactured, the commercial activities, since the contract includes adhering to a code of conduct, and the social or contact developing activities since new relationships on different levels are needed. As for the logistics activities we believe that these are less affected and they are also harder to measure since those can be executed by a third party. Therefore we make delimitation and focus on three of the activities.

### 2.3.1 Different Levels of Export

According to Kleen et al. (2003) there are three levels of export, indirect export, export and local manufacturing. Since it is not likely that Vietnamese manufacturers will locate factories abroad we will focus on the two first alternatives.

When exporting indirectly there is a middleman in the country who has contact with the foreign market. The middleman can be a trading house or an export agent. A trading
house is usually a company that conducts both export and import where the manufacturer sells the product directly to the trade house and leaves the rest to them. An export agent is a representative on the local market who is commissioned by the manufacturer to sell the products abroad. (Kleen et al. 2003)
When exporting directly to the foreign market the company has direct contact with the buyers or middlemen on the foreign market. When exporting directly to customer there are no middlemen and it is usually used when the customers are big and easy to identify. (Kleen et al. 2003)

A branch office is located on the foreign market and must be registered there but the parent company is responsible for all their actions and they are not allowed to sign any contracts by themselves. (Kleen et al. 2003)

A representative means that the manufacturer are using detached marketing organisation to sell their products. The representative can either be a provision agent, commission agent or a retailer. The provision agent is an independent middleman who represents the manufacturer on the foreign market and does not own the product or gets paid for it; he only acts as intermediary and gets provision for goods sold. The commission agent gets provision as well but sells the product under its own name and gets paid from the customers. The retailer is an independent company who buys the product from the manufacturer and then sells them to its own customers. (Kleen et al. 2003)

Export collaboration is when two or more companies collaborate with their export activities, for instance by having a common foreign representative. Export can also be made by using a sales company, which is a subsidiary that acts as an independent marketing organisation on the foreign market. Such a sales company can be created by acquisition, creating a new company or a joint venture. (Kleen et al. 2003)

2.3.2 CSR, on Whose Initiative?

According to Twose and Cranmer (2006) there are three types of CSR categories. The first one is the buyer driven compliance to codes of conduct where multinational companies such as IKEA adopt a code of conduct in their global supply chain. The buying company pays for internal monitors and audits while the supplier pays for any remedial actions. The
buyer takes the code of conduct in consideration when choosing a supplier and therefore it’s important for the suppliers to adhere to these standards.

IKEA’s code of conduct, the IWAY, is based on the UN and ILO declarations and conventions and all IKEA’s suppliers must be able to reach the lowest standards. Furthermore IKEA realises that most things remain to be done and even if they can impose the IWAY on their first tier suppliers it is at present impossible to control second and third tier suppliers. (www.ikea-group.com)

![Figure 2.6: Buyer-driven CSR compliance scheme.](Modified from Twose and Cranmer, 2006)

The second category is the Factory Certification Schemes where the suppliers seek potential customers by working proactively with CSR issues such as compliance to codes of conduct. The supplier pays for audits and other necessary certifications. Doing this can work as a competitive advantage for the supplier in relation to other suppliers, but there
are no guarantees that this will lead to increased business and it takes a lot of work for the supplier to introduce these standards.

![Factory Certification Program](image)

**Figure 2.7: Factory certification program.**
*(Modified from Twose and Cranmer, 2006)*

Finally there are the other types of codes such as the ILO Guidelines, SAI’s SA8000 certification and the Global Compact where NGOs are trying to get both MNCs and suppliers to comply to their codes of conduct. These codes do not necessarily have built in monitoring programs and audit; they primarily work as guidelines and best practice when creating a code of conduct.

The Social Accountability 8000 is promoted as a voluntary, universal standard for companies interested in auditing and certifying labour practices in their facilities and those of their suppliers and vendors. The SA8000 is developed by the Social
Accountability International (SAI), which is a non-profit organisation. The SA8000 is based on the International Labour Organisation’s conventions as well as the UN’s conventions of the rights of a child and the Universal Declaration of Human Rights. (SAI, 2006)

The Global Compact was created by the United Nations and aims at an increase of human rights, better labour standards, better environment and less corruption. The Global Compact is based on ten principles relating to four aspects; Human rights, Labour standards, Environment and Corruption. (UN Global Compact, 2006) The ten principles of the Global compact can be found in the Appendix.

2.4 Competitive Advantage

To answer the question whether the supplier or buyer can gain any competitive advantages from working with CSR we first need to know what competitive advantage is. Furthermore we need some information about what kind of competitive advantages that can be gained from working with CSR.

2.4.1 Competitive Advantage in General

According to the Competitive Advantage model of Porter (1985), a competitive strategy takes offensive or defensive action to create a defendable position in an industry, in order to cope successfully with competitive forces and generate a high Return on Investment (ROI). According to Michael Porter, the basis of above-average performance within an industry is sustainable competitive advantage.

There are three basic types of competitive advantage; Cost leadership, differentiation and focus. Cost leadership means that a firm try to become the low cost producer in its industry and it is often achieved through economies of scale. It is often disastrous if more than one company try to achieve cost leadership. Differentiation means that the firm is trying to be unique in its industry along some dimensions that are widely appreciated by buyers. A differentiator can not ignore its cost position. In all areas that do not affect its
differentiation it should try to decrease cost and reach cost leadership. In the differentiation area the costs should at least be lower than the price it receives from the buyers. The third way to reach competitive advantages according to Porter (1985) is focus. Achieving focus means that a firm sets out to be best in a segment or group of segments.

Another view on competitive advantage is in Treacy and Wiersema’s (1995) value disciplines operational excellence, product leadership and customer intimacy. Any company must choose one of these value disciplines and consistently and vigorously act upon it.

The company works with an operational excellence strategy when they have superb operations and execution. The company is probably providing reasonable quality at a very low price through high efficiency and streamlined operations. Most large international corporations are operating out of this discipline where focus is on supply chain management and a high level of measuring systems is always present.

A company that are focusing on innovation and brand marketing are following a product leadership strategy. These companies are often in a very dynamic market and the overall focus is on development, innovation, design, time-to-market (TTM), and to have high margins in a short time frame. This strategy often demands a flexible corporate culture.

A customer intimacy strategy focuses on customer attention and service. The company modifies their products and services to individual needs and their product variation is large. It is important that a customer intimacy strategy centre delivery time above customer expectations, reliability and closeness to customer.

The Value Disciplines model is quite similar to the three generic strategies from Porter. However, there is at least one major difference. According to the Value Disciplines model no discipline may be neglected. Porter (1985) means that if you are trying to focus on both
cost leadership and differentiation, you will get “stuck in the middle” that will give a negative effect.

2.4.2 Competitive Advantage through CSR

Competing theory explain how changing rules within an industry sector or a strategic group can change the competitive field. Companies, which anticipate these changes and adapt their strategy, accordingly will be able to realize competitive advantages. If they don’t act existing competitors or new market entries may take the opportunity. Hesitant firms risk also losing market share to an unexpected substitute product or changes in consumer behaviour. Competitive opportunities from the transformation of sustainable issues may either arise as cost advantages or as increased product quality. Furthermore firms should look out for relative advantages as well as absolute competitive advantages (Hockerts, 2001). If CSR is implemented correctly it is becoming a very important factor when a supplier is chosen by a MNC and a great competitive advantage for the supplier. (Fair Labour Association, 2004)

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<thead>
<tr>
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<th>Cost Advantage</th>
<th>Differentiation Advantage</th>
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<tbody>
<tr>
<td><strong>Relative</strong></td>
<td>Benefits Through Pro-Active Behaviour (Energy Tax)</td>
<td>Differentiation Through Environmental and Social Responsible Marketing (Fuel-Efficient Cars)</td>
</tr>
<tr>
<td><strong>Absolute</strong></td>
<td>Sustainable Improvements (Get Synergy Effects by Improving)</td>
<td>Pure Luck (Daimler-Chrysler’s Smart-Car)</td>
</tr>
</tbody>
</table>

To illustrate the concept of relative cost advantages one might consider a transformative influence that impose higher cost on all firms in a competitive field. An example of this is an introduction of an energy tax. If the firm already have a high-energy efficiency they will be less hurt of the tax-raise than a competitor.
Besides relative cost advantages firms can also obtain relative product differentiation advantages. This is easy to describe with an example where you in different parts of the world can use your advantage to sell more products. (Hockerts, 2001) The gas-prices as well as the environmental consciousness make the European market perfect for fuel-efficient cars that don’t necessary would be popular in the middle-east or North America.

Hockerts (2001) also say that there are competitive advantages that are absolute. Absolute cost advantages may emerge when a sustainable innovation reduces the cost below the level, which a company enjoys. An example of this could be where the waste disposal costs rise but the company understands that an optimization of their material flows could lead to even more reduced costs. Thus the rising disposal costs have had a discovery function. Yet even if disposal cost were to fall again this would not challenge the cost advantages achieved internally.

Absolute product differentiation opportunities arise from sustainable innovations that help to identify customer demand, which had not been understood before. The Daimler-Chrysler Smart Car was aimed for young and trendy people but was accidentally popular among older people that had a demand for a small and environmentally acceptable car. 'By accident' a new market niche had been discovered. (Hockerts, 2001)

Because of the lack of information we had before starting the project, we will try to find competitive advantages in general first, and then try to classify them after hand where possible.

2.5 The Suppliers and CSR

In many regions, environmental and social issues are the major threats to economic value and business success. Problems over public health issues linked to environmental degradation, climate change, shortages of water, continuing poverty and human rights abuses, coupled with an increase of the global population, increased consumption and
resource depletion all pose major threats to business. There have already been cases where factories having to reduce or even cease production because of lack of energy or water resources. A scenario that is unlikely to change in the near future. (United Nations ESCAP, 2005)

Efforts are now on retailers and their suppliers to improve labour standards, including reducing working hours, paying for travel expenses, providing rent-free accommodation that previously were paid by the employee. (United Nations ESCAP, 2005)

To become a first tier supplier for a big multinational company, small and medium sized enterprises (SME) have to start implement CSR to be an attractive supplier. The large MNCs around the world are constantly monitored by stakeholders to see that they focus on CSR. SMEs struggling to implement CSR will find themselves cut out of big buyers’ supply chains and are in turn less likely to implement CSR and thus find themselves competing for contracts to companies who have lower CSR standards or are eventually driven out of business. (United Nations ESCAP, 2005) In other words it is an important advantage to have implemented CSR.

2.5.1 Benefits through CSR for the Supplier

The supplier often benefit from developing a positive image and reputation. The business in the developing world move away from an audit mentality towards relationships based on trust and cooperation, companies that have an image and reputation as being good employers, environmentally conscious and ethical are going to find themselves as favoured partners. (United Nations ESCAP, 2005, UNIDO, 2002, Worldbank, 2001) The more a company is trusted then the less it is going to be audited and inspected and therefore developing a reputation of trust is going to reduce the time and money spent on preparing for audits. (United Nations ESCAP, 2005)

Organizational, product and process differentiation and innovation can result in improved competitiveness and market positioning. Good CSR practices can also lead to better access
to new markets. If the firm, for example, become certified to environmental and social standards it can become a supplier to particular retailers. (Industry Canada, 2006)

**Reduce costs through social and environmental thinking**

Suppliers can also easily benefit from direct cost savings related for example to the environment and in reductions of energy usage, water consumption, waste reduction and more efficient use of raw material. (UNIDO, 2002, United Nations ESCAP, 2005) And many CSR experts as well as CSR managers are of the view that good internal CSR through employment practices, bonus schemes, diversity initiatives etc. can increase morale, reduce absenteeism, increase the commitment of workers to the organisation and increase productivity. Human resource benefits in this case can be quite considerable when one considers the costs of training new staff and recruitment costs in labour markets. (United Nations ESCAP, 2005)

Considerable costs can also be saved through an improved recruitment and retention of workers. Where there is a shortage of labour, workers can become choosier about where they work and, not surprisingly, will choose factories where the package of benefits is highest. They will not choose factories that are dirty and unsafe or where poor wages are paid late. Therefore good CSR practices will tend to increase a company’s ability to hire good workers and increase productivity and profitability. The workers that enjoy their working environment often tend to stay longer and major reducing of staff turnover leads to a significant and valuable cost saving. (United Nations ESCAP, 2005)

**Better chances to successful financing and lasting relationships**

Engaging with CSR has a lot of benefits and one among them is that it could lead to continuity of buyer-supplier relationship and in many cases strengthening it. A better relationship leads to fewer costly audits and inspections, and less likelihood of losing contracts. A major benefit in carrying out risk reduction strategies relates to access to finance for companies of all sizes. (United Nations ESCAP, 2005) When MNCs invest in
suppliers and in their development and research they decrease the financial risk when sourcing from them. They also provide funding for basic healthcare, education, developing infrastructure and investing in technical and business training and donating equipment. (UNIDO, 2002) Where environmental and social issues are perceived as a risk by the financial sector they will be hesitant to provide finance unless they can see that potential risks are indeed being identified. (United Nations ESCAP, 2005)

Companies that can establish a reputation for good CSR practices are going to see longer-term relationships being established with their customers, bigger and better contracts and increased certainty of business in the future. Factories that have good relationships with local governments and various local regulatory authorities also have an advantage. If there are any regulatory problems, a company with good CSR practices will have a better chance to open discussions with the government. (UNIDO 2002, United Nations ESCAP, 2005)

2.5.2 Obstacles for the Supplier to Overcome

Managers of suppliers have limited awareness of what CSR is or of the external drivers that are pushing CSR along supply chains. Although they are often faced with codes of conduct from customers but they regard them as no more than an instrument of compliance. Managers and owners often do not fully understand the demand coming from the stakeholders of their customers and therefore do not fully recognize the importance of CSR to them. There are however some suppliers that understand the importance of CSR but they do not know how to implement it. The lack of knowledge of benefits from implementing CSR practices is also a problem. (United Nations ESCAP, 2005)

Costs

Managers often see CSR as a compliance issue and the absolute minimum is done to adhere to the codes of conduct. Managers and owners of suppliers point out that they face tighter margins with rising wages, material and energy cost through CSR. They also complain that their customers put even more demands on them to improve workplace
practices, health and safety, environmental performance, etc. but they don’t get any help from them. (United Nations ESCAP, 2005)

The so called straight-jacket effect is also a massive problem for the suppliers. The MNCs demand, “Please improve your workplace condition” but also “meet our contracts or else!” and the supplier receive little help with training and funding. According to the managers, the question of shared responsibility needs far more attention. (UNRISD, 2006) Our view is that mutual insight and financing of CSR issues are needed and the relation between buyer and supplier has to be better.

**Lack of Human Resources and Inefficient Management Systems**

Managers of the suppliers say that they don’t have enough personnel and managers to handle the CSR issues. This is somewhat a problem because the managerial styles of these suppliers are often oriented around problem solving and “fire-fighting” instead of building of good systems and procedures. It is natural that in an organisation that is operating, for much of the time, in almost crisis mode, CSR is not high on the agenda. Many suppliers are still using outdated, inefficient production lines and they are of the view that it is simply cheaper to hire more workers than invest in better and more efficient technology. (United Nations ESCAP, 2005)

United Nations ESCAP (2005) also say that lack of communication between different departments, inefficient and unproductive management systems, lack of qualified staff, and under qualified consultants and experts puts the suppliers in an awkward situation, even if the managers are aware of CSR.

**Cheating and Corruption**

Many suppliers say that they cannot do business and make a profit and at the same time follow all the rules, regulations and codes of conduct. It is therefore very important to understand that suppliers simply cannot do business without cutting corners. In this
respect, there have to be some sort of dialogue as to what can and cannot be achieved and there has to be a debate about the balance between supporting and encouraging business with suppliers and the full adoption of CSR codes of conduct. (United Nations ESCAP, 2005)

In many locations suppliers complain that they are constrained by corruption in the supply chain. This often comes from dishonest regulators or government officials who expect to be paid fees and bribes to make life easier for companies. Sometime, of course, it is easier for a supplier to pay the bribe rather than have to go through the process of fully complying with regulations and other requirements. Corruption is often systematic in some supply chains and in some locations. The government official makes it clear that they want a share of any money changing hands over a new contract or business venture. Suppliers do often not have the sufficient power or influence to tackle the problem alone. (United Nations ESCAP, 2005)

Table 2.2: The supplier's benefits and obstacles through CSR.

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<tr>
<th>The Suppliers and CSR</th>
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<tr>
<td>Benefits to Gain</td>
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<td>Positive Image and Reputation</td>
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<td>Better Access to New Markets</td>
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<td>Reduce Costs</td>
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<td>Lower Employee Turnover</td>
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<td>Easier Financing</td>
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<td>Long-Term contracts</td>
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Bergelin & Westinsson 2005
2.6  The Multinational Companies and CSR

“... sustainable development builds the platform on which business thrives and society prospers. Indeed, within the Royal Dutch/Shell group we have an absolute conviction that sustainable development is the fundamental driver for our own long-term business success”

-Sir Mark Moody-Stuart of Shell in Financial Times 1999

The business case for CSR differs from firm to firm, depending on a number of factors. These include the firm’s size, products, activities, location, suppliers, leadership, and the reputation of the firm but also the reputation of the sector within which the firm operates. Another factor is the approach a firm takes to CSR, which can vary from being strategic and incremental on certain issues to becoming a mission-oriented CSR leader. The introduction of CSR is particularly important for organizations with high-value or untrustworthy brands as companies in the tobacco or oil industry. (Industry Canada, 2006)

We will present what kind of benefits and obstacles that can be reached for the MNC. These benefits and obstacles will later be used in the analysis to compare with the empirics.

2.6.1  Benefits through CSR for the MNC

By investing in CSR both the government and the local community will get a positive view of the corporation and it will lead to better placements of company plants, reduced risk of community opposition, more favourable permitting terms and eco-efficiencies that benefits directly to bottom line profitability and measurably increase shareholder value.

CSR can also boost factors that drive revenue in important ways. CSR initiatives and marketing could build reputation and goodwill among suppliers and customers.
Employees who in some ways are identified with a social mission are likely to be motivated, committed and more prepared to make sacrifices as a team member. (CSR Singapore Compact, 2005)

The MNCs have the power to outsource production and pass the costs of necessary improvements down the supply chain to their suppliers while gaining the reputational benefits from the improvements. The multinational companies and market leaders are then in the best position to make commercial gain from their CSR stance. (Fair Labour Association, 2004)

Investors and the capital market both have a decisive impact for companies. The growing awareness of sustainability has increased the investments in sustainable development projects, so called Social Responsible Investments (SRI). (Löhman & Steinholtz, 2003)

“Finance is going to be the strongest driver in the CSR-development for the next five years”
-Simon Zadek, President of AccountAbility (2003)

Arthur D. Little (2003) means that investors traditionally have been portrayed as having little interest in the non-financial aspects of business management. Today, the investment community are more likely to regard Corporate Responsibility as a substitute of the “quality of management” of a company and as evidence of the link between good corporate citizenship and good financial performance. Few investors can afford to ignore this aspect of business behaviour.

An investigation done by the Business in the Community (2001) concluded that investors are increasingly considering a company’s social and environmental performance. Over half of analysts and two thirds of investors now believe that a company who works with their performance in this area is attractive to investors. Nelson (2001) says that 86 percent
of institutional investors across Europe believe that social and environmental risk management will have a significantly positive impact on a company’s long-term market value.

An obvious conclusion to the above stated point-of-views is that corporate responsibility is a key factor in helping companies’ access capital.

2.6.2 Obstacles for the MNC to Overcome

The Canadian Industry (2006) points out the importance of backing from the firm’s leadership for a successful introduction of CSR strategies. They also say that the strategy has to be based on the values of the firm but benchmarking of other firms already that have developed CSR strategy is also a very important step to succeed. Archie Carroll (1979) says that it is important to integrate the CSR thinking into the corporate culture. Without a successful integration of the most fundamental thoughts on CSR, a successful corporate strategy is impossible and it is in that case difficult to be seen as a good citizen.

Lenssen (2006) states that through the information technology advancement, firms are facing unprecedented pressures and have to cope with issues that were previously tangential to their pursuit of profit. This means adopting policies and strategies that take CSR beyond the former defensive and isolated CSR department to incorporating it across the firm as a strategic competitive advantage. The future knowledge among managers should according to Lenssen be cross-functional skills to manage stakeholder relations and evaluate the short-term trade offs of corporate responsibility and bottom line profit.

CSR is very important for the big companies that attract big medial and NGO attention. But for the small companies the business of business is still business and social and environmental issues should not, according the author, be in focus. This can conclude that until today, implementation of CSR strategy into the core business of the corporation is mostly important for well-known multinational companies. (Handy, 2002) This is a problem because if the companies that are big enough to make impact on prices don’t get
any medial attention, they will have lower production costs and compete with different rules than the bigger companies.

CSR implementation is essential for the company and that an increase of revenues drives corporate strategy. Customers, businesses and households are the ultimate reasons to corporate revenues by deciding what products to buy and what prices to pay. If the CSR movement can effectively reach and influence the purchasing decisions of the critical mass of customers, it can make socially responsible business practices profitable, and even essential, for corporations. (Hickie et. al 2005)

We believe that CSR is important for all companies but probably more important for big companies when it comes to minimizing the risk for bad publicity. We agree with Handy (2002) and Hickie et. Al (2005) that CSR is important for both small and big MNC’s but because of the big medial interest for bigger MNC like NIKE or IKEA, it is even more important for them.
Table 2.3: The multinational company's benefits and obstacles through CSR.

<table>
<thead>
<tr>
<th>Benefits to Gain</th>
<th>Obstacles to Overcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive Government and Local Community</td>
<td>Implementing CSR in the Corporate Culture</td>
</tr>
<tr>
<td>Better Reputation and Good-will</td>
<td>Bad Publicity through Medial Attention</td>
</tr>
<tr>
<td>Commercial Benefits</td>
<td></td>
</tr>
<tr>
<td>Easier to get Investments</td>
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</table>

2.7 Synthesis of the Frame of Reference

The relation between a supplier and the buyer has always been complex. To reach agreements that are win-win situations and to work with long term contracts are very difficult and affected by a lot of stakeholders and pressures.

There are many stakeholders that try to make impacts on both the supplying company as well as the buying. Both companies have shareholders, employees, other customers, and other firms that are influenced of the decisions made and they all should in one way or another be pleased. These are all external forces that every company in the world has to deal with if they are thinking of sustainability and long term success for the company. The organisation of the company has to deal with these pressures in the right way to reach agreements that make profit for the company and share dividend to the shareholders but
also pleasing customers, NGOs, employees and the final customer. And to be a long standing international player you also have to be a good citizen and have an integrated CSR philosophy that minimizes the risk of bad-will for the company but also increase the end-buyers view of you as a company that take care of the supplier and other issues for a sustainable development in the world.

There are different ways in which the CSR relation develops. The pressure could be either from the buyer, who demands implementation of CSR. It could also be the supplier who themselves work proactively with CSR but it could also be a NGO that externally pushes for CSR-awareness. The relationship between the buyer and supplier is affected by CSR when it comes to technical, commercial and communicational activities.

The best relations are the ones that are long term and where both the buyer and the supplier make a fair profit. When it comes to CSR, which is nowadays an important part of any business relation there are both obstacles to overcome and benefits to be gained. Obstacles are often money that has to be invested for both the multinational buyer and the local supplier. But the CSR relation between the two parties could, if all other criteria like price and quality are reached, be the crucial part that makes the deal go through. The awareness of CSR in both organisations is fundamental to reach any kind of agreements.

Benefits from CSR are often bilateral and often ends up in improvements for the supplier through better reputation, and advantages towards competitors. The benefits from such a relation for the multinational buyer are more productive suppliers and long-term contracts, as well as minimizing the risk of bad-will through bad publicity.
3 Analysis Model and Focused Research Questions

This chapter will present the Analysis Model based on the Frame of Reference. To further clarify how the model will be used it will be broken down into focused research questions.
3.1 Analysis Model

The literature chosen in the previous chapter can be summed up as an analysis model. This model will be used to answer our purpose, which is to “Explore and explain how the Vietnamese manufacturers and their international customers can manage the demands on Corporate Social Responsibility.”

First of all we want to be able to explain how the Vietnamese suppliers started working with CSR, to do this we will use the theories about the different categories of CSR to be able to tell whether it was the MNC, an external force or they themselves that started it. To be able to decide who the external forces might be we will rely on the stakeholder theory. The CSR cycle will be used to examine why the issue of CSR was first raised.
Secondly, we will look at the relation between the MNCs and the suppliers when it comes to CSR. We will use the Pyramid of CSR to decide to what extent the different companies are working with CSR. Furthermore we will examine how CSR affects the relationship in terms of commercial, technical and communicative activities. This relationship will also be affected by the level of export at the suppliers.

Finally, we will examine the effects of working with CSR. The focus will be on what benefits that can be reached and what obstacle that need to be overcome. We will focus on competitive advantages, both for the supplier and the MNC. We will try to classify the advantages based on the theory presented in the frame of reference where possible. This will also help us to give some recommendations about how the work with CSR can proceed.

3.2 Focused Research Questions

We will here present our focused research questions, which later are broken down to our questionnaire which can be found in the Appendix.

3.2.1 Who Demands CSR and How Do the Companies Deal with the Pressure?

First of all we need to know the overall CSR consciousness in the handicraft industry in Vietnam. Where do the demands of CSR come from and how do the supplier and MNC deal with the pressure? It is also important to understand how the structure of the supply chain looks like to describe the relations between the supplier and the buyer.

The focused research questions are:

- What is the overall CSR consciousness among the manufacturers?
- If the suppliers are working with CSR, why did they start?
- How is the supplier working with CSR?
- What is the structure of the supply chain for the Vietnamese manufacturers?
3.2.2 How does CSR Affect Relations Between Companies?

When getting the general picture of the state of the Vietnamese handicraft industry we will focus on the CSR issues and how the relationship between the MNC and supplier is affected by working with CSR. We will also need information about suppliers supply chains and levels of export.

The focused research questions are:

- Are the Vietnamese manufacturers exporting at the moment?
  - To whom? How much?
- What are their relations to stakeholders such as customers, employees and suppliers?
- How does CSR affect the relationship between buyers and suppliers, in terms of the commercial/technical/communicative aspects?
- What motives do the companies have to work with CSR?

3.2.3 CSR, Obstacles and Benefits

Finally, we will compare the different factories to analyse where the Vietnamese handicraft industry is at the moment concerning CSR and also give some recommendations on what needs to be done and maybe how it should be done.

The focused research questions are:

- What are the benefits for the suppliers and MNC when working with CSR?
  - What are the competitive advantages when working with CSR for both the MNC and the Supplier?
- What obstacles need to be overcome to work with CSR?
- What do the Vietnamese suppliers need to work with regarding CSR?
3.3 Delimitations

Since the purpose of our Master’s Thesis and the Frame of Reference are rather broad it has been necessary for us to do some delimitations. We have focused on the handicraft industry in Vietnam and also made delimitations when it comes to the companies’ size and location. The reason why we have chosen relatively big factories instead of handicraft villages is because the foreign buyer never has contact with those villages and there isn’t much that can be changed there. We also made delimitations when it comes to location because of our own lack of time and money to see all of Vietnam. We focused on factories in and around Ha Noi and Ho Chi Minh City.

The reason why we chose to interview top management only when visiting the different factories is that this report is about building a business case for the Vietnamese suppliers when it comes to CSR and not expose mistreatment of the workers. We believe that the only way a Vietnamese supplier can implement CSR is top-down which is why we chose our interviewees accordingly. However we always made sure that we could have a look at the factory at every interview just to make sure that everything seemed ok.

Lastly, we delimited the relationship between buyer and supplier to only include MNCs at the buyer side in the Frame of Reference. This is mostly because of all the available information when it comes to MNCs and the lack of it when it comes to SMEs. We have however tried to keep the SMEs in mind when doing the analysis, conclusions and recommendations.
4 Method and Performance

In this chapter the methodological foundation, on which the study is based on, is presented. The research approach will first be discussed followed by explaining how this particular study was designed and executed and how the results will be presented. Finally the validity, reliability and generalisation of the research will be discussed.
The pre-study started in Stockholm, Sweden in July 2006. The field study then continued when we moved to Hanoi, Vietnam in September the same year. During our 13 weeks in Vietnam we collected the data needed and also executed the analysis. We finalised the analysis and the thesis in Stockholm during December.

4.1 Pre-study Phase

The pre-study was of an exploratory nature, which means that the purpose was to stage information and to give basic knowledge to the CSR-subject. This gave us an understanding of the problem that comes with CSR-issues and we could therefore start defining an aim for the master’s thesis. Our pre-study began in July 2006 when we started to formulate the problem and gather information.

In August in 2006 we went to Gothenburg to take a two-day preparatory course arranged by SIDA. Meetings and lessons on developing countries and aid was arranged in order to prepare us for working and living in a developing country.

It was difficult for us to come up with a purpose that was satisfying all our stakeholders. There were three major stakeholders in the project; SIDA, who are financing a part of the
project through a Minor Field Study-scholarship, The Swedish Chamber of Commerce (SCC) that gave us the assignment, and EKI – Linköping School of Management that are the tutors of the Master’s Thesis at the University. But with help from our tutor at the University, Jacob Rehme, our tutor at the Swedish Chambers of Commerce, Sophia Linder, and our tutor in Vietnam, August Wingårdh, we came up with a purpose that would please all stakeholders but also would give us the most interesting purpose possible.

Starting from the background and the purpose, the Frame of Reference was constructed. From the Frame of Reference the purpose could be broken down into specific research questions. Besides the construction of the Frame of Reference the pre-study phase also included continuous contact and discussions with our different tutors to always keep us and they updated with information about the DDG project and our progress.

4.1.1 The Construction of the Frame of Reference

When constructing the Frame of Reference we used books and articles related to the topics necessary to know for the analysis. We have tried to use theories that are well known and thereby accepted as reliable sources. There is of course a risk that the reliability of the sources in some cases is questionable but we are constantly critic when we choose what literature to use. It is difficult to know in which degree we have influenced the construction of the Frame of Reference but we have tried to be as objective as one could be.

When we first created the Frame of Reference we tried to see what it would lead to, both in the analysis but also the conclusions, to make it as understandable as possible. To make the reader understand both sides of the coin we have tried to always use an author with one opinion and then compare that to what other people think. In some cases there is only one reasonable opinion and in those cases we have used our common sense to describe the theory and to dismiss “unreasonable” facts. For example, CSR is an important part of the DDG project but we have still tried to present both negative and positive views
on the subject. One can say that we speak against our objectivism but we have tried to keep the Frame of Reference as neutral as possible.

4.2 The Field Study

According to Lekvall & Wahlbin (2001) the case study approach is a common way of conducting a study if the question areas are somewhat clear from the beginning. Most often interviews, surveys or observations are used as the method of data collection.

Lekvall & Wahlbin (2001) states that collected data either can be qualitative or quantitative. Both methods can be argued for. A Quantitative method, like a questionnaire for managers and other concerned respondents to fill in, would give us the opportunity to do statistical calculation of the result with help of different mathematical models. Another advantage would be that data collection would pass easily with no major obstacles. However, the case study approach is usually conducted with a qualitative method, like interviews. This is the method that we have chosen. One of the arguments for this method is that it could give us detailed and profound information. It is also flexible and will give us the opportunity to follow up ideas, reflect over the answers and ask further questions to clarify things.

The choice of method is also dependent on the researcher’s purpose. It usually goes hand in hand with the suitable analysis method. (Lekvall & Wahlbin, 2001) In this case the purpose is to get a clear overview over a specific situation and therefore the qualitative method is useful.

4.2.1 Case Selection

August Wingårdh, who is involved in the DDG-Project, selected three of the suppliers that were going to be interviewed. We ourselves selected four of the suppliers and also the multinational company and the NGO that were to be examined to get a further depth in the analysis and conclusions. The reason why we ourselves chose some of the suppliers was because the DDG-project had been delayed so they had only chosen three suppliers at
that time. We conducted our study at seven suppliers that were located from Ha Tay in the north to Ho Chi Minh City in the south.

The companies interviewed were; Artex Tien Dong Company, Bucketman, GM Workwear, IKEA International Group, International Labour Organisation (ILO), Ngoc Son Bamboo & Rattan Company, Quang Vinh Ceramic Company, Tellbe Vietnam and Thang Long Metal Wares Company. All interviews were about five hours long and were conducted on the premises of the company. The visit began with an interview with a suitable person, often the foreign market manager or a person with similar responsibility. After that the interviewee showed us the factory and how they manufactured their products to get an impression of what the conditions were like. The interviews with IKEA and ILO were made to get a more complete picture of the CSR issues in Vietnam.

### 4.3 Empirics

We have decided not to present all our empirics in the main body of the thesis. We found afterwards that some of the information gathered was not important if we were to answer the purpose of the thesis. We have therefore put the information about stakeholders, competition/marketing, relation to suppliers, and our own reflections in the Appendix. This information could be interesting for the reader to get a deeper understanding about the Vietnamese suppliers but the information is not important for our analysis, conclusions and recommendations.

### 4.4 The Quality of the Study

When conducting the analysis, it is important to ensure that the quality is satisfying. In a qualitative investigation, there are fewer methods with this purpose, than in a quantitative investigation where several statistic methods can be used. This makes it harder to control the quality. Measurement errors are divided into validity and reliability. (Lekwall & Wahlbin, 2001)
4.4.1 Validity

According to Lekwall & Wahlbin (2001) validity concerns if the method used is measuring what is supposed to be measured and if the findings is what they appear to be – meaning that the validity in a survey can be defined as the absence of systematic errors.

To deal with the validity problem, the purpose of the study has been used as a red line throughout the whole thesis. The research questions were broken down into relevant questions in the interview guides, which can be found in the appendix, to ensure that the right data was collected to fulfil our purpose. Another way of dealing with the validity problem was to assure that the respondents were aware of what we were measuring, and to send them the questionnaire in advance so they could prepare themselves. Kvale (1997) says that the selection of the interviewees is very important for the research and we made sure to find and interview the right people within the companies, depending on their experience and knowledge in the CSR-area. Finally, the thesis is based on the theories in the Frame of Reference to make sure the purpose is fulfilled.

Still, there are some possible sources of errors that could have occurred during the interviews. In many cases the respondent’s knowledge about CSR was very limited even if it was the person who was mostly involves in the issue. Therefore we had to explain to the interviewee more closely what we were looking for and after the first interviews we made some changes in the interview guide to make those questions clearer. Often the interviewee didn’t understand the long term effects of working with CSR and that was one of the reasons why we made the interview with IKEA since they have long-lasting relations with many suppliers throughout Vietnam and they can see the bigger picture. This could of course make an impact on the result of our study but we think it makes the conclusions more reliable and distinct.

The second source of error is the language problem. We never did use an interpreter since the respondents knew English but since the language is neither the respondent’s nor our
mother tongue some aspects probably were lost in translation. However, we believe that the language problem only made minor errors since we were having a dialogue with the interviewees and we could all ask for clarifications.

Another source of problem could be the culture differences and the fact that Vietnam is a developing country. The cultural differences have probably resulted in some communication problems, like for example errors in interpreting the body language. Furthermore Vietnamese people don’t like to admit that they don’t know the answer to a question because they find it embarrassing – a way of losing their faces. This sometimes caused a problem when the interviewee desperately was trying to answer a question without having an idea of what we were asking about. This was no major problem however since it was clear to us when the answers were completely wrong, most of the times we let the interviewee finish their answer and then clarified the questions so that none of us had to lose our faces.

We also believe that Vietnam being a developing country might have affected our study because three months is a too short time period to get deep enough knowledge about the current situation. The good thing though is that we managed to visit so many suppliers and got a good view of the overall situation of the people and their values and culture. Also the course arranged by SIDA, which we attended before going to Vietnam, helped us prepare for these problems.

Also we interviewed three suppliers in Vietnam with Swedish management. This could cause errors but we believe that if the results are similar to the Vietnamese suppliers they will instead enhance the validity. This is because if we get the same answers but in Swedish from people from the same culture as us we have probably overcome the language problems and cultural differences with the Vietnamese suppliers.
4.4.2 Reliability

The reliability of the study is the other aspect of the measurements errors that can occur. It has to do with if the method used is stable or not, that will say no random errors. This means that the result would be the same if the study would be done repeatedly. (Lekwall & Wahlbin, 2001)

To assure a high reliability the interview questions were asked in the same way to the different respondents and we tried to approach them all in a similar way. We also made sure to conduct the interview under relaxed conditions and in an environment that the respondents are familiar with and therefore felt comfortable. We don’t believe that we doing some changes in the interview guide would affect the reliability; actually these changes were made so that fewer clarifications were needed and that would increase the reliability of the study.

The respondents also received the same background information about the study and the project before the interview. When the suppliers were chosen they all knew who we were and why we were coming there. According to us they were all well prepared. We designed an interview guide, which was recommended by for instance Bryman (1997) to be used during the interview, and a week or so before the interviews we sent an e-mail to the interviewees with the main topics. By doing this, the interviewees could prepare and look for information that they didn’t have. Also they had the possibility to ask us questions before the interviews, which happened to us a couple of times. This was a way for us to improve the quality of the answers.

We have done all we can to ensure that the interviews and the answering process have been done under similar circumstances and with that an increased reliability. As interviewers, we also tried not to influence the answers and stayed as neutral a possible. Also, to make sure we didn’t influence the respondent or that we were influenced we took turns asking the questions while the other person was making notes and making sure that
all questions were answered. Furthermore we also recorded all interviews so if we had different interpretations of the answers or something was unclear to us both we could later listen to the recordings. The only exception is the visit at Thang Long Metal Wares when we were a part of a big formal delegation. These answers were probably not as reliable as the ones that we got when we interviewed the other companies in person. We have, because of this, not concluded anything from this interview only to ensure the reliability of the thesis.

### 4.4.3 Generalisation

The focus in our thesis is the relations between any multinational company and the supplier. When we say supplier in our report, we mean a supplier in Vietnam. But we believe that this thesis is general for suppliers in any least developed country. So whether you look at Vietnam, India or Congo the conclusions should probably be the same, except that in the different countries there are different laws and also cultural differences. And when it comes to MNCs they are more or less the same geographically since they are multi-national. However there are probably differences when it comes to different lines of business both for MNCs and suppliers. Furthermore, most of the companies involved where already working with CSR in one way or another and the results would probably look a bit different if we would have interviewed more suppliers that don’t follow codes of conduct.

CSR is a pressing issue and everybody is talking about it. At the same time it is an area that is very large with many stakeholders involved both in the theory and in practice. Every point of view is interesting but in a masters thesis we have focused on the supplier. To understand the factors that are important for successful CSR for the supplier, you have to understand how other stakeholders are affected and how they affect the supplier. The result of this is that you often recognise factors that are common for different stakeholder. So the conclusion is that whichever stakeholder you put your focus on there is always a relation between them and much of our research is probably applicable to other stakeholders than the MNC and the supplier.
This chapter will present the seven suppliers that were visited; the focus will be on CSR related issues but other information will also be presented in order to get a better understanding. Furthermore a multinational company, IKEA has been studied and also a nongovernmental organisation, ILO. The facts are based on interviews that will be presented in the appendix. Some of the Empirics have been moved to Appendix because of the negligible contribution to the Analysis and the Conclusions.
5.1 The Suppliers view on CSR

Here, the seven suppliers that we interviewed will be presented. The results from the interviews are presented in the same way to get a distinct structure. In the end these interviews will be synthesised in text and a table.

5.1.1 Artex Tien Dong Company LTD

Artex Tien Dong is a private company owned by Mr. Pham Quoc Khanh who also is the general manager. The company was established 1995 as a trading company but is now also manufacturing its own handicraft products. They specialise in furniture and household products in bamboo, laminated bamboo and rattan and all products are exported to foreign markets. The company’s strategy for the future is to keep manufacturing the same products and grow bigger. The person interviewed at Artex Tien Dong was mainly Mr Vu Duc Tuyen who works at the Marketing department since three months.

Artex Tien Dong has a hierarchical structure with the general manager on top followed by the managers for the five departments; planning, accounting, personnel, marketing and exporting. Decisions are made by the general manager together with the department managers. The company is the biggest manufacturer of bamboo and rattan handicraft products in Northern Vietnam and employs between 3-4000 persons, both office staff and workers where the office workers usually have a university degree.
CSR

At Artex Tien Dong, the interviewee doesn’t recognise the term CSR but when explaining its meaning he understands and thinks it’s important to work with those issues. At the moment the company is mainly working with supplying a safe working environment and insurance cards for their employees. Furthermore, the interviewee isn’t sure what a code of conduct is but when the term is explained he agrees that they have a set of rules that needs to be followed. The rules include providing fresh water for the workers and having breaks.

Since Artex Tien Dong is one of IKEA’s suppliers they are working with CSR even if they don’t recognise the term and are also following a code of conduct – the IWAY. It was IKEA who introduced them to the IWAY and demanded that they would follow it. Normally the customers don’t require a code of conduct but some customers require even higher standards then level three of the IWAY which the company is certified for. It is the personnel department that are responsible for the company adhering to the IWAY.

The interviewee mainly sees benefits in following the IWAY. For example better understanding and cooperation between the employee and employer. He also sees higher effectiveness and thinks that working with CSR gives mutual benefits to the company and the worker. By following the IWAY the company has been able to meet world-wide standards, they are more environmental friendly and their products have a higher quality.

Internationalisation

Since Artex Tien Dong started as an exporting company they have never been selling their products on the domestic market. The reason why the company is exporting its products is because bamboo and rattan will rot in the high moisture in countries such as Vietnam and the decision was the owner’s. The company started it’s internationalisation by looking for potential customers, regardless geographic location, on the Internet but they have also received help from the government, especially the ministry of trade and the Vietnamese
Chamber of Commerce and Industry. At the moment Artex Tien Dong exports their products to Europe, Russia and the US.

As their primary marketing channel the company started out by using their website but as the company has been growing they use word of mouth and reputation a lot. They also think that the fact that they are a supplier of IKEA is very good for improving their reputation.

Artex Tien Dong sells both individual and generic products to their customers; it all depends on the customer's demands. If the customer has a sample product that they want made the product will be made individually to that customer. Sometimes the company collaborate with foreign customers opening up a representative office in Vietnam but they have no cooperation with domestic Vietnamese companies.

When it comes to exporting the company thinks that the biggest problem is the competition among the Vietnamese companies, both locally and nationally. Also it is hard to satisfy all the demands of the customers.

**Relationship to customers**

Artex Tien Dong has three larger customers; INGKO, William Connors and IKEA where IKEA is their biggest and most important customer and stands for USD 5-10 millions of the company’s turnover. The company wants close and long lasting relationships with their customers since they think is good for both. The reason why the company has been chosen as a supplier to these companies is because the company meets the customers’ demands regarding the price, quality and safety of the products.

When communicating with their customers Artex Tien Dong mainly uses email but sometimes the customers come to visit them.
Staff and Environment

According to the interviewee the minimum age for working in a factory is 16 years and this is required by their customers. The average age among the workers is between 25 and 26 years. The working day is 8 hours per day and if overtime is needed the company pays more. The average salary among the factory workers is about USD 100 per month and is equal for men and women.

Trade unions exist at the company since the company thinks that it is important to protect the workers’ rights. It is also important to have a good relation between the trade union, the workers and the general manager. Sometimes the head of the trade union is an employee of the company, sometimes not.

The company tries to work for a better environment. They have for example a process for recycling material and they also keep their near environment tidy. The IWAY has helped the company working with environmental issues but they have always been working with a good environment since it affects the workers health.
5.1.2 Bucketman

Bucketman founder Nicklas Carlsson started the company in 2004 when he left IKEA. He is the owner of the company as well as the General Manager. Bucketman’s business concept is processing steel with good quality and to a good price. They make buckets, shelves, pots and desk-pads and their strategy for the future is to get more customers, and to divide their over-head costs on more products.

There are two key-persons at the company, Nicklas and his assistant Diem who more or less can run the company when Nicklas is away. The company has 40 employees where 5 of them work in the office and 15 of them are women.

Nicklas is the one who takes all the decisions but he always discuss the issues with people that have the best skills for solving the problem. There are three different departments in the company; the customs department, the economy department and production. The level of education in the company is very low and Nicklas has taught the employees a lot by himself. 100 per cent of the products are quality checked to insure full customer satisfaction, this is done by one person but the machines are also calibrated regularly to make them more reliable and error-free.

CSR

The most important thing when it comes to CSR is to keep good and productive workers. If the level of health and salary is low, the workers will leave for another company that treats them better. Bucketman follows the IWAY and is known in the business and it
opens a lot of doors. Nicklas tries to keep the factory clean and he has got two full time cleaners.

Bucketman implemented a code of conduct from the beginning to ensure that the workers are treated well and that the working environment is safe. Nicklas are testing the machines first to ensure the safety of the workers. Implementing CSR could also according to Nicklas lead to better discipline and it also minimizes the risk of being punished by the local government. But CSR could also improve production by having a clean factory and content workers. Nicklas have a bonus system that makes the workers lose their bonus if they don’t follow the rules. An example of this could be if they don’t use their ear-protection. But Nicklas is not very harsh when it comes to take the bonus away, but sometimes he makes examples so the others understand the importance.

The interviewee thinks that the obstacles that arise when working with CSR are usually due to the government and the different permissions that are needed. An example of this is that the factory needed to pay for a licence to emit toxic wastes, only problem was that they didn’t have any emissions. In the end they ended up making up some figures so that the government could get paid. However Nicklas thinks that working with CSR definitely can improve the production, especially when it comes to orderliness and finding bottlenecks.

**Internationalisation**

Bucketman has always been an exporting company but in the beginning they also sold some products on the domestic market. The company started with manufacturing the metallic part of the IKEA desk pads which they then sold to a Vietnamese company doing the leather coating on them. Bucketman is a supplier to IKEA, which means that they have the whole world as a market. Nicklas says that he chooses customers and new customers rarely get in contact with him. But if they do, it is often because of his
reputation and friends to him. He also gets some help from old contacts that he got when he was working for IKEA.

Bucketman does not cooperate with other Vietnamese companies, however they cooperate some with a Taiwanese company that Nicklas has good relations to. The customs and corruption in Vietnam is the biggest problem when it comes to export.

**Relationship to customers**

Bucketman has got three main customers. They are IKEA from Sweden and Pou Yuin and Top Vision from Taiwan and where the two first mentioned are the most important. Most of the communication is done by telephone and email but there is some face to face communication as well. The reason why the customers buy products from Bucketman is that they can deliver what they ask for.

The relation to the customers is good but Nicklas knows that it will be difficult to reach the 10 per cent decrease in price that IKEA asks for. Nicklas says that it doesn’t matter if he is Swedish, because the multinational companies make no difference in nationality, they only care about price and quality. In Vietnam it can actually be a problem being Swedish since IKEA’s procurers are usually Vietnamese and don’t speak Swedish.

**Staff and Environment**

To work at Bucketman, you need to be 18 years old and the average age is about 32. Nicklas thinks that employing some people that are a little bit older makes a good mix of people at the company and it is good to have some experience. The working day is 8 hours and they only have one shift, from 8 am to 5 pm.

Bucketman pays their workers about $60 per month but it all depends on how skilled they are and if they are good and productive. The one who earns the most is the chief engineer
who earns about $690 a month. They also have a bonus system which includes a lot of criteria and it is 10% of the average salary.

All the workers are connected by a local trade union. The relation with the trade union is very good and they are educating the workers in law and environmental issues. Bucketman takes care of their workers and they also care about the environment through keeping the plant nice and tidy. Nicklas thinks that implementing a code of conduct makes the factory more productive and increases the awareness of the environment.
5.1.3 GM Workwear

GM Workwear has been in operation in Vietnam since 1991 when they first started investing in the garment industry. The company is owned by the French company Molinel and the Swedish company Blåkläder. The General Manager and interviewee is Krister Kling.

GM Workwear is specialised in production of work wear, uniforms, outdoor clothing and leisure wear. The company’s strategy for the future is to keep producing high end clothes with high quality. They are not interested in going into the fashion industry since they are too skilled.

GM Workwear is located in Vietnam, Sweden and France but all the manufacturing is done in Vietnam. The factory has departments for design, production and administration and employs about 900 workers. Among the workers about 80% are female and 20% are male. Among the workers, most of them have a high school degree in textile and among the office staff a university degree is most common. Decisions are made top-down which the interviewee thinks is sometimes a problem since he has to decide on some very small issues which the workers could have handled themselves.

CSR

GM Workwear takes CSR seriously and to the interviewee there should be no difference regarding how the workers are treated compared to a Swedish factory. The company has made its own Code of Conduct and have also a SA8000 certificate. They have also the ISO9001 and ISO14001 certificates which they think are important when it comes to CSR.

<table>
<thead>
<tr>
<th>Guston-Molinel Workwear</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner: Blåkläder &amp; Molinel</td>
</tr>
<tr>
<td>Established: 1991 (in Vietnam)</td>
</tr>
<tr>
<td>Employees: About 1000</td>
</tr>
<tr>
<td>Average Age Of Employees: 28</td>
</tr>
<tr>
<td>Salary: $161</td>
</tr>
<tr>
<td>Business: Produce high-quality clothes like work-wear, overalls and leisure-wear</td>
</tr>
<tr>
<td>Customers: Blåkläder (Swe), Molinel (Fra), Helly Hansen (Swe), Fjällräven (Swe)</td>
</tr>
</tbody>
</table>
The Code of Conduct is in line with the ILO guidelines but also point out how the company works to achieve the goals. At GM Workwear they work according to three main principles: intensive, involvement and insistence. This means that they have intensive training of the staff so that they master new techniques quickly, involvement of staff to foster creativity and provide the best service to the customers and insistence on a quality assurance process that includes measurable standards to evaluate how well the company responds to the evolving requirements of the market.

The reason why GM Workwear created its own code of conduct was to make it easier for them to show the customers that they work with CSR issues, something that all their customers’ demand. It is also easier working with an own code of conduct since no changes need to be made for different customers.

The interviewee can’t see any real benefits from working with CSR; he thinks that it is much more important to have an efficient and qualitative production. However, there are no obstacles either when it comes to CSR; working with CSR is something you have to do, both to be able to stay in business but also because of ethics. The interviewee only thinks that CSR is important when it comes to sales since all his customers demand it.

**Internationalisation**
Since GM Workwear is not a Vietnamese company they started up business in Vietnam only to export to the global market. In 1991 they rented an old garment factory which they still use but they have expanded on the premises. The motives for starting up the production in Vietnam were mainly due to low labour costs. GM Workwear is currently exporting to the Scandinavian, European and Australian markets. The customers have usually different demands when it comes to sizes because the standards are different in different countries.
When starting exporting the company focused on the end customers when it came to marketing channels. At the moment GM Workwear mostly has customers which they have had long relationships with but they get some prospects from new customers and sometimes they themselves contact potential customers.

The company doesn’t collaborate with other Vietnamese companies that are active abroad but they cooperate a lot with its parent companies. When it comes to exporting and doing business in Vietnam in general the interviewee thinks that corruption is the biggest problem. One of the reasons that GM Workwear has a code of conduct and also other certificates is that they know that if they don’t follow the rules they have to bribe people to do business. But if you have nothing to hide there are rarely any problems with corruption.

**Relationship to Customers**

GM Workwear has seven big customers among them are Blåkläder, Fjällräven, Helly Hansen, and Molinel. They usually communicate with their customer by telephone or email but visits at the factory are not unusual either. Since GM Workwear only has about seven customers they think that they are all equally important since they make a lot of garments for all of them. Blåkläder and Molinel jointly own the company so the interviewee thinks that they can be a bit more important.

The reason why the customers are buying from GM Workwear is that they can manufacture clothes of very high quality; usually the customers have a life long warranty on the clothes. However the price is also important and the company works a lot with improving the production to make it more efficient. Also, the interviewee agrees, especially the Swedish customers find it much easier to deal with a Swedish person than a Vietnamese. GM Workwear thinks that it is very important to have a good relation with its customers. The relationship needs to be based on mutual trust where honesty and
educating both is very important. The interviewee thinks that this kind of relationship is most profitable for both parts in the long run.

**Staff and Environment**

To work at GM Workwear you have to be 18 years old and the average age is about 28. This is comparably high in the business and Krister is delighted to have experienced workers. At the factory they use a two shift system where they work eight hours a shift six days a week. The average salary in the company is $161 and this includes salary, two governmental bonuses if they are members of the Communist Party, social security and one meal every day. Trade unions exist but they are not used that much because of the satisfaction of the workers.

To prevent accidents and to work towards a better working environment GM Workwear uses preventive maintenance and they invest in new equipment regularly. Krister is certain that introducing CSR and other certificates into the workplace could improve the environmental status of the factory.
5.1.4 Ngoc Son Bamboo & Rattan Company LTD

Ngoc Son was founded in 1926 but started operating on a bigger scale in 1976. The owner and general manager is Ms. Nguyen Thi Phoung and the company is situated in the city of Choung My in the Ha Tay region, about 30 minutes southwest from Ha Noi. The person that we interviewed is the foreign market manager and her name is Ms. Tran Thi Liên.

<table>
<thead>
<tr>
<th>Ngoc Son Bamboo &amp; Rattan Company LTD</th>
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</thead>
<tbody>
<tr>
<td>Owner: Ms. Nguyen Thi Phoung</td>
</tr>
<tr>
<td>Established: 1926</td>
</tr>
<tr>
<td>Employees: About 300</td>
</tr>
<tr>
<td>Average Age Of Employees: 25</td>
</tr>
<tr>
<td>Salary: $60</td>
</tr>
<tr>
<td>Business: Produce Rattan, Bamboo, Sea-grass &amp; Fern Handicrafts</td>
</tr>
<tr>
<td>Customers: Barotex (Vn)</td>
</tr>
</tbody>
</table>

The company is specialised in manufacturing handicraft articles made of rattan, bamboo, sea-grass and fern. Examples of products that they are manufacturing are baskets, trays, boxes, furniture and curtains. The company’s major strategy for the future is to be a supplier to IKEA. That will according to the interviewee increase the firm’s chances to gain a good reputation and reach foreign markets as Europe and the United States.

The company has got three departments; the domestic, the foreign, and the production/technical department. They have about 300 employees which includes both the staff in the office and the workers in the factory. The organisation of the company is made up by the General Manager on top, and then they have a Vice President and the managers of the different departments. Decisions are made by the Vice President and sometimes together with the managers of the different departments.

CSR

The interviewee is not familiar with the term but is aware of IKEA and the IWAY. The company is trying to follow the IWAY and they have a vision of doing it in the future as one of IKEA’s suppliers.
At the present there is no code of conduct that the company is working after because there are no customers demanding it. The interviewee says that their buyers only care about the price and the quality. The company are trying to be human and start to care more about the workers. The workers in the factory now have a social and health insurance through the company and they are funding some charity for the local community in the form of money to old and poor people. The company also have some rules that they follow which includes a salary-system where the workers only work 8 hours a day, from 8 am to 5.30 pm, regulated by government law. The workers are punished by a salary-cut if they don’t work hard enough and get rewarded if they work better than expected.

The company believe that they could benefit from CSR in many ways: The workers would increase their salary, the work environment would be better, the structure of company would be better and more professional through bigger and more effective management, and the price of the products would decrease through higher effectiveness. Their ideas are about these benefits are from what they have learnt in about the IWAY.

The company also think that CSR could be important when marketing but the company is relatively small and reputation is very important. The best advertisement would be to become a supplier to IKEA.

**Internationalisation**

The company has been on the domestic market for 30 years but five years ago the General Manager decided to change strategy. For the last five years they have increased their share of export by 10 % per year. At the moment they are exporting 50 % of their products and their vision is to be an exporting company only. When they started exporting they were using a trading house but now they sell directly to customers because they earn more by doing it.
The company is right now on the Korean, Japanese, American, and European market. They want to expand on the American and European market where the customers demand higher quality products to a higher price. On the Korean and Japanese market they demand low quality products to a low price but in big quantity.

The company mainly uses internet for marketing but they also get contracts through reputation, partners and friends. The biggest problem when exporting is the communication and to keep the prices low when material costs go up through scarce resources.

**Relation to Customers**

On the domestic market the company have two big customers, Barotex and Haprosimex, and on the foreign they have about 10 main customers situated in Korea, Japan and America. The relationship with these customers are long term and very good and they often comes to Ha Noi to visit the company. Otherwise they communicate through telephone, email and fax. The reputation and experience is very important for getting contracts.

**Staff and Environment**

The minimum age for working in the factory is 18 years and the average age in the factory is about 25 years. The average salary is $60 per month. But there is a bonus and punishing system that can make the workers earn more or less. The salary also it depends on how old the workers are and what they do. There are no trade unions right now but with the IKEA IWAY it is compulsory with a trade union. The company hopes to start one next year.
The working environment in the factory is good and the facilities are newly built in 2004 with modern equipment. They have a lot of certificates and according to the IWAY, ISO-standards are compulsory.
5.1.5 Quang Vinh Ceramic Co LTD

Quang Vinh started their business in 1994 and the general manager is Ms. Hà Thi Vinh. The interviewee's name is Le Ngoc Minh and she is Vice Director at Sales and Marketing. The business concept of the company is to manufacture ceramics and in particular hand painted vases and pots. They will continue to do this in the future but they will try to find partners in other countries to improve their sales and get a more constant demand. They are exporting 90 per cent of their production and sell 10 per cent to domestic trading houses.

The company has two factories, one with about 150 workers and the other one with about 380 workers. The office employs about 20 persons and most of them have a university degree and some of them a master’s degree. There are 80 per cent women in the company and the reason is that in the area the men often work in the coal mines. The company has got one director and two vice directors, one in sales and marketing and one in production. They have four departments; finance, production, quality, marketing, and training.

The quality of the products is very good and regulated by the ISO 9001:2000 standards. The staffs that are controlling the quality are highly skilled in their particular area. The company customize their products and they also hand paint them. These are two big differences from competitors in for example China where the assortment are more standardised and more atomised.

<table>
<thead>
<tr>
<th>Quang Vinh Ceramic Company LTD</th>
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<tbody>
<tr>
<td><strong>Owner:</strong></td>
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<tr>
<td><strong>Established:</strong></td>
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<tr>
<td><strong>Employees:</strong></td>
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<tr>
<td><strong>Average Age Of Employees:</strong></td>
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<tr>
<td><strong>Salary:</strong></td>
</tr>
<tr>
<td><strong>Business:</strong></td>
</tr>
<tr>
<td><strong>Customers:</strong></td>
</tr>
</tbody>
</table>
CSR
The company understand that CSR is very important because the customers ask for it. They comply with IKEA’s IWAY and the other companies have similar codes of conduct that they have to follow. The good thing is that the company’s codes of conduct all look similar and there are small differences. The company feel that they are taking care of the workers and the local community. They care for the environment and an example of this is that they now use gas instead of coal and wood to burn the ceramics, a more expensive alternative but it also improves the quality of the products. The workers get insurance and good food at work and the local community are sponsored through aid for poor and disabled people.

The company understand that CSR is important to get orders but also to improve the quality of the company. They treat their workers well to make them more productive and to get them to stay longer. They also see that the workers feel comfortable with the insurance and they think that a happier person can paint six or seven vases instead of five. But at the same time is it expensive for the company to pay the insurance and invest in machines that reduce the dust in the factory or change from coal-hardening to the more costly alternative of gas.

The customers all have almost the same demand on CSR but in different aspects they act in different ways. For IKEA large quantities to low prices are important while the American buyers often buy in smaller quantities but to a higher price. This means that the company sometimes have to say no to an order from IKEA. IKEA sometimes demand 80 per cent of the production but the company try to take orders that occupy about 30 per cent of the production capacity.

Internationalisation
The company started to export in Laos and Cambodia. The owner started in small scale and went by herself in a truck over the border with the merchandise. In 1990 they got an
order to make the ceramic balls for the World Cup in Italy. The company went to the US for the first time in 1998 where she opened an exhibition centre with a Vietnamese partner. An important factor in the beginning was the good relationship with the government when private companies were forbidden. The profits were also much higher in the past when the competition was finite.

Quang Vinh is selling in many markets like the Japanese, Swedish, American, Spanish, German, Taiwanese, and Korean. They are not satisfied with this and they want to expand to new markets to balance the orders and have a constant demand to get enough work for the workers. They don’t have any chance to expand in the present facilities so they also have to think about what they should do if they want to increase production. The orders often come very irregularly and IKEA has not placed an order for two years.

The Company customise their products for different markets and the differences in products are relatively big. There is a big difference and taste on for example the European and Japanese markets. In Japan they like their historical motives, in France they like flowers and in the north they like black, white and grey. The customers, like IKEA, often bring their own design but sometimes the customers look in the showroom and decide what they want with small modifications.

In the beginning the owner made all the marketing by herself but today they use the internet but also exhibition fairs. They cooperate with the Vietnamese Chamber of Commerce and Industry and also some Vietnamese embassies around the world. Competitors to customers sometimes also come and visit them and place orders.

The design is the hardest thing when it comes to exporting. The tastes for different markets are very difficult to predict and sometimes they hire a foreign designer that get a commission of the sales of his design. In-house they have very good designers for techniques but sometimes they have difficulties with designs.
Relationship to customers

The company has several large customers; among them are IKEA, Wal-Mart and The Pier Distribution Centre. Since the quantities in orders vary a lot and the customers rarely reorders exactly the same product it is hard to tell who the biggest customers are at the moment. The markets where the company makes most affairs are on the US, Korean and the Japanese markets.

Most of the company’s customers have been ordering from them for years. This is important to the company since they find it hard to find new customers and think that long relations are good. Mostly, new customers come in contact with the company at different exhibitions or word by mouth. To keep in contact with their old customers the company usually sends emails asking if there is anything they can do for them. Email is how the company usually communicates with their customers but sometimes the customers also come to visit them.

The company thinks that the reason why their customers choose them is because they have customised hand-made products. Also they can take on smaller orders than their Chinese competitors since they are a smaller company and don’t use much machines. Also they are aware that they have good quality and deliver on time to reasonable prices.

Staff and Environment

In Vietnam the minimum age to be allowed to work is 15 years but you need to be over 18 to be allowed to work over time. At the factory the minimum age is 18 which, is requested by some customers. The average age among the workers is somewhere in between 25 and 30. The working day is 8 hours a day from 7.30 am to 11.30 am then the workers have a lunch break until 1 pm and work until 4.30 pm. Usually you work for six days per week but if needed the workers also work on Sundays. This only happens when
there is very much to do at the factory and the workers are free to take some other day off.

The workers at the factory are paid differently based on what they do, how long they have worked at the factory and such but the average salary is about $50 per month. The salaries can vary from $37.5 to $156. Trade unions exist at both of the factories and in the one visited the head of the union is a man working in the quality control department. The company thinks that it is important to know what their employees think so the workers are free to send emails or talk to the top management if they have any problems. They are also allowed to be anonymous if they want to.

The company thinks that the environment is important and they have changed the burning process of the clay from using coal and wood to using gas. This has not only affected the environment positively but also the quality of the products and they have fewer cassations. The gas price is much higher than the price of coal but the company thinks it is still worth it. Switching from coal to gas was the company’s own choice but after started working after codes of conduct the company has done other changes as well. They think that they get good help from working with a code of conduct because they sometimes know things to improve but not which thing that is most important. They feel that the codes of conduct can help them prioritise their work.
Tellbe Vietnam LTD was founded in 1997 as a Vietnamese company due to the laws against foreign companies. In 2000 the company was allowed to be a foreign company and changed their name to Tellbe. Tellbe Vietnam LTD is a part of the Swedish company Tellbe AB and is run by Fredrik Åberg who is the general manager. In Sweden the company has a sales department, warehousing and a small manufacturing department but most of the manufacturing is located in Vietnam.

Tellbe Vietnam LTD has specialised in processing steel to manufacture work benches, store furnishing and signs. The company's strategy for the future is to specialise even further in their production, at the moment they are quite specialised and deliver complete pieces of furniture consisting of both metal, wiring and wood but use their excessive capacity for subcontracting. Tellbe Vietnam LTD also wants to expand.

The company is made up of four departments; administration, production, quality and R & D. The person responsible for the Vietnamese part of the company is Johan Sundberg who was the interviewee. Tellbe Vietnam LTD also has its own sales department consisting of Vietnamese salesmen. The company employs 150 workers where ten of them are female. The women works in the packaging department but take no part in manufacturing since it is considered as hard work. The office staffs usually have a university degree while the workers rarely have more than six years of mandatory school and some practical courses in subjects related to what they do in the factory.
CSR

Since Tellbe Vietnam LTD is a Swedish owned company they are well aware of CSR but thinks that they first and foremost must follow the local laws and regulations which include minimum age, mandatory membership of labour unions and providing labour contracts. Labour contracts include things such as insurance and health checks for the workers but the interviewee feels that the laws are sometimes “fuzzy”.

When it comes to the customers' demands on CSR and codes of conduct there is a big difference between the Swedish and American customers. The American customers think that it is very important that the supplier is following their codes of conduct while the Swedish are never asking for it. However, price and quality are always more important, it is after those are accepted that CSR is brought up and audits are made. Tellbe Vietnam LTD doesn’t think that there are any problems adhering to different customers' codes of conducts since they are basically the same.

The greatest benefits from working with CSR is that the employees conditions are improving since this lowers the employee turn-over and also increases the quality and productivity according to the interviewee. This is mainly because that the workers can actually see what the company is doing for them and to appreciate it. Johan also thinks that it is important to show the workers appreciation in other ways, for example they sometimes go out to eat or go bowling.

The obstacles when working with CSR are mainly caused by the rigidity in the codes of conduct and the government. An example of this is that one customer's code of conduct include that the workers’ food must be delivered from a restaurant that is certified which means that the restaurant must get a health certification from the government and that is a long process. However the interviewee thinks that CSR can definitely improve the production, especially in the areas that demand motivated workers.
Another problem with working with CSR is that the workers sometimes don’t understand that it is for their own best. An example of this is that the company are supplying earplugs to the workers because of the high level of noise but the workers don’t bother using them.

**Internationalisation**

Since Tellbe is a Swedish company they started by moving to Vietnam. This happened after they bought a small factory in Sweden that employed a lot of Vietnamese people and had gone bankrupt. One of the Vietnamese workers became a valuable contact and helped Tellbe to move into Vietnam. In Vietnam Tellbe Vietnam LTD started out in a small scale and has expanded during the years. In the beginning the company was only exporting to Sweden and used the Swedish sales force and the Swedish warehousing facilities. At the moment the company is exporting to Sweden, Norway, France, USA and Switzerland.

Tellbe Vietnam has primarily used their contacts as a marketing channel; they have no website but are at the moment producing a catalogue for their work benches. Their marketing efforts also include internet, fairs and agents. The interviewee thinks that being Swedish is usually an advantage because the communication is much easier with customers however he believes that there are sometimes communicational problems with the American customers. When it comes to the Americans, the company usually sells to agents in Vietnam and doesn’t have so much contact with the companies in USA.

Tellbe Vietnam LTD doesn’t cooperate with other companies in Vietnam but believes that it is important to have good relations with other companies. The products are completely made after the customers’ demands so there is often a big difference between products in different markets.

**Relationship to customers**

Tellbe Vietnam LTD has about 25 customers where the Swedish company Luna is the biggest to whom they supply work benches. Other customers are Svenska Spel and ATG
to whom Tellbe supplies metal signs for advertising. The company usually communicates using telephone and email; some customers also come to visit the company about once a year. The interviewee thinks that the reason why many of the larger customers are Swedish is because of him being a Swede which makes communication much easier and the customers to feel more at ease.

Tellbe Vietnam LTD thinks that it's important to have long lasting relations with their customer since they want to specialise in labour intensive specialised products because that is how they can take out premium prices and that needs a good relation with trust.

New customers come in contact with Tellbe by the sales force in Sweden and Vietnam and also by contacts and different export agents.

**Staff and Environment**

The minimum age for working at the factory is 18 years and the average age among the workers is about 25 years. The working day is 8 hours long and the company also provides free lunch for its workers.

The workers are getting paid on average $100 per month and the salary is based on skill and years at the company. The minimum wage in the Saigon region is according to the interviewee $50 per month but this varies between different provinces in Vietnam.

In Saigon, trade unions are mandatory but the interviewee thinks that the trade union has a low influence on the factory and has never had any problems dealing with them. When it comes to the environment the interviewee thinks that the factory doesn’t do much impact on the environment but thinks that CSR can improve some things since it is suddenly a demand to work with it.
5.1.7 Thang Long Metal Wares Company

The visit to Thang Long was done together with a delegation of people from the Swedish Embassies in Southeast Asia as part of a two-day seminar about global trade. During the visit to the factory the focus was on CSR and we could get some of our research questions answered.

<table>
<thead>
<tr>
<th>Thang Long Metal Wares Company</th>
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<tbody>
<tr>
<td>Owner: The Government</td>
</tr>
<tr>
<td>Established: 1969</td>
</tr>
<tr>
<td>Employees: About 7500</td>
</tr>
<tr>
<td>Average Age Of Employees: 25-30</td>
</tr>
<tr>
<td>Average Salary: $100</td>
</tr>
<tr>
<td>Business: Produce Metallic Household Utensils and Automotive Parts</td>
</tr>
<tr>
<td>Customers: IKEA (Swe), Honda (Jap)</td>
</tr>
</tbody>
</table>

Thang Long is a stately owned company and was established 1969. The company specialises in manufacturing metallic household utensils and machine parts and has five different factories located in Hanoi and Ho Chi Minh City. The company has had an average product output growth of 30-40% per year during the past few years and they expect to keep growing.

The head of the company is the Company Director who attended the seminar. Below him are the investment director and the production director. Together they are in charge of the 12 different departments; Human Resources, Advertising, Technology, Electro mechanic, Design, Investment, Planning, Retail/Sales, Materials, Finance, Security and Administration. The company employs more than 7500 workers where about 300 of them have a master degree and 500 have college degrees.

CSR

Since the focus on this visit was on CSR we could collect some data to our research. We are not sure whether the term CSR is familiar to the company since it is one of IKEA’s suppliers and IKEA had helped arranging the visit. They were however following the IWAY and were at the moment at level 2. The company also has other foreign customers...
but follow the IWAY for all of their customers since it fulfils all the customers’ demands and the company also thinks that it is a very good way to work. Thang Long Metal Wares Company thinks that is important to provide a safe working environment and increase the living standards for their workers.

By following the IWAY the company says that the workers are more motivated and also the staff turnover is low, usually you only quit the job for retirement.

**Internationalisation**

Thang Long sells both to the domestic and to the international market. They have also set up joint manufacturing together with international partners such as Honda.

**Relationship to customers**

Thang Long has several international customers such as Honda and IKEA where IKEA is their largest customer and stands for about 50% of the company’s turn over. IKEA has been a customer to the company for over ten years so they have a long relation to them.

**Staff and environment**

The minimum working age at the factory is 18 years and the maximum amount of working hours are 60 hours per week and you must have one day off per week. The factory runs three shifts, from 6 am to 2 pm, from 2 pm to 10 pm and from 10 pm to 6 am. They have also introduced workplace rotation to keep the workers motivated and coffee breaks to give the workers some time to reenergise.

The salary of the workers is dependent on their product output but the average wage is about USD 100.
5.2 The MNC’s view on CSR

To get a better understanding of how the MNCs regard CSR and work with it, we interviewed Jan Ahlsén at IKEA’s trading office in Hanoi.

5.2.1 IKEA International Group

<table>
<thead>
<tr>
<th>IKEA International Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner: Mr. Ingvar Kamrad</td>
</tr>
<tr>
<td>Established: 1943</td>
</tr>
<tr>
<td>Employees: About 90,000 (2005)</td>
</tr>
<tr>
<td>Business: Retail</td>
</tr>
<tr>
<td>Turn-Over: 17,658,000 Euro (2006)</td>
</tr>
<tr>
<td>Visitors: 505,154,000 (2006)</td>
</tr>
</tbody>
</table>

IKEA has had suppliers in Vietnam for several years, but it wasn’t until 1992 that their first trading office was established there. The first office was established in HCMC and since 2002 there has been an office in Hanoi as well. The Hanoi office employs 25 persons and the HCMC office employs about three times as many. Before establishing in Vietnam all affairs were made through IKEA’s office in Bangkok.

To IKEA CSR is an integrated part of the company’s culture and they stress the importance of being a good citizen. It all sprung out of IKEA’s efforts of securing their quality in the 1980s. The reason why IKEA started working so hard with quality then was because of a Master Thesis done by a student in Gothenburg who pointed out IKEA’s products low quality. Starting with employing quality specialists IKEA also came in contact with ILO and realised that securing the inner and outer environment of the factory is not only about quality but also CSR. On top of this IKEA got some bad publicity about working conditions which made IKEA take on the highest standards of all countries. IKEA wanted to secure a sustainable future both locally, globally and for themselves since as they see it: “CSR is not only about escaping bad publicity or doing good, it has become the company’s only way to survive and be able to grow in the future”.

The Development of the IWAY

In 1999 IKEA introduced two concepts; Forest tracing where IKEA secured that the wood used in their products came from sustainable resources and the IWAY. In the beginning IKEA needed a lot of internal education so that everyone would have the same idea about the concept. When IKEA first introduced the IWAY to their suppliers they didn’t give them a list of specific demands, instead they asked questions like; how do you handle your toxic waste? If the answer wasn’t in line with IKEA’s policy they told the supplier to think about it and what they could do to improve the situation. This was done because IKEA wanted their suppliers to understand what they were doing and realise what it meant instead of just completing a list of tasks. IKEA thinks that is very important to plant the idea of CSR in the organisation, not only among the management but among all employees. For example IKEA have big meetings including everyone at a supplying factory about CSR and the IWAY. Another way of showing how IKEA works to plant their thoughts is that they bring a doctor to speak with the workers in a loudly factory about the dangers of working without ear protection.

IKEA has introduced the IWAY in the same way at all their suppliers in different countries and thinks that it was rather easy in Vietnam due to good existing laws and regulation. The obstacles they have met are to secure the maximum amount of time a worker is allowed to work (60 hours). This is not because of the factories demanding the workers to work more but because of the cultural differences in Vietnam. In Vietnam it is not strange to work for more than 60 hours a week and many younger people do it to save up for a house for the family. And when IKEA introduces these limitations the workers simply go to another job when completing their hours at the first factory. It is also hard for IKEA to control child labour in handicraft villages since when the children get home from school they often sit around with their family and grand parents and make, for example rattan baskets while having conversation. As long as the children can go to school and their contribution to the household is negligible IKEA allows it. Again, this is more of a cultural difference than a real problem. In India and Pakistan on the other
hand, child labour has been a big problem for IKEA because of the lack of schools, they have collaborated with the Red Cross to build schools and secured that the families are paid enough for their work so that the children won’t have to work.

**Benefits through CSR**

When it comes to benefits by working with CSR IKEA can see that quality of their products is higher and more stable and that the delivery precision is higher. For the suppliers IKEA can see that in general the order in the fabric is much higher which leads to higher effectiveness and less cassations. In specific, Artex introduces standard working hours and a uniform for their workers. That led to that all the other living in the village could see the uniforms and that they worked regular hours it was very easy for the factory to employ more personnel when needed. The factories however don’t really understand the benefits of CSR, when asked they answer that, yes, the effectiveness has increased but they don’t really know and especially not why.

Usually its IKEA that raises the question about CSR after approving the factories products, they make a judgment over the factories existing status on the IWAY and work out a plan of action. Sometimes, though, IKEA has met factories working proactively with CSR. Those factories are often exporting goods already and have understood the markets demands about CSR. IKEA, however, doesn’t care whether they have ISO certificates or any other way of proving their standards, they want the factories to follow the IWAY and they must be approved. For IKEA, the management of the company and their will to do better is very important when choosing a supplier that complies with all the other demands of IKEA like quality, capacity and price.

IKEA has noticed that there is often a difference between American and European companies when it comes to CSR in IKEA’s line of business. The European companies are similar to IKEA, they often have their own standards and they help the factories implement their code of conducts, they do audits on the factories to follow up on them
and CSR is often rooted in the corporate culture. The American companies usually buy a CSR program from an NGO and they make no audits. The supplier just signs a paper that it will adhere to the code of conduct and that’s it.

IKEA thinks that they and other multinational companies are in the front edge of working, developing and auditing CSR. In the beginning the NGO’s were a bridge between the multinational company and their supplier to help them with CSR-issues but nowadays the NGO have lesser to do when the companies by themselves develops own routines and documents for working with CSR and a sustainable future for their own company.

IKEA feels that they have a competitive advantage by working with CSR but they don’t want to put any labels or brands on their products because they think that their business is selling furniture and that using CSR as a marketing tool probably would cause more harm than good.
5.3 The NGO’s view on CSR

This interview was made with Jenny Ikelberg who has worked for ILO in Vietnam for two months. She has also done her MFS-study in Vietnam and worked in Vietnam for SIDA for a year and a half.

5.3.1 International Labour Organisation (ILO)

ILO is a non-governmental organisation who works towards governments, trade unions and employer organisations. ILO works in four areas; Human Rights, Employment, Social Dialogue and Standards. ILO as an organisation works a lot with lobbying for their work standards and is trying to get them ratified by as many countries as possible.

In Vietnam ILO doesn’t work much with pure CSR, they have different project running and one of the projects, the Factory Improvement Programme (FIP) is partly concerning CSR issues. They are also conducting workshops for small and medium sized enterprises where they are trying to promote entrepreneurship. In their different programs where Vietnamese companies are involved, it is ILO who finds suitable companies and also pays for all the costs of holding the seminars. In the future ILO is hoping that the Vietnamese companies will realise that the training is good for business and they will pay for themselves. Furthermore Vietnam is becoming less and less of a developing country and they will soon stop receiving financial aid.

An important part of ILO’s work towards SMEs is their “Job Quality is Just Good Business” which is a tool for improving the company in areas such as marketing, human resources occupation safety and health. One of the biggest problems in Vietnam however is the Vietnamese companies’ lack of planning ahead. The interviewee quotes a Vietnamese general manager when asked about what to do when ILO’s training programme is ended: “We’ll just find another organisation willing to fund us”.

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Another problem with working with issues related to CSR is that most Vietnamese companies are exporting to regions close to them such as China where CSR is not important at all as long as the price is right.
This chapter will be based on the Analysis Model and the Focused Research Questions. The starting point will be to synthesise and analyse the empirics from the interviews, then we will analyse what affects the MNCs and suppliers to work with CSR. Later we will look at the relation between them and finally at what comes out of the relationship.
6.1 Different Factors Affect the Supplier’s CSR-awareness

When collecting and compiling the data about the different suppliers we have identifies the factors that we think are most important when it comes to CSR. These factors are: level of export, ownership, category of CSR, benefits and obstacles according to the supplier and type of customers. All these factors influence the level of CSR-awareness at the supplier.

We have tried to sum up the most important information from the empirics that are of great importance for our analysis and conclusions. These answers vary from company to company so we have put the information in a table to make it explicit. Furthermore many of these factors are hard to measure as for example importance of CSR which will only be described as high, medium or low.

6.1.1 Level of Export

There are some similarities among most of the companies interviewed and one major resemblance is that they all are exporting to some extent. Some of them started directly exporting and some have evolved and are today mostly selling on foreign markets. All of the companies are also working close with their customers and all have a goal to establish long-term relations. Another similarity is that all companies are exporting directly to their customers and that they use middlemen to a very small extent.

Since the buyers often are the ones demanding CSR and the suppliers work directly with them the level of export affects the importance of CSR. The more the suppliers are exporting straight to their customers the more CSR will become important.

6.1.2 Category of CSR

Most companies are in one way or another influenced by the increasing demand on CSR. Mostly these demands come from the customers but companies like Bucketman and GM
Workwear who already had multinational customers when starting business in Vietnam are using a factory certification program.

That most companies already are working with CSR is a proof of its importance, however just obeying the customers’ demands like the buyer driven CSR affects the importance of CSR less than actually working with CSR proactively.

6.1.3 Benefits and Obstacles According to the Supplier

When it comes to benefits and obstacles we will only present the suppliers’ view in this part of the analysis. Later on we will also present other benefits and obstacles that we have come across during the research. Most suppliers don’t see any obstacles when it comes to introducing CSR, but when they do, the problems are related to costs and bureaucracy. The suppliers can see several benefits from CSR; mostly these benefits are in some way related to their employees like increased productivity due to more satisfies workers.

Since the companies mainly see benefits from working with CSR we believe that this factor is important, the more benefits you can realise the higher the importance of working with CSR gets.
Table 6.1: Factors affecting the CSR-awareness among the suppliers.

<table>
<thead>
<tr>
<th>Company</th>
<th>Level of Export</th>
<th>Category of CSR</th>
<th>Benefits with CSR According to the Company</th>
<th>Obstacles for CSR According to the Company</th>
</tr>
</thead>
</table>
| Artex Tien Dong                | 100 %           | Buyer Driven          | • Understanding between employer and employee  
• More effective workforce  
• Better environment  
• Meet worldwide standards | None                                                       |
| Bucketman                      | 100 %           | Factory Certification Program | • Improved production through satisfied workforce  
• Minimize risk of governmental punishment | • Fuzzy governmental permissions |
| GM Workwear                    | 100 %           | Factory Certification Program | • Higher sales  
• Better working environment | None                                                       |
| Ngoc Son Rattan & Bamboo       | 50 %            | None                  | • Increased salary for workforce  
• Better management  
• Better reputation  
• Lower prices due to higher efficiency | None                                                       |
| Quang Vinh Ceramics            | 90 %            | Buyer Driven          | • Improve quality and reputation of company  
• More productive workforce | • Expensive investments |
| Tellbe                         | 100 %           | Buyer Driven          | • Improved working conditions  
• Lower employee turnover  
• Increased quality and productivity | • Rigidity of codes of conducts |
| Thang Long Metal Wares         | ~70 %           | Buyer & Governmental Driven | • Lower staff turnover  
• More motivated workforce | None                                                       |
6.1.4 Ownership

All of the companies are privately owned except Thang Long Metal Wares which are governmentally owned. Furthermore the companies have no shareholders and the owner is usually also acting as the general manager. Being the sole owner as well as the general manager of a company can affect the level of CSR both negatively and positively since it up to that person whether the company should work with CSR or not. However the owners are usually very perceptive to their customers’ demands and they want to be successful. Thus, working with CSR might be the only way for the suppliers to survive and there is no one to oppose to it.

6.1.5 Customers

When a buyer is choosing a supplier, quality, price and delivery time are most important. All companies agree on this and CSR is not as important for the relation as the three above mentioned. Most of the companies are suppliers to international companies and MNCs. Being a supplier to a multinational company usually increases the importance of CSR since the MNCs get more medial attention and have to make sure that they and their suppliers follow a code of conduct. When the most important customers are domestic, the importance of CSR is lower since there is less pressure on the domestic customers.

6.1.6 CSR-awareness

The importance of CSR varies between the companies but even the companies where the importance of CSR is low; they are still working with it to some extent. The level of export combined with type of customers affects the CSR-awareness in terms of who the most important customers are. If those customers are MNCs the CSR-awareness is generally higher. The category of CSR is also related to the CSR-awareness which shows since the suppliers with a factory certification program are all highly aware of CSR. Furthermore, the more benefits you can see the more you are willing to work with CSR and vice versa.
Table 6.2: Factors affecting the CSR-awareness among the suppliers continued.

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership</th>
<th>Important Customers</th>
<th>CSR-awareness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arlex Tien Dong</td>
<td>Privately Owned</td>
<td>International IKEA, INGKO, Williams Connor</td>
<td>Medium</td>
</tr>
<tr>
<td>Bucketman</td>
<td>Privately Owned</td>
<td>International IKEA, Top Vision</td>
<td>High</td>
</tr>
<tr>
<td>Guston-Molinal Workwear</td>
<td>Privately Owned</td>
<td>International Blåkläder, Fjällräven, Holly Hansen, Molinel</td>
<td>High</td>
</tr>
<tr>
<td>Ngoc Son Rattan &amp; Bamboo</td>
<td>Privately Owned</td>
<td>Domestic Barctx, Haprosimex</td>
<td>Low</td>
</tr>
<tr>
<td>Quang Vinh Ceramics</td>
<td>Privately Owned</td>
<td>International IKEA, Wal-Mart, The Pier Distribution Center</td>
<td>High</td>
</tr>
<tr>
<td>Tellbe</td>
<td>Privately Owned</td>
<td>International Luna, Svenska Spel, ATG</td>
<td>Medium</td>
</tr>
<tr>
<td>Thang Long Metal Wares</td>
<td>Governmentally Owned</td>
<td>International Honda, IKEA</td>
<td>Medium</td>
</tr>
</tbody>
</table>
6.2 The MNCs Demand CSR

Most of the companies interviewed did not work pro-actively with CSR; instead it is the MNCs who are demanding them to as is the case with the buyer driven CSR compliance scheme. The exceptions were at Tellbe and GM Workwear where Krister Kling from the beginning introduced the company’s own code of conduct and had it certified according to the SA8000. That is a good example of factory certification scheme and it might be because of Krister’s Swedish ethics and morale but also because of his experience in factory management that he chose to do it. All of the suppliers agree that the reason why they are working with CSR is because their important customers demand it.

As for the MNC, it’s often their need to minimise risk of bad-will, in form of bad media publicity, which drives their CSR movement. From the beginning IKEA wanted to minimise risks as well as trying to repair their reputation but CSR is now in the core of the company. From the beginning nobody worked with these issues but when some companies got a lot of bad publicity, in combination with the increasing transparency due to the introduction of the Internet it is now more important than ever to work with these issues. To minimize risks and to cope with the increasing transparency are the reasons why MNCs work with CSR.

Although the NGOs and the media are the biggest threats to an MNC when it comes to bad publicity, the main stakeholder to the MNC is the end customer. IKEA believes that the most important stakeholder will always be the end customer, like the theories from Hickie et. al. but that the Vietnamese suppliers are not aware of that because of their lack of contact with the end customer. In the West it is nowadays easy to choose another brand if you know that the brand neglected is the one that doesn’t care about their workers or treat them badly. IKEA also states that it is essential for a company to have the CSR function incorporated in the core of the company for a sustainable future.
An important factor when it comes to the Vietnamese companies that we interviewed is that almost all of them are privately owned, they had no shareholders and the owner was usually the general manager. In other words, the *shareholder theory* is not applicable when analysing the suppliers. As stated by Quang Vinh Ceramics LTD, their only major *stakeholder* is the owner. So it is more or less up to the owner/general manager if the company should care about the environment, human rights or to pay a reasonable salary. The Vietnamese government however has clear rules about child labour, salary levels and laws in general but due to the extensive corruption in Vietnam we believe that in some cases the local authorities might not enforce these laws and regulations. Bucketman as well as GM Workwear say that corruption in Vietnam is a big issue and there is no real solution at hand. So if nothing is done, corruption is a part of the everyday life in the Vietnamese business.

If the buyer is big as most MNCs are, the relatively small Vietnamese suppliers have to follow the rules that the MNCs demand. In the cases where the companies had an MNC who demanded them to follow a code of conduct there was a difference from Ngoc Son Bamboo & Rattan Company Limited who did have any customers with such demands. It is also clear that different companies in different lines of businesses and countries care differently for CSR. Nicklas at Bucketman state that Wal-Mart in the US always buys from middlemen in the US who in turn buy from middlemen in Asia. This makes it more or less impossible to trace where the products being manufactured and their care for CSR could be questioned. Our research also shows that Swedish and European companies are more serious about CSR than American companies when it comes to handicraft furniture while the Americans care much more for CSR when it comes to metal products according to Bucketman and IKEA.

Furthermore, we found that the cost of implementing CSR is often divided between the buyer and the supplier and that the Vietnamese suppliers don’t mind sharing that cost as
long as the expected rewards in form of better factories and long-term relations is bigger than the negative effects in terms of costs.

6.3 CSR Evolves in Cycles

When applying the CSR Compliance Cycle to our research, IKEA and its Vietnamese suppliers are good examples of its validity. What isn’t mentioned in the frame of reference though is that this cycle takes quite a lot of time; IKEA started working with CSR in the 80s and still believe that there is a lot more that can be done. However the cycle is a good representation of the evolving of CSR with IKEA, after some bad publicity, producing the IWAY and then introducing it to their suppliers. After extensive auditing the suppliers have been awarded in terms of long-term contracts and new customers, as our research shows, and IKEA manages to protect their reputation.

However, IKEA is a good example of how CSR should be introduced and that the CSR cycle is actually accurate. If an MNC instead would use CSR only as a marketing tool and after some bad publicity uses CSR to green-wash its brand name there would probably be a punishment instead of a reward waiting when the cycle ends. If the situation at the suppliers hasn’t improved this would probably be exposed by an NGO or a journalist and more bad publicity would be produced. This is also a reason why IKEA doesn’t boast their efforts on CSR since chances are they might fail and media would pick it up.

6.4 CSR Affects the Relations between Companies

As we could see in the Empirics all of the Vietnamese manufacturers are already exporting and several of them were founded for this purpose only or wanting to export more. Mostly the suppliers are selling their product directly to the customer, direct export, but there have also been some cases of indirect export where trading houses have been used. Most companies didn’t as one could presume start exporting to geographically close locations; instead they used the Internet as their primary marketing channel and focused on finding the right customers. Most of the companies are only selling their products on
the international market which is hardly surprising since Vietnam is still a developing
country and the demand for these kinds of goods on the domestic market is fairly low.

The suppliers usually have two or three major customers; these are MNCs and the
suppliers find it important to have a good relationship with them. Most of the MNCs have
been long term customers to the suppliers but it’s rather because of high quality, low price
and short lead times than good CSR. However CSR has affected the relationship between
the MNCs and the Vietnamese manufacturers.

When it comes to the technical aspects of the relationship a good example of this is how
Quang Vinh went from using coal to using gas when burning ceramics to be more
environmentally friendly, furthermore most MNCs have their own designs and buy
custom-made products. As for the commercial aspects CSR has affected the relationship in
terms of adding clauses to the contracts, usually adding a code of conduct, that have to be
adhered to. Most suppliers are following one or another code of conduct and the MNCs
are committing audits to make sure that the codes of conducts are being followed.
Regarding the communicative aspects the MNCs are usually affected in terms of
explaining their codes of conducts. IKEA is a good example of this and how they work to
“teach” their suppliers about CSR. The suppliers are also affected since the management
has to communicate these issues to the rest of the company as in the case with Bucketman
where Nicklas struggles to make his employees wear ear protection. New lines of
communication between these responsible for CSR at the companies also need to be set
up.

When starting a new relationship the choice of marketing channel can vary as we have
seen among the suppliers, however it seems that the reputation of the supplier is
becoming increasingly important. This reputation concerns price, quality and delivery
precision rather than good CSR practice when it comes to MNCs like IKEA. IKEA, as
many other MNCs, have the power, resources and knowledge to integrate CSR into their
organisation. They can demand their supplier to work with CSR, they have the knowledge to educate their suppliers and they have the resources for doing so and also commit audits. Small and medium-sized enterprises however might not have those resources and when the pressure from media and NGOs increase as in the Clean Clothes Campaign (Johansson 2006) they will also have to deal with these issues.

In conclusion we can see that CSR affects the relationship between the Vietnamese suppliers and the MNCs but not to a very big extent. It is still quality, price and delivery time that are the most important reasons for starting and keeping a relationship. If anything, CSR makes relationship more long-term since both the supplier and the buyer are making bigger investments in the relationship.

6.5 **The Level of CSR among Buyers and Suppliers**

When applying the Pyramid of CSR to the Vietnamese suppliers there is an obvious difference between the model and the reality in Vietnam when it comes to the economic responsibilities – as mentioned earlier there are no shareholders. The private held companies are usually owned by the general manager and the public companies are owned by the state. So there are no shareholders that the company is responsible for which the Pyramid of CSR includes. There is no principal – agent problem, as Friedman when describing shareholder theory calls it, since the general manager is actually spending his own money no matter what the actions are. However the motives of the company’s owner are usually to make profit and the society expect the company to do so as well, which is in line with Carroll’s theory.

When it comes to the legal responsibilities our study shows that the suppliers’ intentions are to obey the law. However we could see as for example with Ngoc Son Bamboo and Rattan Company LTD that they did not have a trade union which is required by Vietnamese labour law. They thought that they should get one now because of the demands from IKEA, but in reality they should already have one. That is a sign of the MNCs power in these countries. Furthermore we only used the Vietnamese labour law so
we can’t tell if the companies in any other ways were breaking the law. The biggest problem with obeying the law seems to be the corruption where law-enforcing officials actually force the company to break the law by demanding bribes.

As for ethical responsibilities it is hard for us to decide the society’s norms since the Vietnamese society is very different from the Swedish. When a company contributes money to the old people in the local society it is hard to say if this is because of the ethical norms within the society or if it is good-will. However both IKEA and ILO agreed that the NGOs don’t apply much pressure to change the ethical norms.

Regarding the companies’ philanthropic responsibilities we feel that the companies have no such motives for their actions. Although, with the lack of shareholders and the cultural differences some acts made by the company might seem to be philanthropic but we reason that it’s rather the model that isn’t really applicable in this case.

When it comes to the only MNC that we have interviewed, IKEA, they don’t have any shareholders either but it is obvious that they still feel their economical responsibilities. As for the legal responsibilities they are aware that they can’t control all of their suppliers’ sub suppliers but they have implemented the strictest demands globally when it comes to CSR. Since IKEA hasn’t had any bad publicity for quite some time it seems that they have incorporated the ethical responsibilities from both the society at large and the different NGOs quite well. When it comes to the philanthropic responsibilities IKEA has for example helped building schools in India and Pakistan to reduce child labour which to us is a good reason to qualify them as a good corporate citizen.

In conclusion, we think that the Pyramid of CSR is a rather good tool to describe the current situation in regards of the practice of CSR at companies but it does not really take in to view cultural differences and lack of shareholders. The Pyramid of CSR is probably more useful to MNCs as they are more global and have lesser cultural differences.
6.6 Benefits from CSR and How to Gain Them

As we have seen earlier in the analysis the awareness of CSR among Vietnamese suppliers is low, which is probably one of the major problems at the moment. As we have noticed during our interviews and which has also been confirmed by ILO and IKEA, the Vietnamese manufacturers do not understand the long lasting effects of working with CSR and they have a problem when planning ahead.

Benefits

The most obvious benefit for the suppliers is the effect that CSR has on the employees. Most of the suppliers agree that better working conditions in terms of a higher salary, fixed working hours and uniforms all contribute to a lower staff turnover and a higher productivity. A lower staff turnover in turn leads to lower costs in training new employees and probably makes it easier to employ new workers since low staff turnover is a sign of a good employer. The higher productivity due to more satisfied workers and retention of skilled workers will obviously have an impact on the financial bottom line. Furthermore all companies were well aware of the importance of having a good reputation and that good CSR practice could boost their reputation and lead to long-term relations with their customers as well increased certainty of business in the future. Some companies such as Quang Vinh has also been able to reduce costs due to environmental thinking which happened when they switched from coal to gas and had much fewer cassations among their products. After the implementation of codes of conduct many suppliers agree that the company runs smoother, for example at Artex Tien Dong LTD where the management got better.

As for the MNC that was part of this study they believe the benefits are mostly a higher quality in the products and more accurate delivery times. The reason why IKEA doesn’t seem to reap much of the other benefits mentioned in the frame of reference is probably because they don’t have any shareholders and don’t actually advertise their efforts. This might however be a good choice since they are minimising the risk of bad-will that way.
When analysing the benefits for the buyer and supplier it’s interesting to see that the supplier can thanks to higher productivity and lower costs increase their profits or lower their prices. At the same time, the MNCs are enjoying a higher quality and more accurate deliveries as results from working with CSR. In other words, by working with CSR the supplier will also become more competitive in the areas; price, quality and delivery time which we have identified to be the most important when choosing a supplier.

**Obstacles**

As mentioned earlier it is the lack of knowledge about CSR that is the largest obstacle for the Vietnamese supplier to overcome. This has been very clear throughout our study when the subject is more or less unknown among many of the interviewees. We think that the best way to raise this knowledge is if MNCs such as IKEA do more business with Vietnamese suppliers and at the same time educate them about CSR. A problem on the other hand is if the MNCs themselves are not working properly with CSR which happens in some businesses and among some companies. As for the cost of implementing CSR for the supplier our research has showed that it is no obstacle and the suppliers are willing to invest money when the expected reward in terms of contracts is bigger than the cost. It is certainly true that the lack of human resources is an obstacle when it comes to CSR also the issue of insufficient management system has been raised by Ngoc Son Bamboo & Rattan Co LTD as well as IKEA and ILO. Cheating and corruption has been an obvious obstacle, especially when speaking to the non-Vietnamese companies. Still it’s hard for us to say how much this actually affects working with CSR. In some cases it is obvious that it can be easier to bribe one’s way out of a bad audit but on the other hand - if you have nothing to hide, why pay bribes?

Another obstacle that both the MNCs and the suppliers might face is the general unwillingness to adhere to the regulations of a code of conduct. This unwillingness again spring from the lack of knowledge and is manifested by for example workers who refuses
to use ear plugs or other protection which has been evident in most factories but has also been a problem for IKEA. The solution to this has been education as well as punishment and it looks like the whip is actually more effective than the carrot. The biggest obstacle for the MNCs when it comes to CSR is to incorporate it throughout the whole organisation. This takes time and costs money as showed by IKEA but for an MNC the resources and knowledge is available, which is not the case with the Vietnamese suppliers and SMEs buying from them.

**Competitive advantage**

When it comes to competitive advantage in general it’s rather hard to classify the companies according to Porter’s theories. This is because the Vietnamese suppliers are more or less in the hands of their customers. As the research shows the competition for most companies is fierce and the customers usually go for lowest price and highest quality. One could say that domestically most of the companies are trying to reach cost leadership but if looking at the industries on a global perspective and comparing with for example China the Vietnamese companies are trying to reach competitive advantage through differentiation since they are producing in smaller batches and are more focused on the customers’ demands. In this case it seems more appropriate to use the theories by Treacy and Wiersema and say that most of the companies’ value disciplines are customer intimacy. The exception is GM Workwear which, with its car factory layout, is a good example of the operational excellence discipline.

When putting the competitive advantages in a CSR context it is again clear how much the Vietnamese suppliers are depending on their customers. When it comes to Hockerts’ theories about differentiation advantages, the Vietnamese suppliers can’t realise any of those because it is the customers who are deciding what products with which designs that should be produced. When it comes to cost advantages we argue that benefits that stems from more satisfied employees such as described earlier in this chapter are absolute cost advantages when comparing companies that work with CSR and those who just follow the
law. On the other hand one might argue that these advantages should be relative, but since there will hardly be any global regulations concerning CSR and codes of conduct in the near future these are absolute. With this argumentation, the other benefits mentioned earlier, that come from implementing CSR among the Vietnamese suppliers, are also absolute cost advantages.

As for IKEA they are with Porter’s words using a differentiation strategy with their ready-to-assemble furniture but with a focus on low costs. When using Treacy and Wiersema’s theories they are obviously excelling in the operational discipline. Since IKEA isn’t using CSR as a marketing tool it is hard for them to gain any differentiation advantages. As for the benefits mentioned by IKEA during the interview we regard them as absolute cost advantages using the same argument about using CSR as for the suppliers. Of course higher quality and more accurate delivery times decreases cost when it comes to less cassations and complaints and also the risk of not having enough stock or being over-stocked.

We find it interesting that the competitive advantages that we have found are all more or less related to costs which implicates that there are good reasons both for the supplier and customer to work with CSR. However, a possible reason that the competitive advantages all relate to costs is that the Hockerts’ theories focus on either cost or differentiation.

**How can the practice of good CSR improve in Vietnam?**

As mentioned several times earlier the biggest problem with CSR in Vietnam is the suppliers’ lack of understanding about the subject and its long-term effects. We believe that the best way to implement proper CSR practice is by showing the Vietnamese concrete examples of the benefits that can be realised. We know for a fact through our interviews that even though the suppliers are lacking knowledge about CSR they are well aware about IKEA and the IWAY and that companies who work for IKEA are successful.
When looking at the MNCs role in improving the CSR practice in Vietnam we first and foremost believe that they themselves need to have CSR incorporated in their core values. Furthermore they need to understand the Vietnamese suppliers’ current situation when it comes to CSR and also understand the cultural differences between themselves and Vietnam. The best thing that MNCs can do when it comes to CSR is to keep investing in Vietnam and push for the practice of good CSR among their suppliers.

When it comes to NGOs taking a more active part in the evolution in CSR we believe that it will be hard for them to educate the Vietnamese suppliers. After conducting our interviews, we share ILO’s believe that the suppliers will just go from one organisation helping them to another instead of planning from the future because of their lack of understanding the long-term effects of CSR.
We will in this chapter highlight the most important conclusions that provided by the Analysis chapter. We will start by revisit our Analysis Model and then proceed with the conclusions.
7.1 The Analysis Model Revisited

As we could see in the Analysis it is clear that it is the MNCs who are pushing for CSR by introducing codes of conduct, such as the IWAY, and that the Vietnamese suppliers are reacting to their demands by following these codes. The MNCs are in turn affected by their end customers, media and NGOs who are demanding more socially responsible business.

Since the process of introducing CSR properly to a supplier demands both time and investments the relationship between the MNCs and the Vietnamese suppliers tend to be long-term. CSR affects the technical aspects when the MNC demands more environmentally friendly manufacturing methods, the commercial aspects as the contract now includes a code of conduct and communicative aspects as new relations between the
MNC’s CSR department and the supplier need to be made. The most important aspect is the communicative since the Vietnamese suppliers’ knowledge about CSR is generally low and this is where most work needs to be done.

This long-term relationship is beneficial both for the Vietnamese supplier and the MNCs. The suppliers enjoy a lower staff turnover, a higher productivity, long-term relations, certainty of business and reduced costs. The MNCs are minimising their risks of bad publicity and receives products with higher quality and delivery at the accurate time. However there are some obstacles that need to be overcome. To the supplier these obstacles are: lack of knowledge, cheating and corruption and costs. For the MNCs the biggest obstacle is to incorporate CSR in the core values of the company.

Both MNCs and suppliers can gain competitive advantages from working with CSR that can be incorporated in their competitive strategy. In both cases these advantages are absolute cost advantages and at the supplier most of them come from more satisfied employees. In other words there is definitely a business case in working with CSR, maybe you won’t earn more money but you will save money from the improvements made. Furthermore, by working with CSR as a supplier you can also increase your skills when it comes to price, quality and delivery precision.

We believe that the conclusions we have made and the analysis model will be applicable for most industries in Vietnam. When it comes to MNCs sourcing from other developing countries this thesis will probably be applicable at most places. For the supplier the conclusions might differ from country to country when it comes to benefits and obstacles mostly because of cultural and other country-specific differences, such as corruption.

7.2 Further research

After completing our thesis we have found some areas that we would recommend to be explored further. First of all we have realised some of the problems of doing business in a society as permeated by corruption as the Vietnamese and further research would be
interesting. Secondly, when it comes to effects of introducing CSR at a Vietnamese factory we would like research in terms of actually following the process and continuous measurements of the results. This research, if the results are good, could be used to show Vietnamese suppliers proof in terms of facts and figures of why it’s good business to work with CSR.

Another thing that is interesting is that our research only includes how the relation between an MNC and the supplier is affected. It would, for further research, be interesting to see how the increasing demand on CSR actually affects the SMEs instead of the MNCs. They are, at present, not as affected by the amount of media attention that the MNCs are, but when the CSR movement is big enough, the SMEs will in some way be affected. It would be interesting, if it ever goes that far, to know what happens when the suppliers in low cost production countries demand that their buyers actually care about CSR-issues and can choose among the buyers.
8 Recommendations

In this chapter we will give recommendations that spring out of our analysis and conclusions. There will be four stakeholders that we will give recommendations to when it comes to CSR-issues; The MNCs, the suppliers in Vietnam, the SMEs and finally the NGOs.
8.1 Suppliers in Vietnam: Work Proactively

For the Vietnamese suppliers working with an MNC with high demands on CSR is similar to being certified by ISO-standards and it shows that not only the company is able to follow a code of conduct. It also shows that the supplier has a management that is able to introduce the changes necessary. If the buyer isn’t as particular as IKEA, being a CSR-conscious supplier can definitely be an advantage. Our recommendation to the Vietnamese suppliers is to start working proactively with CSR and in the same way as they announce their ISO certificates announce their work in the CSR area. Being certified according to the SA8000 is an easy way of showing their good intentions in the CSR-area. The SA-standard is however not yet as acknowledged as ISO but chances are that it will be.

8.2 MNCs: No Green-washing

For the procuring company it is important that they are not just trying to green-wash their company profile when working with CSR. The idea of CSR as an attribute of a good supplier is still valid and it should make their decision process easier if they already know whether the supplier is working with CSR or not. Also, when demanding higher standards when it comes to CSR and letting the suppliers reap the benefits from it more and more suppliers will want to start following codes of conduct which will raise the national standard of labour and industry in Vietnam.

8.3 SMEs: Work Together

The SMEs are in an awkward position where they are not demanded by the unknowing end-customer to work with CSR-issues and also not big enough to get any media attention. They can reap the advantages by buying cheaper from some rural part of Vietnam but to the cost of risk for bad reputation by not being a good corporate citizen. We think that it’s just a matter of time before CSR is just as important for the SMEs as for the MNCs. A recommendation from us would be to form coalitions with other companies in the same line of business and of the same size to work together to find good suppliers.
Together they could be strong and resourceful enough to work as an MNC and to put pressure on the supplier to gain the advantages that comes with CSR and at the same time save themselves from any risk of bad publicity.

Another short-term solution for SMEs, that also is legitimate in the DDG-project, is to choose a supplier that already selling to an MNC that demands a code of conduct. This is a way to ensure that the supplier works with CSR-issues and to at least know that they can cope with the MNC’s code of conduct.

8.4 NGOs: Influence the Government

When it comes to the NGOs we will recommend them to work more towards the government and add pressure to prevent and finally stop corruption in Vietnam as well as making sure that other governmental laws concerning labour are fulfilled. The NGOs should also cooperate in finding a settled praxis for CSR-certification. The SA8000 is a good certification, and if it would be the only standard available it would make it easier for the suppliers in Vietnam to see the advantages of working with CSR and to work with it proactively.
9 Reflections

In this chapter we will reflect over our experiences from Vietnam, and sum up our thoughts that we have had while writing this thesis. There are several things that are so completely different in Vietnamese business and culture compared with Swedish that they are more than worth mentioning.
9.1 Corruption
All people that live and work in Vietnam know that the corruption is here and will be for a long time. Not long ago some one hundred government officials and fifty policemen got arrested for corruption and some inner party members also got expelled from the Communist Party. This is of course only the top of the iceberg and no one knows how many people are corrupt. Nicklas at Bucketman told us that when he got his powder-coater sent to him from Taiwan the customs official wasn’t even willing to check the cargo until he got the sum of money requested. Nicklas could not do anything else but to pay the “inspection-fee”.

This happens everywhere whichever line of business. Vietnam is not the only country where corruption is common; the problem is also present in China and other parts of South-East Asia.

9.2 CSR, Whose Responsibility?
One of the most interesting discussions we have had with people is the problem with buyer-supplier relationships and whose actual responsibility it is to take care of the workers. It could be any big MNC but if we for this instance take NIKE as an example. NIKE has got about 25,000 people that are employed by the NIKE Corporation. Almost all these people work with some sort of administrative function. What many people don’t know is that the NIKE Corporation has about one million people that work as first and second tier suppliers. This relation between the company’s own workforce and the workforce at suppliers is almost the same with IKEA and probably many other worldwide corporations.

So whose responsibility is it to assure that the workforce in these factories is treated well, have a good health and a decent salary? To incorporate the CSR-thinking in the organisation is probably the most important issue for these companies and also to make the shareholders understand that it is necessary to spend some of the company’s profit on CSR-related issues. NIKE is working hard on these issues and the new CEO at NIKE was
earlier responsible for the CSR function in the corporation. One of the reasons why he was appointed this position was to anchor the thought of fair labour as one of the core values in the company. As easy as it might sound, one has to understand that it sometimes could be hard for the board of the company, or its management, to explain to the shareholders that they have to use money from the company to build a school and a hospital next to the factory where 100,000 people work. But what would happen to the share dividend if people get sick in the factory and unskilled workers have to be employed? The efficiency and productivity will probably go down but to measure these changes is very difficult. It is in some cases even impossible to calculate the outcome of CSR investments and the good will that the company get from doing it. It is easier to calculate the decreasing incomes when bad publicity arises because of poor factory conditions or inhuman salaries.

We have seen that it is good for the supplier if the buyer is big and gets a lot of medial attention. This makes it impossible for the buyer to hide sweatshops somewhere because in the end it will surface and bad publicity will decrease the sales and the revenue. A pretty vague conclusion is that “the bigger the buyer, the better the working conditions in their suppliers factories”. But if one goes to the store to buy a pair of runners, we would recommend them to rather buy a pair of shoes from a big, well-established brand because chances are pretty high that these shoes were made by a person in good health with an above-average salary.

But in the end, whose responsibility is it to implement CSR? Is it the rich and successful owner of the factory or the even richer and more successful buyer? For sure it’s either of them because in Vietnam, the chances are pretty slim that anyone else would implement it.

9.3 Cultural Differences
When interviewing people in Vietnam they will never give you no for an answer. If the interviewee doesn’t know the answer it’s rude for them not to answer so they just say yes
or make something up that sounds good. To us this has been very different from the more straight-forward Western society where it is easier to admit that you don’t know the answer to a question. This was sometimes a problem when interviewing but also in everyday life where you sometimes went the wrong way for miles just because someone felt obliged to point out the way without knowing where you wanted to go.

The cultural differences are of course big if you compare the organised and strict Swedish system with the more informal system of Vietnam. In Sweden you have right-hand traffic and you can have a speed limit of 110 km/h on the motorway. In Vietnam you have “right-hand traffic” and the speed limit is 35 km/h on the motorway, 50 km/h if you have the biggest horn. This is just one example of how Vietnam still is under development. There are many things that still need to be improved.

Another interesting thing about cultural differences is when IKEA wanted that all the personnel at their suppliers should wear helmets. In Vietnam there are about eighty million people and around twenty million motorbikes or Xé ôm that they are called here. This means that almost everybody is driving motorbikes every day. There are about 14,000 casualties in the traffic every year in Vietnam (300 in Sweden) but yet nobody use helmets. IKEA thought that it would be a nice gesture and a good CSR initiative to give all their employees a helmet for their safety but also to try to protect their investment in high skilled people. Everybody got really happy because a helmet is worth about $10 on the market, so they all sold them.
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### Appendix

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Appendix 1: Interview Guide - Suppliers

About the Company
- Name of the Company?
- Name of person/persons interviewed
- When did the company start?
- Who is the owner of the company?
- Who is the General Manager?
- Describe the company’s business concept?
- What is the company’s strategy for the future?
- Can you describe the structure of the organization?
  - Which different departments do you have?
  - How many employees do you have?
    - How many men/women?
  - How are decisions made?
  - What is the general level of education and competence?
    - Among the office staff
    - Among the workers
- What products are you producing?
- How do you control the quality of your products?
- How would you describe your products compared to competitors’ products?

CSR
- What is the company’s view on Corporate Social Responsibility (CSR)?
- Do you work after a code of conduct?
  - What does it include?
  - Did you choose to work after a code of conduct or did your customers make you?
  - If it is your customers, do they have different demands?
  - What do you think are the benefits of working with CSR?
- Do you see any obstacles for your company when it comes to working with CSR?
• Do you think CSR could help you improve your production?

**Internationalisation**

• How and when did you start exporting?
• What were the motives for starting to export?
• Who made the decision that the company should start exporting?
• In which markets do you sell your products?
  • How did you choose market?
  • Do you make any adjustments to your products for different markets?
• Which marketing channel did you start with?
  • Which marketing channel are you using today?
• Do you have any collaboration with other companies that are active abroad?
• What do you think is the biggest problem when it comes to export?

**Stakeholders**

• Which stakeholders do you have?
  • Have you been visited by a Non Governmental Organisation?
  • Are there laws and regulations that affect the company?
  • Is the local community affected by your company?
  • Are the workers from the local community?
  • Which is your most important stakeholder?

**Relationship to suppliers**

• What suppliers do you have?
  • How many suppliers do you have at the moment?
  • How do you communicate with your suppliers?
• Can you describe your relationship with your suppliers?
• What are the most important criteria when you choose suppliers?

**Relationship to customers**

• How many customers do you have?
  • How do you communicate with your customers?
  • Which are your most important customers?
- Why do you think that your customers choose to buy your products?
- Can you describe your relationship to your customers?
- How do new customers come in contact with you?

**Staff and Environment**

- How old do you have to be to work in the factory?
  - What’s the average age of the employees?
- How long is a working day?
- How much do you pay?
- Do trade unions exist?
- How do you work towards a better working environment?
  - Do you think implementing a code of conduct could help you when working with environmental issues?

**Competition/Marketing**

- How would you describe the domestic competition in the industry?
- How would you describe the market growth in general?
- What would you say are your most important strengths compared to competitors?
- Which weaknesses do you have compared to competitors?
- How do you decide the price on your products?
- What do your marketing efforts include?
  - Do you think CSR is important when marketing?
- How do you make sure that you fulfil the customer’s needs?
Appendix 2: Interview Guide - IKEA

- How has IKEA been working with CSR in Vietnam?
- Which obstacles have you encountered?
- What benefits can you see from working with CSR?
  - for IKEA?
  - for the suppliers?
- Is it always IKEA that enforces CSR or are the suppliers already working with it?
  - Is this the case for the business in general?
- Does IKEA achieve any competitive advantages by working with CSR?
- Do your suppliers have other multinational customers?
  - Do these companies also demand a code of conduct?
Appendix 3: Interview Guide – ILO

- What is ILO working with in Vietnam?
- Does ILO approach companies in Vietnam or do companies come to you?
- What kind of companies is ILO working towards?
- How does ILO make companies work with CSR related issues?
- What is the general knowledge about CSR among Vietnamese manufacturers?
  - Is the term code of conduct well known among the companies or do they just follow the demands of MNCs?
  - What benefits can you see for Vietnamese companies by working with CSR?
  - Do you think that there is a business case when working with CSR or is it purely philanthropic?
- In what kinds of business do you think it is most important to work with CSR?
- Do you know any other organisations that are working with CSR in Vietnam?
Appendix 4: Additional Empirics

Artex Tien Dong Company LTD

Stakeholders

The interviewee doesn’t really understand the term stakeholder but agrees that it is the general manager, the vice director and the workers who come from the local community who are the company’s most important stakeholders, especially the owner since it’s his money.

Relationship to suppliers

Artex Tien Dong Company Ltd has suppliers for raw material, mostly bamboo and rattan and suppliers for semi finished products. In total there are 46 suppliers and the suppliers employ about 700 workers each. The company tries to have a close relationship to their suppliers and they consider their relationship to the suppliers of raw material to be very close. The company thinks that it is important with a close relationship to their suppliers for a good development of themselves and their suppliers. The company’s suppliers and sub-suppliers need also to follow the IWAY. IKEA enforces IWAY at the company but the company has to do it themselves on their suppliers.

Artex Tien Dong Company Ltd mainly keeps in touch with their suppliers by using telephone or email but when needed, they go visit them. The most important criteria when choosing suppliers is that the suppliers meet the company’s demands about safety and quality although the price is also important.

Competition/ Marketing

Artex Tien Dong Company Ltd describes the competition in the industry as very fierce since there are a lot of handicraft companies competing. Also the interviewee thinks that the market is expanding in general and he knows that the own company has expanded a lot during the years.
The company’s strengths compared to their competitors is; the low price on the products and that they meet the customers’ demands about the products’ quality, quantity and safety. They also deliver the products on time. Every company has its own weaknesses; the interviewee thinks that their weakness is finding customers.

The reason why the prices are low on the products is because the company have many suppliers that they can choose from so they can always get a low price, especially on material. The interviewee thinks that they are good at controlling their suppliers. The prices are based on material, labour, shipping, customs and additional costs.

**Reflections**

Unfortunately the interviewee had only been with the company for three months so he himself didn’t have very much information. Also it was hard for him to express himself in English. His managers had written the answers to many of our questions but in Vietnamese. However it was a good idea to send out the questionnaires in advance.

The company was one of the biggest in northern Vietnam and there was a lot of production going on. Although there were signs telling the workers to use ear protection and steel toed boots most of them used neither of it. If it was because of the factory not supplying it to the workers or if it was the workers who just didn’t use it, we can’t tell. There was a lot of noise and dust where the raw material was handled but in the part of the factory where they finished the goods the ambience was much better.
Ngoc Son Bamboo & Rattan Company LTD

Relation to Suppliers

The relation between the company and its suppliers is very good. The suppliers are mostly villages and farmers in the local area and they are not situated more than 40 kilometres from the factory. The company has about 50 suppliers and with 30 of them they have long term relationships. They can easily switch suppliers if the quality is not good enough or if they fail to deliver on time and there are many to choose from. The company communicate with their suppliers through telephone, fax, and email and sometimes visits both in the factory and in the villages.

Competition/Marketing

The domestic competition is big and only in the Ha Tay region there are about 100 competitors. A good thing is that the market is expanding very fast and the future is bright. Vietnamese companies also steal orders from China because of the better quality. Quality is an area where the company thinks that they are strong even against domestic competitors. But the company also have weaknesses in the form of bad management but this will be sorted out when implementing the IWAY

The price of the products includes the material costs, the labour costs, the logistic costs, the overheads, an export fee, and a percentage to make the profit. The customer is always interested in the price, especially before the contract is signed. After the agreement the customer are most interested of the quality and the delivery time.

Reflections

When we sent out the questionnaire the interviewee contacted us immediately because she didn’t know what CSR was. We supplied her with a short description and some useful links; this shows that it is a good idea to send out the questionnaires in advance. As for the interview the interviewee spoke good English but then concept of CSR still seemed very
foreign to her. Even though the factory did good things to the local community for example they couldn’t really relate it to CSR.

The factory itself seemed very new, clean and quiet. This could be because the factory doesn’t deal with raw materials; they only work with semi-finished products.
**Stakeholders**
The company are collaborating with GICA, a Japanese NGO. They are giving seminars for both the staff and the workers about why they should take the insurance and common training that could be helpful both personally and for the company.

**Relationship to suppliers**
Their only supplier is the mines. They are all owned by the government or by a private company that rents the mine on long-term contracts. So they have no problems with negotiating and get good prices. The competition between the governmental mines and the private governmental-rented mines are for that reason big. The communication with the suppliers are handled thorough email, telephone fax and visits.

When they get an order and they cannot finish it they are trying to find partners in the village. There are about 60 ceramic companies in the village but all with different specialities. It’s often not difficult to find the supplier that suits the present order. The most important criteria are skills and if they are big enough to take the order. The factories should also be suitable, the price has to be the right one and the delivery has to be on time.

**Competition/Marketing**
The company describes the competition as hard both domestically and internationally. In the village, where there live about 10,000 people, there are three other companies the same sizes who compete. The company also competes with other companies in Vietnam as well as manufacturers in China. They think that the market is growing quickly though and they can’t keep up with the rising demands.

The company’s biggest strength against their competitors is that they can customise their products, which is often demanded by their medium-sized customers. That, together with their good prices and ability to produce low quantities, is their biggest strength. This
strength is especially important when comparing with the Chinese competitors since they often are highly automated and only manufacture in large quantities. The company thinks that one of their weaknesses is that they don’t know exactly what kind of design their customers want. Also they feel that they sometimes are slow at answering emails which can lose them an order. They also feel that they can improve their effectiveness overall in the company.

When pricing the products the company has to plan carefully. Cost of clay, document fees, costs of manufacturing, cost for staff are only some of the variables that need to be considered. The company thinks that CSR is an important part when marketing since the customers often ask about it. They also think that their ISO certificates are important since they also show that the company is taking their business seriously and that the customers won’t have to test the products as much.

Reflections
At this factory we had revised the questionnaire and also made an interview with IKEA which helped us to ask the “right” questions. It seemed like the interviewee understood the subject of CSR better than the earlier ones. She also spoke very good English. Unfortunately the interviewee seemed a bit stressed and her telephone interrupted the interview several times.

The factory was completely different from the earlier ones since they were making ceramics from scratch. When asking about the employees uniforms and why everyone not wore them she said it was because they didn’t want and it was hard to make them. The workers got two uniforms per year. Overall the factory seemed clean and safe.
Thang Long Metal Wares Company

Reflections

Since this visit was not the same as our usual interviews it’s hard to draw any conclusions from it. It seemed rather obvious that the company was stately owned, especially in the meeting room where they had a bust of Ho Chi Minh and the Vietnamese and Russian flags. The presentation of the company was also different from what we are used to, this time they used power point and had even made a film. We think that they wanted to impress on the Swedish delegation and would probably have been more straightforward if it would have been a regular interview.
Tellbe Vietnam LTD

Stakeholders

Even to a Swedish interviewee the term stakeholder seems somewhat strange but he believes that there are no important stakeholders that the company needs to take care of. Most of the workers don’t come from the local community so the company doesn’t provide any work opportunities there. As long as the company is doing well the shareholders don’t complain so they are not so important.

Relationship to suppliers

Tellbe Vietnam LTD has about 50 suppliers which include raw materials, packaging materials and lacquering. Most of the suppliers are Vietnamese and geographically close to the company. The company’s goal is to buy everything locally, steel is however ordered from Taiwan. The procurement department of the company handles the suppliers and they usually communicate by using telephone or email.

The interviewee believes that they have good relations with their suppliers and he points out the importance of lasting relationships. When it comes to choosing suppliers price, quality and lead time are the most important factors. CSR issues are not considered when choosing a supplier but sometimes the buying company wants the suppliers to work with CSR and therefore Tellbe arranges audits at the suppliers.

Government

The company has had some problems dealing with the government, usually because the bureaucracy is very slow in Vietnam and some certificates that are needed when adhering to a code of conduct takes long time to get. They also think that corruption is a big problem in Vietnam.

Competition/Marketing
Tellbe Vietnam LTD makes hardly any business at all on the domestic market but they don’t believe that the domestic competition affects them much since they target different customers. Tellbe are focusing on customers who are ready to pay premium prices for specialised high quality products while the competition mainly focus on cheaper products with lower quality. The competition that they can mainly see is when big MNCs open up offices in Vietnam and choose suppliers themselves.

The interviewee thinks that the market is growing strongly but doesn’t want the company to grow too big. He thinks that 300 workers would be a suitable size for the company, if they grow bigger problems with costs, risks, and more attention from NGOs and the government will arise.

Tellbe Vietnam LTD thinks that their biggest strengths are that they are flexible and can manufacture goods with mixed raw materials. Their biggest weakness is that they are too small in the eyes of their customers. The customers are often used to the gigantic factories in China so even if Tellbe has the capacity to fulfil the order they sometimes don’t get the contract because they appear to be too small.

The employee thinks that the company’s marketing efforts are too weak and that they have been bad at marketing themselves. One of the problems is that they have a wide variety of products so they have problems putting together a brochure that could suit all their customers. Johan thinks CSR can be used when marketing and also as a sales argument when selling to USA but not in Sweden since it’s not asked for.

**Reflections**

When a Swedish person says that they follow the local laws of the country it feels like there is a difference between their view and the Vietnamese. He sees most of the demands in different codes of conduct as obvious and also thinks that it is much easier to follow all laws and demands straight away to avoid all problems. Also, the interviewee speaks about
corruption as a big problem when doing business in Vietnam which is an issue that hasn’t been brought up by any of the Vietnamese interviewees. It was much easier in all senses to interview a Swedish person than a Vietnamese one.

When it comes to the factory it wasn’t different from the Vietnamese ones in the same industry. The outlay was process oriented and everything was fairly clean. However the factory was expanding so there will be more space. The way of producing seemed no different from a Vietnamese run factory; most things were done by hand or using single machines.
Bucketman

Stakeholders
The owners of the company, the workers, and the government are all stakeholders to the company, but the most important stakeholder is the customer. The workers, except a few, are from the local community and are all influenced by Bucketman and its business. The company hasn’t been visited by any NGOs.

Relationship to suppliers
Bucketman has 2 suppliers of steel, one for cardboard, one for plastics, one for powder coating, one for chemicals and one for gas. Trust is the most important criteria when it comes to choosing suppliers and they have a daily contact through telephone, fax and email. The relation to the suppliers is good but there is a problem at the moment with the supply of steel. The reason to this is not bad relations with the steel-supplier, it is because the high world-price of steel and the access to it. The interviewee thinks that is important to try to build up good, long-term relations with the suppliers.

Staff and Environment
To work at Bucketman, you need to be 18 years old and the average age is about 32. Nicklas thinks that employing some people that are a little bit older makes a good mix of people at the company and it is good to have some experience. The working day is 8 hours and they only have one shift, from 8 am to 5 pm.

Bucketman pays their workers about $60 per month but it all depends on how skilled they are and if they are good and productive. The one who earns the most is the chief engineer who earns about $690 a month. They also have a bonus system which includes a lot of criteria and it is 10% of the average salary.

All the workers are connected by a local trade union. The relation with the trade union is very good and they are educating the workers in law and environmental issues. Bucketman takes care of their workers and they also care about the environment through
keeping the plant nice and tidy. Nicklas thinks that implementing a code of conduct can make the factory more productive and increase the awareness of the environment.

**Competition/Marketing**

Nicklas says that the domestic competition is very high. The biggest problem for Bucketman is that there are different rules if the owner of the company is Vietnamese or not. The minimum salary in the region that Bucketman is located is $50 per month for foreign companies and $22 for Vietnamese companies. In some rural provinces the monthly salary could be as low as $15 per month and it can be very hard to compete with companies that legally can pay that little. The Vietnamese companies have also got lower demands when it comes to toxic waste etc.

The market growth is in general very high and now that the Japanese companies are entering the market it will expand even more. The strength that Nicklas believe is the most important for Bucketman is the network. After years of experience he has got a big network of customers. Another important thing is that he is Swedish. The rivalry between Taiwanese, Vietnamese, Chinese and Japanese companies are very fierce and when doing business with these kinds of companies he has got a neutral position and an advantage. The weakness that he has is that the company is still developing and that he needs to get started seriously.

Nicklas is very careful when deciding the prices of the products. He is doing classical break-downs of all the costs but the price of the metal is most important since it is a big part of the cost.

CSR can be used as a marketing tool, especially if you export. Nicklas thinks that CSR is ever more important in the shoe and fashion industry. Companies like ADIDAS and NIKE always has a lot of publicly interest and they have to be extra careful so they minimise the risk of getting bad publicity. American companies like Wal-Mart often buys from agents
in USA that buy from agents in Asia and this makes it very difficult to trace where the products are manufactured.

**Reflections**

Bucketman is a well-organized company and Nicklas is a strong leader. The first impression was that Bucketman is located pretty far out from the centre of HCMC. This is due to the low cost of land on which the factory is built. The premises are guarded by two guards and it is always guarded. There is a German neighbour that according to Nicklas doesn’t take care of the workers as he is doing. While Nicklas’s factory is clean and well lit the neighbour doesn’t even have a toilet or lights due to the costs.

Nicklas has also built a very nice toilet and a bar, where he can take his customers and discuss business. The overall apprehension is that the whole business is very well thought-out and that the future is bright for Nicklas. He has just invested in a powder-coater from Taiwan that is just ready to use. We think that the use of the powder-coater and to add more value in-house is a key for Bucketman’s future.
GM Workwear

Stakeholders

The interviewee agrees that the company have a lot of stakeholders but thinks that the customers are the only ones that really matter because if you don’t have any customers there is no business. Also the educated and experienced workers are very important to the company since the company manufactures high quality clothes and are very flexible. Most of the workers are from the local community which means that the company is creating a lot of work in the area. He also tells us about some problems he has had with the rest of the board of the company when they sometimes think that if they for example pay the workers a little less the earnings will be greater.

The company has been visited by some local NGOs but they haven’t had any problems with them since they work with CSR. Also the government seems happy since the company follows the employment laws.

Relationship to Suppliers

GM Wo-kwear has about 20 suppliers supplying everything from textiles to zippers and boxes. The company can’t choose all suppliers because some customers have special demands on for example which zippers that should be used on certain garments.

The company usually communicates with its suppliers by email or telephone and they are trying to have long lasting relationships with the suppliers. The most important factors to GM Workwear when choosing a supplier are quality, geographical closeness and price in that order. Also the supplier should be able to live up to GM Workwear’s code of conduct.

Competition / Marketing

Krister thinks that the domestic competition is pretty strong and that it is good for the company. Krister believes that GM Workwear’s most important strength compared to
competitors is that his workforce is very educated. At the same time he thinks that the price of his products could be the biggest weakness.

The prices of GM’s products are set by GSD (General Sewing Data) where they calculate the time needed to sew the product and then add overheads and direct material. In this way they get very exact times and costs of the products but at the same time a tool for measuring if they produce enough products and the productivity of the workforce.

Krister thinks that he is a big asset to the company by knowing a lot of people in the business. They don’t really market themselves in other ways than by choosing customers and contacts them in person. At the same time he thinks that working thoroughly with CSR could help them when contacts are made with the customers.

The customers’ needs are fulfilled by long term contracts and to repeat the business year after year with the same customers. Because of Krister’s knowledge about the market in general and what the end-customer prices are, a close relation is needed and where win-win situations are necessary.

**Reflections**

The visit at GM Workwear was different from our prior visits since they were making clothing which is something that we haven’t come in contact with before. The factory was more similar to a car factory than anything else. Everything was manufactured on different lines and they were able to sew a lot of different garments per day. The factory conditions were overall very good but again, this is another kind of industry and there is less noise and dirt compared to steel or rattan.

It was interesting to see that Krister brought a lot of his Swedish ideas about how factory conditions should be and that his views sometimes weren’t the same as the French people
in the company. In the clothing industry CSR seems to be very important especially among the big companies.

Since we were interviewing a Swedish person the interview ran smoothly but some questions from our questionnaire were unnecessary. Corruption was again mentioned as one of the biggest problems when doing business in Vietnam and it is strange that none of the Vietnamese companies mention it, probably because they won’t admit it or because they are so used to it…
Appendix 5: Contact Information for Companies

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www.artextiendong-vn.com
19/09/06

Bucketman LTD
Huynh Van Luy, Phu My
Thu Dau Mot, Binh Duong
Nicklas Carlsson, General Director
nicklas.carlsson@bucketman.com.vn
16/10/06

GM Workwear
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Ben Nghe Ward
Ho Chi Minh City
Krister Kling, Managing Director
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www.gm-workwear.com
17/10/06

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International Labour Organisation Vietnam
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Ha Noi
Jenny Ikelberg
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12/10/06

Ngoc Son Bamboo and Rattan Company Limited
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Ha Tay
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04/10/06
Tellbe Vietnam LTD
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Hoa Lan, Thuan Giao
Thuan An, Binh Duong
Johan Sundberg - Sales Export
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johan.tellbe@hcm.vnn.vn
www.tellbe.se
16/10/06

Thang Long Metal Wares Company
Saidong Downlet
Gialam District, Ha Noi
www.thanglongmetalwares.com
10/10/06
Appendix 6: The UN Global Compact

Human rights

- Principles 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principles 2: make sure that they are not complicit in human rights abuses.

Labour standards

- Principles 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principles 4: the elimination of all forms of forced and compulsory labour;
- Principles 5: the effective abolition of child labour; and
- Principles 6: the elimination of discrimination in respect of employment and occupation.

Environment:

- Principles 7: Businesses should support a precautionary approach to environmental challenges;
- Principles 8: undertake initiatives to promote greater environmental responsibility; and
- Principles 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption:

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

(UN Global Compact, 2006)
Hardly a day goes by without reading in a newspaper about miserable working conditions in China or watching on the television about how poorly clothing companies treat their workers in Pakistan. The awareness about Corporate Social Responsibility is increasing in the world and knowledge about the topic nowadays regards as common sense.

This Thesis is about how suppliers and their buyers can treat each other better to gain advantages together. The Thesis tell the reader not only about the present state of the Corporate Social Responsibility awareness but also how the business relation could, and should, be handled by companies to reach common benefits.

This project has developed our thoughts and beliefs on a more sustainable world and how a lot of people work to decrease the gap between rich and poor. It has also given us information and knowledge that can be useful, not only in our future professional life, but also in everyday situations. And we hope that this book will arouse Your interest in the area as much as it did for us.

- Erik & Martin, Hanoi 2006