

## Current Status of CSR in the Korean MNCs

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### Abstract

This paper aims to contribute to the understanding of social aspects of corporate social responsibility (CSR) by studying Korean multinational corporations (MNCs). The paper uses a theoretical framework consisting of an institutional approach. In particular, in the midst of globalization since the 2000s, 'supplier code of conduct' has progressed rapidly as one of CSR. In addition, we specifically focused on Korean MNCs, such as Samsung Electronics, LG Display, Hyundai Automobile, Renault Samsung Motors and Samsung Tesco, to observe the strategies headquarters have implemented with foreign subsidiaries. This article compares both Korean MNCs and Japanese MNCs.

**Key words:** corporate social responsibility (CSR), supplier code of conduct, Korean MNCs

### 1 Introduction

Entering the 21st century, the rapid changes of the business environment requires new changes for multinational enterprises (MNCs). Especially the change of design rule represented by modularization demands consideration of what kind of form the craftsmanship in a different form in supply chain management is needed. Epstein (2009) states that corporate social responsibility (CSR) is required in order to solve these problems. Implementing SCA law needs, affinity groups, self-imposed control, an ethical doctrine, media and civil society. Here, when making a supply chain into a fundamental competition unit, adopting a supplier code of conduct as a means of self-imposed control is observed.

Issues involving supply chains have actually been observed from various perspectives recently. As a problem which has mainly occurred in the supplier side, there are lack of the right of a labor union, child labor, racial discrimination, and long work hours etc. (Pedersen, 2005). Furthermore, corruption, barriers to freedom of association, and dangerous labor situations are the problems which have occurred in procedures. The problems such as wholesaler discrimination, bribes, lack of fair competition and un-ethical investments, are often pointed out as problems which have occurred in the distributor side. The purpose of this research is to clarify the current

issues of CSR of the Korean MNCs and to compare Korean MNCs with Korean MNCs. This study is based on an institutional approach.

### 2 Theoretical development

#### 2.1 Establishment and Support System for Supplier Code of Conduct

The strategic importance of supply chain management has been being questioned over the past two decades. The chances for business are surely increased and opportunities can be competed for by MNCs in this era of globalization. At the same time, MNCs should bear social responsibility against the changes of management environment complicated by the global supply chain. For instance, it is a well known fact that there were strong consumer boycotts and protests experienced by Nike as a result of child labor abuse in Asia and by Nestle for selling baby formula in Africa.

When you build a global supply chain, the supply chain manager is required for three factors: supplier codes of conduct, inspection and audits. (Pedersen and Mette, 2006). Actually, they should know the differences between contracts and the implementation of codes of conduct.

Kenneth and Amaeshi (2008) argued that the translation of responsibility in supply chains into practice will involve some sort of change

management. The code of conduct will must state in clear terms the value orientation of the purchasing firm (or brand-name firm) and its expectations from suppliers. Drumwright (1984) notes that the success of socially responsible procurement depends on which the organizational context within the supplier system is made. This is a condition for suppliers who wish to either newly make or continue the contracts with purchasing firm.

## 2.2 Globalization and supply chain management

MNCs have expanded the scope of their reach and influence with the advent of globalization and recent waves of liberalization and privatization in developing countries. It seems globalization affects MNCs and has positive and both negative consequences on their global operations (Korten, 2001; Strike et al., 2006).

Opportunism is either an indispensable element or a serious risk to disrupt the construction of inter-firm relations or the development of a code of conduct in the global supply chain. (O'Donnell, 2000; Das and Rahmann, 2000)

There are also both many benefits (risk reduction, staff recruitment and retention, cost savings, and the development of the relationships with stakeholders) and obstacles (insufficient resources and skills, unawareness of stakeholders' demands, and inefficient producing techniques) of the CSR in supply chains (Russo and Fouts, 1997; Welford and Frost, 2006).

## 2.3 MNCs and CSR

Recently, MNCs are facing not only ethical or social issues but also to changes of the management environment such as globalization. MNCs are facing a much more turbulent, dynamic and heterogeneous business environment than before. MNCs often have been criticised for not behaving ethically in many their business activities. As a result, it could have a negative effect on their corporate reputation.

Three approaches have been used as the MNCs research for CSR practices such as, strategic (Gnyawali, 1996; Arthaund-Day, 2005; Husted and Allen, 2006; Sutton, 2007; Arevalo and Fallon, 2008), institutional (Dimagio and Powell, 1983; Fligstein, 1991; Welford, 2005), and stakeholder approach (Caroll, 1991; McWilliams and Siegel, 2001;

Schermerhorn, 2002). Barkett and Ghoshal (1989) argued that MNCs should respond to pressures for global integration and local responsiveness with respect to CSR issues. It seem like the organizational strategies respond to pressures of integration and responsiveness in their product market (Gnyawali, 1996; Arthaund-Day, 2005).

## 2.4 CSR in Korea

After the financial crisis in 1997, Korean MNCs are facing lots of confrontation such as corporate scandals in all industries. As a result, they have needed a response to pressures for anti-corporation sentiment from the many stakeholders internally. The financial crisis introduced the concepts of CSR to Korean society (S. Choi and R.V. Aguilera, 2009).

Actually, there are environmental pressures which gave rise to standards which are generally accepted and implemented for supply chain management in the electronic industry in the 2000s in Korea (Lee and Kim, 2009). The reasons why they accepted CSR standards is to identify risk and problems in the supply chain, and to avoid or at least reduce poor outcomes the brand name firms.

## 3. Case Analysis

This analysis is performed through the interviews with Samsung Electronics, LG Display, Hyundai Automobile, Renault Samsung Motors and Samsung Tesco, to observe the strategy headquarters have implemented with foreign subsidiaries. And This article attempts to compare both Korean MNCs and Japanese MNCs directed at Establishment of the SCC, Establishment time of supplier code of conduct, operation content, management organization, existence of the continuity of ethics audit, problems.

### 3.1 Samsung Electronics

Samsung Group proactively launched 'Samsung Corporate Citizenship' as the corporate contribution activity from the mid 1990s, They needed a new CSR policy that recognizes organizational context within the supplier system is made in the global supply chain.

Samsung Electronics established 'Samsung supplier CSR code of Conduct' in 2005. The company is abiding

by the Electronic Industry Citizenship Coalition (EICC) 's common code of conduct as a guideline for implementation of corporate social responsibility. And Samsung Electronics has been conducting annual supplier evaluations using criteria including technological competitiveness and other internal criteria to identify leading suppliers. Additionally, the company has offered financial support and collaborative technology development opportunities. The evaluation results of ethical audit are divided

into a grade of A, B, C, D. The suppliers that received a D rank will have two consecutive times to improve or be subjected to penalties including rejecting the contracts with Samsung Electronics. Table 1 shows the supplier CSR activity promotion and achievement in 2012. It was promoted by the Validated Audit Process (VAP), a third-party audit on operational sites developed to proactively respond to the growing demand of NGOs.

**Table1 Supplier CSR Activity Promotion and Achievements of Samsung Electronics**

	program	accumulative
CSR training	Samsung Electronics CSR policy, EICC Code of Conduct, self-evaluation process	1,855
Supplier self-evaluation	EICC self-evaluation conducted through a supplier support system	2,545
Site survey	Site survey by Samsung Electronics and third party verifier appointed by EICC	1,795

Source: Samsung Electronics, August in 2012.

The EICC recently was revised, it was affected by the California Transparency in Supply Chains Act of 2010 including a strict ban on Slavery and human trafficking. Comparres that have accepted the EICC try to produce a translation to Korean language and help the supplier understand the changes of meaning in the code.

The company established Supplier Relations Development in their headquarters in order to promote CSR practices in 2007. The organization of ethical audit led by the Supplier Relations Development has the responsibility for the procurement department. There are 180 persons who work on the Equipment part and procurement part, they had 21 persons in procure innovation part in the 2013.

**3.2 Hyundai Motors**

CEO of Hyundai Motors established a Supplier code of conduct in January 2009. But the company has no proactive activities such as Samsung Electronics. For the harmony of humankind, the environment and community, Hyundai Motor Manufacturing Alabama (HMMA) has implemented an Environmental Management System (EMS) which establishes

commitment to preserve the environment. Especially for environmental management, they launched Hyundai Kia IMDS (International Material Data System) Guidance. It includes 6 parts such as ethical action environmental management, quality management, security system and cooperation with suppliers. This guidance is the minimum requirement when creating MDS (Material Data Sheet) submitted by suppliers. It is used as the acceptance criteria for accepting or rejecting MDS. Suppliers sending MDS are responsible for disadvantages caused by noncompliance with this guidance.

There is no department responsible for CSR procurement, but project teams utilize this IMDS. The internal ethical audit is currently in progress with 400 domestic suppliers, while overseas suppliers are also requested to pledge for the compliance of cooperation when new contracts begin.

**3.3 Renault Samsung Motors**

Renault Samsung Motors established the 'Commitment of Suppliers Development' in 2008. The CEO of Renault Groups in France has agreed to basic protection of the rights of Renault employees. The requests are related to the Issue of 'Human and Social

Responsibility'. This is the activities as acts of 'Transparency Management Policy' in headquarters. The company sent 250 suppliers of Renault Samsung Motors the pledge in July, and the confirmed it in October 2008. The pledge contains written return date, name of position, response position.

There is no ethical audit organization specifically in charge of these works. After the 2007 US Sub-Prime Financial Crisis, that they initiated ethical audits with domestic and international suppliers. Table 2 shows the major contents of Renault Samsung Motors.

**Table 2 The major contents of Renault Samsung Motors**

- Health, Safety and Working Conditions
- No Child Labor (ILO 138)
- No Forced labor ( ILO 29 & 105)
- Equal Opportunities (ILO 11)
- Rights to Training
- Work Hours and Right to Paid Holidays
- Salaries and Wages (ILO 100)
- Employee Representation (ILO 87 & 98)

**3.4 Samsung Tesco**

Samsung Tesco has used 'the Groceries Supply Code of Practice' as the activities of CSR practice since 2001. It corresponds to 'Suppliers and ethical trading' in People, Suppliers and ethical trading, Community,

Customers, choice & health, KPIs as the key issues in Tesco. It is released by the international CEO as the guideline to all suppliers twice a year. It is conducted by three steps: Group Policy→ Code of Practice → Guide line.

**Table 3 Award winning of Samsung Tesco**

Period	Name of award	
November 2002	Korea National Quality Award	Korea Standard Association
November 2003	Best Foreign Corporation Award	Citizen's Coalition for Economic Justice
February 2008	Korea's Most Admired Companies	KMAC

Source: Interview with Purchasing Department of Samsung Tesco in 2009.

The ethical audit department engaged 28 persons of 70 persons in Technical management. When the company has contracts with a new supplier, they comply with the standard of ETI (ethical trading initiative) which is an alliance of companies, trade union organizations and non-governmental organizations working together to identify and promote ethical practices in the implementation of a code of labor practice. The ethical audits are accomplished by BRC (British Retail Consortium) external auditors in one day.

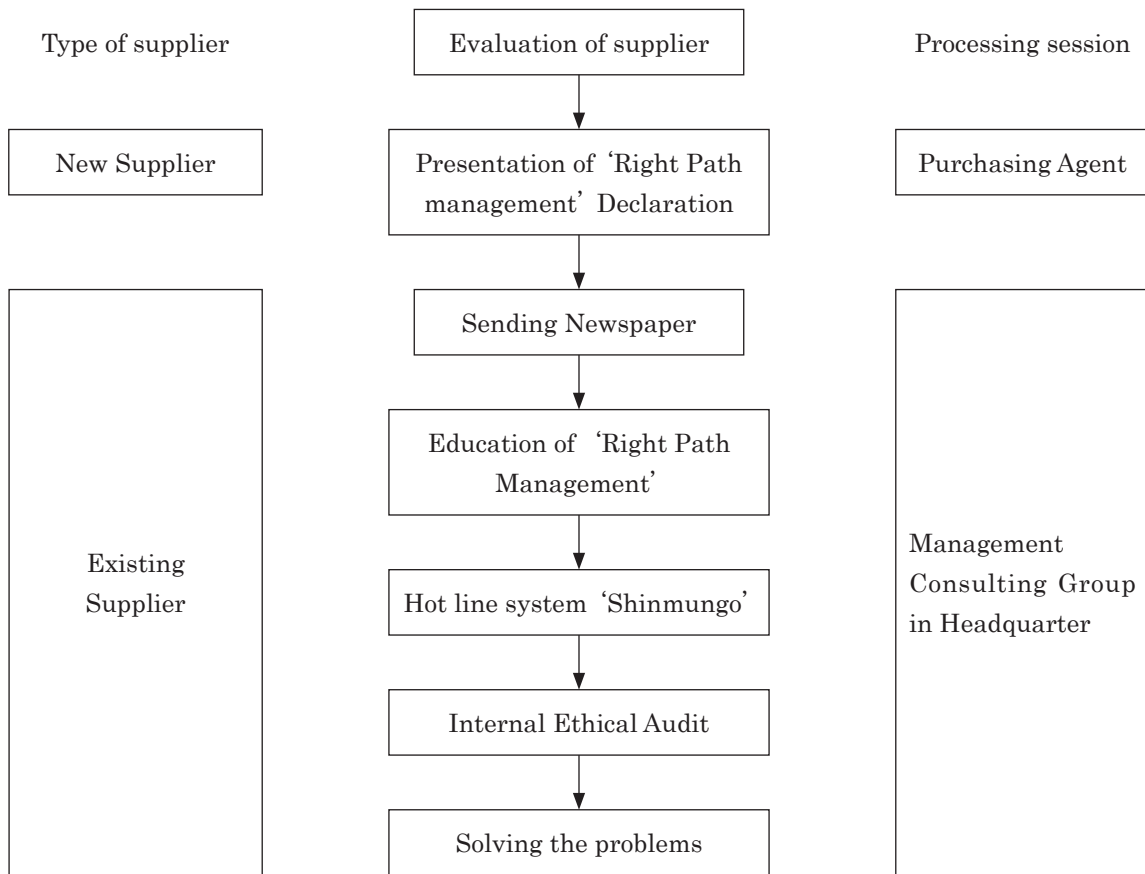
The EII contents include audit planning, audit execution, guidelines, other issues, audit reports and forms.

**3.5 LG Display**

LG Display established the 'LG code of conduct' in 2003. Figure 1 shows LG Display has a strict ethical audit system including EICC which was adopted in the U.S. electronic industry. So-called 'cyber Shinmungo' which can be conducted by whistle blowings through the intranet in order to bring accusation against unfair behaviors in the company was implemented in 2000 .

However, in one case, the person who blew the whistle was identified and was tormented for their lack of community spirit.

Figure1 The implementation process of supplier code of conduct



Source: Interview with senior director of CSR commitment, in 2012.

Company name	Establishment time of the SCC	Operation content	Management organization	Existence of the continuity of ethics audit	Problems
Renault Samsung Motors	Commitment of Suppliers Development	Only in the South Korean domestic supplier	Purchasing Department	one-time	Lack of continuity of the ethics audit since the financial crisis
Hyundai Automobile Group	Code of Conduct established by Renault head office instructions	Create a pledge to target domestic and foreign suppliers	Purchasing Department	Under the present internal audit	Lack of a company-wide systematic organization
Samsung Electronics	Samsung Supplier CSR Code of Conduct	Only in the South Korean domestic supplier	Purchasing Department with the implementation of the CSR Organization and department Headquarters	one-time	The measure of SCC limited to the domestic supplier

Samsung Tesco	Tesco Head Office under the direction of creating and implementing	Evaluation and guidance by an external ethics audit organization	T e c h n i c a l Management	Every year enforcement	Audit costs for suppliers
LG Display	Without creating a new system, be incorporated as part of the LG Code of Conduct	2004	Internal ethics audit for domestic and abroad suppliers	Cooperation between Staff Organization of CEO and Subordinate organization of COO	every year

**Table 4 Establishment and employment of the MNE’s Supplier Code of Conduct in South Korea**

#### 4 Conclusion

As we mentioned, this paper aims to present institutional analysis for CSR practices in Korean MNCs. The case analysis of Korean MNCs illustrates the implementation and management of CSR practices in the supply chain. Personal Interviews were performed with each purchasing department manager in March 2013. Practicing CSR in supply chains requires ethical tools such as supplier codes of conduct, inspection and audits.

First, as table 4 shows, Korean MNCs have established the supplier code of conduct in the late 2000s. And they have a CSR procurement department for global supply chain management.

Second, for the introduction of supplier code of conduct, while Japanese MNCs were intensively performed after 2003, Korean MNCs were rapidly performed in the late 2000s.

Third, Japanese MNEs audit the ethics of domestic and overseas suppliers, while Korean MNEs ethics audits are limited to domestic suppliers.

Fourth, for the management organization, whereas Japan leads in CSR contracted organizations, Korean MNCs lead in control organizations that direct CEOs and purchasing divisions at the same time.

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