THE BUSINESS CASE OF CSR
– A STUDY AMONGST SUPPLIERS IN VIETNAM

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Abstract

Vietnam has experienced a rapid economic growth during the last decades. However, this rapid growth is not only positive. Working conditions in many factories are poor and insufficient wages are very common. As a response to this and the increased external pressure from stakeholders regarding Corporate Social Responsibility (CSR), many multinational companies (MNCs) have constructed codes of conduct which acts as guidelines for the suppliers. The purpose of this study is to explain and contribute to an increased understanding of how complying with a code of conduct set up by an MNC affects a Vietnamese shoe supplier’s view of committing to CSR as a way of increasing its profitability. This multiple case study was conducted using a qualitative research approach and is based on data that was gathered from mainly semi-structured interviews. As a way of getting access to Vietnamese suppliers we cooperated with a MNC that had their production outsourced to producers in Vietnam. By using the information in the theoretical framework we analyzed the empirical findings and found that a collaborative partnership between suppliers and MNCs when implementing CSR practices deriving from a code of conduct is crucial if the supplier don’t have any prior knowledge of such implementation. Benefits that suppliers have reaped from committing to CSR are decreased employee turnover, more committed workers and improved reputation. We also found that when experiencing these benefits gained from committing to CSR the commitment increases even more. The suppliers are also aware of the importance of CSR practices to achieve long term profitability. In the future, Vietnam may only attract customers that order high quality products. To be able to handle these new demands commitment to CSR and new technology are of grave importance.

This thesis will continue to be in English.

Keywords: CSR, MNC, supplier, code of conduct, commitment, implementation, benefits, profitability
Sammanfattning


Nyckelord: CSR, MNC, leverantör, uppförandekod, hängivenhet, implementering, fördelar, lönsamhet
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1 Introduction

In the introduction we present the background story to our thesis. We will give a brief overview of the recent development of the CSR concept as well as an overview of how CSR can be understood in Vietnam’s manufacturing industry. Furthermore, we provide the presentation of the problem leading to the purpose and research questions of the thesis. The chapter will be finalized by presenting the theoretical delimitations made in the thesis.

1.1 Background

In 1970, the economist and Noble Prize winner Milton Friedman expressed the to become well-known quote “The social responsibility of business is to increase its profits” (Friedman 2007, p.173). Friedman’s reasoning was based on the general conception of business managers acting as agents of shareholders. He reasoned how the business main agenda should be to maximize the return of shareholders investments by maximizing profits. Doing so would not only lead to acting in the best interest of the shareholders which money business managers had to spend, but also to a better society. With increased profits the government could distribute more wealth to the society and therefore, expect for the obvious of complying with laws and regulations, the social responsibility of business should only be to increase its profits (Friedman 2007). According to Trollestad and De Geer (2009) would this view characterize how many companies would set their priorities for many years in history. But they argue how from some time back, a new view gained importance, a view influencing the corporate agenda of many companies today, a view incorporating business ethics going beyond what’s legally required.

According to Trollestad and De Geer (2009) there are several reasons for why social responsibility of business now means something else from what it once did. It can partially be explained by globalization. Outsourcing of mainly production to countries with lower costs of labour connects companies and people worldwide every day to a much larger extent than any time before. It can also be related to the effects of global warming leading to environmental responsibility being a growing concern. Another important factor is how past experiences taught us how the previous view didn’t lead to a better society. The bankruptcies of Enron and Worldcom were clear statements of what solely acting in the interest of shareholders can bring. The last financial crisis can in similar fashion be explained by short term profit motives and unethical behaviour. The reaction to these events is a new concept growing in importance, the concept of Corporate Social Responsibility (CSR) (Trollestad and De Geer 2009).

CSR means in short companies responsibility divided in three different categories: social, environmental and economic responsibility (Grankvist 2012). The concept of CSR is often associated with the concept of sustainable development and the latter concept was defined by a United Nations (UN) commission from 1987 as; “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (Lélé 1991, p.611).

Vietnam is a country with a remarkable social and economic history. The World Bank (2013) reviews how Vietnam went from being one of the poorest countries in the world with a to a large
extent centrally planned and isolated economy, to within a quarter of a century develop into being a lower middle income country. The Gross Domestic Product (GDP) per capita increased during this period from a level of under 100 dollars per capita to 1130 dollars per capita being recorded at the end of 2010 (The World Bank 2013). The annual GDP growth has correspondingly rapidly increased averaging as much as 7.7% between 1993 and 2007 (Utrikespolitiska institutet 2012).

The export industry is without any doubts a key industry in Vietnam’s economy. According to statistics from Trading Economics (2012) export revenues stood for as much as 80 percent of Vietnam’s total GDP in 2011. Vietnam is now a common destination for multinational companies (MNCs) when outsourcing textile and shoe production. Especially since the costs of labour are lower than in China that is losing its title of being “the world’s factory” (Epoch Times 2012). The manufacturing industry for shoes in particular has in the last decade grown to establish itself as one of the most important export industries for Vietnam (Vietrade 2011).

It is however a fact how the growth of Vietnam’s manufacturing industry as well as the economic growth of the country, hasn’t come without any negative consequences for its people. Global.finland (2010) points out how poor working conditions and insufficient wages are everyday concerns for the people working in Vietnamese factories. Råd&Rön (2009) describes in a report about working conditions in Vietnamese shoe factories how the legal minimum wage barely provides enough for a decent living. The report also states how major MNCs such as Nike and Adidas who are contracting these factories are unwilling to enter arrangements of living wages in their codes of conduct. There is also only one legal trade union controlled by the Vietnamese communist party which creates huge obstacles for the workers to themselves improve their working conditions. Strikes that are not organized by the Vietnamese communist party are generally illegal (Råd&Rön 2009).

### 1.2 Presentation of the problem

Trollestad and De Geer (2009) argues how globalization to a large extent can explain the impact of CSR. They argue how MNCs when outsourcing production to countries with lower costs of labour should make sure the production is conducted in a legal and ethical manner. Tencati, Russo and Quaglia (2010) discusses how both consumers with a raised awareness of ethical conducts in the production and non-governmental organizations (NGOs), puts pressure on the MNCs to take responsibility for their suppliers. The way of doing so, to achieve sustainable and ethical practices is most often through composing a code of conduct. Such code stipulates several requirements set up by the MNC for compliance from the supplier. These requirements are generally concerning terms of wages, working hours, freedom of association, child labour, discrimination and health and safety (Tencati, Russo, Quaglia 2010).

Tencati, Russo and Quaglia (2010) argues that the advantages from having such agreements would benefit both the MNC and the supplier. With codes of conducts in place the MNCs could worry less about the risk of bad publicity which could affect their image and ultimately their sales. The suppliers would as well have to comply with these requirements to establish long term partnerships, as well as to gain a better position in attracting new clients. According to Luken and Stares (2005) the reality is however far more complicated. They discuss how many small export oriented companies in developing countries have to balance contrasting interests when it comes
to CSR. They are aware of the importance of acting socially responsible but they are also aware of how they must cut their costs to be able to offer competitive prices (Luken and Stares 2005). Would this mean that eager concerns of sustainable practices at the suppliers of MNCs are unachievable if it would lead to much higher prices?

Lim and Phillips (2008) argues that to achieve CSR practices at suppliers you need to give it the same priority as matters of price, delivery, and quality. In their study they reviewed how Nike learned that getting the suppliers to comply with their code of conduct was a very different matter from composing it. The key was to relieve pressure from the suppliers of having to offer the best price and delivery and to communicate that they would promise to keep placing orders if only more resources were allocated to comply with the agreed standards. By having such an approach, the working conditions were not only improved at the factories. Nike was relieved from the pressure of bad publicity and the suppliers were able to retain and attract new workers as well as gaining a better overall reputation (Lim and Phillips 2008).

There are several other studies confirming how adopting CSR practices lead to positive effects. Ansett (2007) points out how adopting such practices will reward companies in several aspects. The effects can be gaining a better reputation and image, avoidance of disputes, an increased ability to attract workers as well as retaining them and improved innovation. Tencati, Russo and Quaglia (2008) study shows how this relationship can be seen for suppliers in Vietnam. Their results show how working with CSR brings a more stable and productive working environment leading to, fewer mistakes in production, less accidents and lower employee turnover. Uadiale and Temitope (2012) confirms how this ultimately affects profitability. Their results on companies in Nigeria show how CSR practices enhanced both the return on equity (ROE) as well as the return on assets (ROA) for companies giving CSR priority.

The process of implementing CSR practices in an organization is however not always an easy thing to do. Amina and Richard (2012) points to lack of resources, time and knowledge as obstacles for especially small and medium sized enterprises (SMEs). Tencati, Russo and Quaglia (2008) argues how not receiving the right assistance from the buying companies when it comes to implementing CSR practices, leads to suppliers not knowing how to deal with the matter and therefore gets excluded from receiving orders from foreign companies. According to Tencati, Russo and Quaglia (2008) the buying companies should therefore collaborate with their suppliers to successfully get the practices in place. Amina and Richard (2012) argues how the right attitude and commitment from management and directors of suppliers are crucial in succeeding with CSR implementations.

Another element of understanding the view of CSR in the developing countries hosting the production of MNCs products is culture. Cagliano, Caniato, Golini, Longoni and Micelotta (2011) argues that culture is a more powerful contributor to not being able to adapt to new ways of organization compared to economic development. Hofstede (2007) describes in his study fundamental differences in corporate leadership between countries like India and China compared to USA and Denmark. This could show to be an important component when studying CSR in Vietnam since Vietnamese suppliers in many cases are managed by Taiwanese owners as pointed out by Wang (2005). This is a type of ownership derived from recent history when countries like Taiwan hosted the production of MNCs products (Lim and Phillips 2008).
This review of existing research shows how sustainable practices and compliance with codes of conduct are crucial for suppliers in order to get a better position in attracting foreign partners, as well as keeping them. Although getting the time, resources and knowledge to comply with the requirements set up by the MNCs is a problem, being successful seems to provide major opportunities. The studies of (Ansett 2007; Lim and Phillips 2008; Uadiale and Temitope 2012) all show a positive relationship between CSR and effects leading to increased profitability. Incorporating CSR concerns in the overall business strategy gives suppliers not only a better reputation and image, it also proves to contribute to increased productivity. With the exception of (Tencati, Russo and Quaglia 2008; Tencati, Russo and Quaglia 2010) very few studies have explored how this relationship is perceived amongst suppliers in Vietnam. If they would succeed with implementing CSR practices, benefits enhancing profitability will be an increased possibility. The process of reaching such outcome seems however to be a complex one. This leads us to our studies purpose and research questions.

1.3 Purpose

The purpose of our study is to explain and contribute to an increased understanding of how complying with a code of conduct set up by an MNC affects a Vietnamese shoe supplier’s view of committing to CSR as a way of increasing its profitability.

1.4 Research questions

The following questions will be studied to support our purpose

1. What factors would determine the supplier’s commitment to CSR?

2. What factors would determine a successful code of conduct implementation?

1.5 Delimitations

CSR is a broad concept. It contains economic, social and environmental responsibilities. In this thesis the main focus is to explore how social responsible actions can affect economic responsibilities such as being profitable. For that reason, the environmental aspect of CSR will be excluded. CSR means in general also different actions for companies in developed countries versus companies in developing countries. Our focus will be to study the actions taken by a Vietnamese shoe supplier that is linked to the implementation of a code of conduct. While the purpose of those actions is to promote sustainability in terms of human rights and human prosperity, our main focus is explore how commitment to and implementation of such practices leads to benefits increasing the possibility of profitability for the suppliers.
2 Method

In this chapter we explain how our qualitative multiple case study has been conducted. It will include; the background story to our study, our research design and research strategy, how data has been collected and processed, the interviewing process and how the trustworthiness of the study has been enhanced.

2.1 The background to our study

In October 2012 we decided to apply for a scholarship from the Swedish International Development Agency (SIDA) regarding a Minor Field Study (MFS) in a developing country. The purpose of the MFS-program and the scholarship is to contribute to the economic, social, political or knowledge based development of the country where the field study takes place (Universitets- och-högskolerådet 2013). This thesis is a qualitative case study that was performed in Vietnam during February, March and April of 2013 and with it we try to contribute to the economic and social development of the country.

As a way of getting access to Vietnamese suppliers we contacted a multinational company (MNC) that had connections in Vietnam and used Vietnamese suppliers. Through a dialogue with the MNC regarding the purpose of the study we then got the possibility to visit three of their suppliers. The empirical data presented in this thesis primarily derives from four actors that from now on will be referred to as The MNC, Supplier number one, Supplier number two and Supplier number three. “The code of conduct coach” is another term that will be used and refers to our main contact in Vietnam that works for the MNC as a supporting part for the suppliers.

2.2 Research strategy

We have chosen to conduct a qualitative study using a deductive research strategy. According to Bryman and Bell (2011) a qualitative method is well suited for studies aiming to create a deeper understanding, which we intend to do. Bryman and Bell (2011) points out that a deductive research strategy is the most commonly used strategy when conducting research in the field of business and economics. Deductive research strategy is characterized by using existing theory and formulating a hypothesis that is tested empirically. This strategy is well suited for quantitative studies and the opposite strategy, that is well suited for qualitative studies, is called inductive strategy. The inductive strategy aims to build theory from data that is gathered. However, they also clearly points out that qualitative studies and deductive strategies can be combined as well as quantitative studies and a certain degree of inductive strategy.

The fact that a deductive strategy is suitable for quantitative studies doesn't rule out, as mentioned earlier, the possibility to use a deductive strategy in a qualitative study. This study makes use of a deductive strategy even though the study itself is of qualitative nature. The reason for this is because we have used existing theories to try to create a deeper understanding of how complying with a code of conduct set up by an MNC affects a Vietnamese shoe supplier’s view of committing to CSR as a way of increasing its profitability.
We have also chosen to have an interpretative approach to our research which, according to Bryman and Bell (2011) takes into account that the research takes place in a social reality where subjectivity exists as a contrast to the positivist approach. This study is of qualitative nature and the research takes place in a social reality which is the reason why we have chosen an interpretative approach to our research.

### 2.3 Research design

Bryman and Bell (2011) claims that the research design used in a study should be decided by the purpose and the research questions. We have, from the purpose of this study, chosen to perform a case study or more specifically, a multiple case study. Bryman and Bell (2011) points out that a multiple case study should be performed when the number of cases involved in a study exceeds one. This study involves three cases which made a multiple case study the best alternative. A case study is, according to Bryman and Bell (2011), a study where focus is on developing a deep understanding of the complexity of the case. This fits well with the purpose of our study. By conducting a case study our aim was to get the full picture of the different suppliers view on the effect CSR and complying with a code of conduct has had on their business. It was also to be able to provide a more solid analysis that couldn’t have been if we only had conducted a single case study.

The fact that this is a multiple case study and the way the research questions are formulated also makes the use of a comparative design very suitable. Bryman and Bell (2011) suggests that a comparative design should be used when two or more cases are studied using the same method and that multiple case studies is considered in the section of comparative design. They also claim that a comparative design improves the possibility to understand social phenomenon since it allows for a comparison between cases. Because of this, a comparative design is useful when the purpose is to find similarities and differences between cases. The actors in this case study have had different characteristics regarding size and ownership which further increases the possibility to compare differences and similarities in level of commitment to CSR, which one of our research questions refers to.

### 2.4 Data collection and processing

As a way of getting the information that we needed for the background and the theoretical framework of the study, mainly scientific articles and books have been used. The scientific articles were accessed through databases such as Summon and Business Source Elite and key words such as CSR, Social Responsibility, Profitability and Code of Conduct have been used as a way of getting a hold of the most relevant articles. We also went through the references of articles that were relevant to our study to find other articles that were of the same relevance.

As a way of collecting data for the empirical part of the study, mainly semi-structured interviews were conducted. The reason for this is that a semi-structured interviewing method is very flexible and makes it possible to adapt questions and add additional questions if needed. According to Bryman and Bell (2011) this flexibility makes it possible to get as comprehensive answers from the respondent as possible. Except for interviews as a source of extracting data, regarding the MNC’s code of conduct, documents provided by the MNC and their website were used.
Bryman and Bell (2011) points out that a researcher that use this interviewing method should make use of an interview guide consisting of questions concerning a relatively specific topic, which we also have done. The reason for this is to make the interviewing process clearer. The questions in the interview guide that we have been constructed regarding this study were formulated in a way that was supposed to guide both us and the respondents through the interview process. Additional questions occurred during the interviews which is something that the semi-structured interview method allows and encourages. We also constructed different interview guides since interviews were conducted with people in different positions and roles. Flexibility is the keyword regarding semi-structured interviews and the method is well suited for qualitative studies where the purpose is to create a deeper understanding of a certain area (Bryman and Bell 2011).

Before each interview we explained the purpose of our study and the interviewees were allowed to speak freely regarding the subject in question. We also used the interview guide to ask the interviewees more specific questions when we noticed that there was a need for that. The interviews with the respondents were conducted in offices provided by the respective supplier that was visited with both of us attending together with an interpreter. This allowed us to conduct the interviews in quiet and private areas which, according to Bryman and Bell (2011), are important. The interviews were also recorded, with the permission of each respondent, to minimize the risk of misunderstandings. The recorded interviews where then transcribed. We have also had the possibility to contact the code of conduct coach of the MNC involved in this study when complimentary information was needed.

The empirical data was gathered in Vietnam during eight consecutive weeks. The initial period in Vietnam consisted of practical arrangements such as getting in contact with the MNC’s code of conduct coach and preparations for the interviews. The period that followed consisted of visiting the suppliers that participated in the study and conducting the interviews. The three suppliers that participated are, as mentioned, different regarding size and ownership and the main purpose of this was to be able to make comparisons. All interviews were then, as mentioned, recorded and transcribed. This made it easier for both of us to thoroughly go through what have been said and make sure that both of us was on the same terms of the meaning of what have been said. This is linked to the trustworthiness of the study.

The theoretical framework was then used to analyze the empirical results. From the theoretical framework we constructed an analysis model which was used to analyze the results from the empirical study. The first part of the analysis focuses on the factors that determine the supplier’s level of commitment to CSR. The second part focuses on the factors that determine a successful code of conduct implementation and the last part focuses on the effect on profitability. The analysis is arranged in this way to show how complying with a code of conduct set up by an MNC affects a Vietnamese shoe supplier’s view of committing to CSR as a way of increasing its profitability.

### 2.5 Sampling and respondents

As mentioned earlier, as a way of getting access to Vietnamese suppliers we contacted the MNC and through a dialogue regarding the purpose of our study we were presented with three suppliers
to visit. According to Bryman and Bell (2011) this sampling method is referred to as “snowball sampling”. Snowball sampling is a form of subjective sampling method where the sample is handpicked for the specific research. Even though we got in touch with our respondents through snowball sampling a level of purposive sampling was also present. Bryman and Bell (2011) claims that the goal of a purposive sampling is to sample cases relevant to the research questions formulated in the study. The samples in this study are not random but strategically chosen to get the data that is necessary to answer the research questions. This is something that purposive sampling is characterized by (Bryman and Bell 2011).

As a way of extracting high quality data we interviewed people in leading positions within each factory that had relevant knowledge and insight regarding the individual suppliers view on social responsibility and sustainability. Interviews were also conducted with factory workers and with a code of conduct coach from the MNC. The reason for this was to get further insight regarding commitment to CSR, implementation of a code of conduct and their view on social responsibility and its relation to profitability. For further clarification we interviewed one person from management and the HR manager at each respective factory. However, we only got the possibility to interview workers from two of the three suppliers that we visited. A total of nine interviews were conducted.

When choosing respondents in terms of workers from each respective supplier we used convenience sampling. A convenience sample is, according to Bryman and Bell (2011), a sample that is characterized by its accessibility. The respondents were not decided beforehand and interviews were conducted with workers that were available at the specific moment.

2.6 Ethical dilemmas

All of the respondents that have participated in this study have been offered the possibility to remain anonymous and have also chosen to be anonymous. Bryman and Bell (2011) states that the researcher is responsible for minimizing the risk of exposing the participants in the study to harm. This is one of the reasons why the possibility to be anonymous is important to offer. Another reason is that the chance of gaining access to necessary information and data increases by giving participants the possibility to be anonymous.

2.7 Reliability and Validity – Trustworthiness

Reliability and Validity are, according to Bryman and Bell (2011), two important criteria when evaluating the quality of business research. The use of these criteria regarding a qualitative study is, however, questioned. Because of this an alternative criteria, trustworthiness, have been formulated for assessing the quality of qualitative research. For the research to have high quality this criterion must be met. Bryman and Bell (2011) points out that there are four aspects of trustworthiness that can be linked to validity, reliability and objectivity. These four aspects are:

1. **Credibility** – How believable are the findings?
2. **Transferability** – Do the findings apply to other contexts?
3. **Dependability** – Are the findings likely to apply at other times?
4. **Confirmability** - Has the investigator allowed his or her values to intrude to a high degree?
As a way of increasing the trustworthiness of our research we have tried to put personal values and opinions aside and focused on being as objective as possible. This is connected to the confirmability aspect of the research and is an important part of increasing the trustworthiness.

We have also tried to compare our empirical findings with the theoretical framework during the whole writing and analyzing process as a way of keeping the credibility of the research at a high level. We recorded all of the interviews and both of us went through the collected data to ensure that the data that we present in this study reflect what the respondents actually said and meant. We didn't have the possibility to interview the factory workers from one of the suppliers which may have an effect on the trustworthiness of the study. However, we got the possibility to interview factory workers from two of the suppliers which contributed to a good understanding of the workers relation to CSR. The HR manager at the factory where no workers were interviewed also provided some information regarding the workers situation and view of the situation at that specific factory.

The language barrier is something that also has to be taken into account when assessing the credibility of our research. We preferred to speak directly to the respondents that were versed in the English language instead of using an interpreter and the reason for this was to not lose any information that might disappear in a translating process. However, at sometimes an interpreter was necessary. The interpreter that was available to us was provided by the MNC and was accepted by us as a way of gaining access to the suppliers. The credibility of the study might be affected by the fact that the interpreter was provided by the MNC which also is a reason that we preferred to speak directly to the interviewees.

As a way of enhancing the transferability of our research we have tried to, as thoroughly as possible, describe the context in which the research have taken place and the research process which, according to Bryman and Bell (2011) is a way of increasing the transferability of research. As an example of this there is a description of each supplier in the empirical part of the study. Transferability of the research and the possibility to generalize the research is closely connected which is something that is hard to do with qualitative research and especially case studies, according to Bryman and Bell (2011). We are aware that our findings have limitations and might not be generalizable since the research regards a few cases in a specific industry but measures have been taken that might, as mentioned earlier, enhance the transferability.

The limitations of our research can be summarized as 1. The use of an interpreter provided by the MNC might have an effect on the trustworthiness of the study 2. The findings might not be generalizable since this is a case study that have been conducted in a certain context and might not be applicable regarding cases of other characteristics.
3 Theoretical Framework

In this chapter we present the theoretical framework. Definitions of CSR will be presented with two of the most influential CSR models. Furthermore, previous research on codes of conduct, commitment to and implementation of CSR practices, benefits from CSR and the relationship with profitability, and CSR in Vietnam will be presented. The chapter will be finalized with a summary of the theoretical framework as well as by presenting the analysis model.

3.1 Defining CSR

It is evident when analyzing past experiences and reviewing existing literature how CSR has become a matter of increased importance and popularity. Carroll (1999) however reviews how the concept of CSR can be traced back to 1953 when Howard R. Bowens book *Social Responsibility of the Businessman* was published. Bowen acknowledged how big corporations decision making could influence the lives of citizens in several aspects and therefore defined CSR as how business managers should make those decisions that are in line with the objectives and values of the society (Carroll 1999).

When Dahlsrud (2008) categorized the most commonly accepted CSR definitions of today he concluded that the vast majority of written definitions of CSR contains a social, economic and stakeholder dimension. The social dimension is explained as how business organizations should contribute to a better society. The economic dimension as how business organizations have the right to be profitable, as well as how they should integrate CSR in their business operations. The stakeholder dimension as how business organizations should interact with their stakeholders, such as employees, suppliers, customers and communities. Dahlsrud (2008) argues how it would seem surprising how various authors have paid less attention to the environmental dimension when defining CSR. He explains however how environmental concerns in many cases are included in the social dimension and that it therefore should be seen as belonging to the same level of relevance as the three most prominent dimensions of written CSR definitions.

When Hockerts (1999) attempted to define CSR he turned to the concept of sustainable development and by translating how that concept could be understood for corporations, he stated: “Corporate sustainability is any state of business in which it meets the needs of its stakeholders without comprising its ability to meet their needs in the future”. (Hockerts 1999, p.31).

With several definitions of CSR, many authors have debated to what extent that creates problems when taking on and implementing the concept. According to Wan Saiful (2006), various definitions brings ambiguity to what the concept really means and confusion when wanting to adopt the concept. Dahlsrud (2008) however argues how the various definitions is not itself the problem. Most CSR definitions hold similar meaning, the problem is how business managers socially construct its own meaning of the concept when trying to implement it in its operational activities. van Marrewijk (2003) supports this view when debating how today’s corporate complexity and the increased influence of the civil society and NGOs on business operations, means corporations must accept how they operate within grey zones of responsibility. Therefore business managers has to act pragmatically and transparent to serve the responsibilities it has towards stakeholders when meeting the demands from customers (van Marrewijk 2003).
3.1.1 The Pyramid of CSR

The Pyramid of CSR created by Carroll (1991) is one of the most commonly accepted CSR models defining what CSR really means for corporations. It was developed to provide guidance for business managers in how to balance the interest of its shareholders with the interest of its stakeholders (Carroll 1991).

The Pyramid exists of four categories capturing the total scope of what CSR practically means for businesses. The categories are economic responsibilities, legal responsibilities, ethical responsibilities and philanthropic responsibilities. The idea of the pyramid is to illustrate how one type of responsibilities lays as the foundation for the responsibilities of the next level. This does however not mean that one level of responsibilities has to be fulfilled for a business to engage in the next level. It’s more a way of showing how unless one level of responsibilities in the pyramid is fulfilled, the responsibilities in the upper level would receive less consideration and prioritization (Carroll 1991).

Carroll (1991) starts the pyramid with economic responsibilities. The core of a business organization has throughout history, and still is, earning profits. The foundation for social responsible actions must therefore be complying with the economic responsibilities such as having strategies for competitiveness and productivity leading to profitability. Next in the pyramid follows legal responsibilities. Carroll (1991) means that no business organization should be able to earn profits without complying with the laws and regulations. Legal responsibilities and economic responsibilities are according to Carroll (1991) both equally important and should be seen as parallel to each other instead as of different levels.

The next level of responsibilities is ethical responsibilities. Carroll (1991) defines this level of responsibilities as to what responsible actions the business various stakeholders (such as employees, consumers, suppliers and owners) are expecting from the organization without it being stated in any law. The concept of the level is that business organizations should do what is ethically right. Ethical responsibilities also move in and away from the legal responsibilities. Carroll (1991) explains how the civil society puts pressure on law makers to institute new laws of corporate responsibility, as well as at the same time expecting higher levels of ethical responsibilities apart from what is stated in the law.

The last level of the pyramid is philanthropic responsibilities. Why this is considered as the top level of the pyramid, after ethical responsibilities is because, in this level, it wouldn’t be seen as unethical by the corporation if it didn’t engage in the actions defined in the level. In that sense philanthropic responsibilities could be explained as how it goes beyond moral actions towards stakeholders. Examples of philanthropic responsibilities could be giving money to charitable institutions or taking part in activities that would improve the quality of life for communities (Carroll 1991).
The model of the Pyramid of CSR is illustrated below:

Figure 1: The Pyramid of CSR, modified from Carroll (1991)

3.1.2 The Stakeholder theory

Another commonly accepted model related to CSR is the stakeholder theory. Fassin (2009) reviews how the model developed by Edward Freeman in 1984 originally included seven stakeholders of a firm’s activities (competitors, customers, employees, civil society, suppliers, shareholders and government). In 2003, Freeman revisited the model to include five internal stakeholders having a real stake in the firm’s activities and six external stakeholders having an influence in the company’s activities most notably pressure groups (Fassin 2009). Freeman’s revisited stakeholder model is shown below.
Freeman (2004) clarified the purpose of the theory as how no business should ignore the effects its operational activities could have on its stakeholders since the stakeholders have the possibility to influence the company in return. Therefore business managers must consider stakeholder interests and develop strategies to meet their needs. Sundaram and Inkpen (2004) are opponents of having such an approach meaning that stakeholder management creates obstacles to act in the best interest of shareholders when several interests have to be balanced. Freeman, Wicks and Parmar (2004) however argues how the most profitable companies are the ones having stakeholder value creation as main corporate objective. According to Freeman, Wicks and Parmar (2004), without offering jobs employees want to have, without having a stable and mutual beneficial relationship with suppliers. Without complying with laws and regulations and being a good corporate citizen for the community, and finally without offering products and services customers are willing to buy. Making profits will be a much harder objective to achieve.

One of the advantages of the stakeholder theory is according to Carroll (1991) how it identifies who the social responsible actions are to be directed towards. Donaldson and Preston (1995) debates how the stakeholder theory communicates the moral responsibility of business management to consider the needs of stakeholders. Being a moral manager is according to Carroll (1991) seeing ethical behaviour towards stakeholders as a key element of the corporate objective. Such manager acknowledges both the responsibility of acting morally towards stakeholders, as well as the mutual benefit when stakeholders will act in the best interest of the company as a
the interest of stakeholders by realizing how stakeholders can create value for the corporation
was exactly what he intended to communicate when his ideas were published.

How dealing with the stakeholder theory is a managerial issue is supported by (Carroll 1991;
Donaldson and Preston 1995; Freeman, Wicks and Parmar 2004; Fassin 2009). Donaldson and
Preston (1995) means that, the way stakeholder theory can be seen in business organizations
today, utterly depends on how the concept of the theory has been conceptualized by business
managers. Carroll (1991) argues how the goal of a good and prosperous society where all
stakeholders gets there needs fulfilled, including the company, never will be a realization without
it being a preoccupation of management.

3.2 Codes of Conduct

“Codes of conduct are written statements of principle or policy intended to serve as the
expression of a commitment to particular enterprise conduct” (Diller 1999).

3.2.1 Background

According to Waddock and Graves (2002) companies are today experiencing increased pressure
from stakeholders to manage their business in a way both being responsible and profitable. This
increased pressure of corporate responsibility focuses on practices having an impact on
stakeholders and the natural environment. As a response to the increased pressure MNCs started
to adopt codes of conduct during the 1990s. One of the reasons for this was how more than a few
cases of exploitative labour in the supply chains of MNCs were exposed. In the late 1990s the
pressure increased even more and MNCs started to pressure their suppliers to adopt these codes
of conduct (Waddock and Graves 2002).

3.2.2 Supplier code of conduct and the process of implementing a code of
conduct

In their research report, Egels-Zanden and Bergström (2013) points to how existing research
claims codes of conduct are supposed to work. The work with a code of conduct is often
initialized because of external pressure from stakeholders, as mentioned earlier. The code of
conduct consists of policies the supplier agrees to follow through formal agreements. However,
some suppliers fail to comply which forces the buying company to conduct audits. These audits
are conducted by either the buying company or an external auditor. If the audit shows that there
are no deviations the business relation between the supplier and the buying company continues
but if the supplier violates the code of conduct, the buying company can choose to establish a
“Corrective Action Plan”. This plan explains to the supplier what has to be corrected for the
business relation to continue. A new audit is then conducted and decides whether the business
relation will continue (Egels-Zanden and Bergström 2013). The below figure illustrates the scope
of the process.
In the end, according to Egels-Zanden and Bergström (2013) the threat of losing a buyer is what should motivate the supplier to improve working conditions. Even though Egels-Zanden and Bergström (2013) points out that pressure from stakeholders often acts as a catalyst for implementing a code of conduct, they also mention that a few companies could have different reasons for implementing a code of conduct.

According to Diller (1999) many codes that MNCs uses could be considered as ethic rules not being intended to be implemented anywhere else but in the specific company but there are also codes intended to be applied internationally. These codes are used as “sourcing guidelines” for business partners in a supply chain. Yu (2008) points out how codes of conduct can differ but the majority being based on the core conventions of International Labour Organization (ILO). These core conventions focuses on different topics such as child labour, forced labour, discrimination in respect of employment and occupation, protection of freedom of association and collective bargaining, protection of health and safety, wages and treatment of women (Yu 2008).

Lim and Phillips (2008) focuses on the importance of having a collaborative partnership when implementing a code of conduct. A collaborative partnership between a buying company and its suppliers leads to a deeper understanding of the value of CSR and contributes to increased commitment. Lim and Phillips (2008) points to Nike’s change from having a distant relationship with their suppliers to having a collaborative partnership as a good example of how beneficial a collaborative partnership can be. This new type of partnership made the suppliers feel safer in their business relation to Nike. The fear of losing orders to other manufacturers with lower degrees of CSR practices disappeared and they went from conditionally adopting CSR to supporting CSR (Lim and Phillips 2008).

Another aspect that is important to take into consideration is the quality of a code of conduct. Erwin (2011) suggests how there is a positive relation between the quality of a code of conduct and CSR performance. Organizations putting in a lot of effort and capital into constructing a high quality code of conduct are more likely to see positive effects on the organizations ethical behaviour (Erwin 2011).
3.2.3 BSCI

Even though many codes of conduct are constructed and designed for and by an organization, there are also initiatives such as Business Social Compliance Initiative (BSCI) that brings together different standards and codes. According to Teuscher, Grüniger and Ferdinand (2006) standardization of codes of conduct has the possibility to increase the efficiency of supply chain management. The reason is how a code of conduct used by BSCI is less demanding than other initiatives and this may, for example, lead to a reduced number of supplier audits (Teuscher, Grüniger and Ferdinand 2006).

3.2.4 Criticisms and problems

Teuscher, Grüniger and Ferdinand (2006) however argues how codes of conduct and especially standardizations of codes of conduct such as the one BSCI provides has deficiencies. One of the major problems is the use of audits as a way of monitoring suppliers instead of having a collaborative approach. The reason why the use of audits as the only way of monitoring compliance is a problem is because audits only tend to identify problems instead of analyzing the reason why there is a problem to find solutions. Jenkins (2001) focuses on another problem and suggests that the adoption of codes of conduct don’t necessarily lead to improved conditions. One of the reasons for this is how codes of conduct often include prohibitions. Prohibitions of child labour might, for example, force the children to seek employment elsewhere where the conditions may be even worse (Jenkins 2001).

Yu (2008) identifies another problem concerning large MNCs and the implementation of codes of conduct in their supply chains. She states in her article that big MNCs dominating the athletic footwear industry have special purchasing practices. These purchasing practices are based on supplier evaluation that uses specific criteria regarding price, quality and to a certain degree also labour practices. The MNCs use the criteria to evaluate the supplier and then award each supplier a certain score. The supplier with the highest score will for example receive a higher volume of orders in the future. So, instead of rewarding suppliers for having good labour practices they reward the suppliers meeting the supplier evaluation criteria. By doing this, they somewhat forces the suppliers to comply with the code of conduct and use their buying power as leverage (Yu 2008).

3.3 Commitment to CSR and implementation of CSR practices

There are various factors having an effect on the level of commitment to CSR within a company. According to Amina and Richard (2012) some of the more influential factors are size, mission, sector, local foothold and the head of the business. Research conducted by Lim and Tsutsui (2012) shows that global institutional pressure from stakeholders has a positive effect on the adoption of CSR but this pressure has different effect on companies in developed countries compared to companies in developing countries. In developing countries, the pressure is more likely to lead to substantive commitment but in developed countries it is more likely to lead to ceremonial commitment. One of the reasons for this is how companies and governments in developing countries tend to commit to CSR frameworks because they want to appeal to international trade partners. Lim and Tsutsui (2012) also states that another important factor for
substantive commitment to CSR is the level of democracy in developing countries. A higher level of democracy encourages substantial commitment to CSR.

Tang, Hull and Rothenberg (2012) stresses the importance of focusing on a few related areas of CSR instead of several different areas when implementing CSR practices. By focusing on areas related to one another it is easier for companies to get the necessary knowledge and skills associated with that area instead of having to acquire knowledge regarding different areas. Another advantage is how it is easier to allocate resources to two related areas. If however they choose to focus on two different areas it will have a negative impact on the effectiveness and ultimately reduce their chances of turning a profit. However, focusing on two related areas increases the chance of turning a profit (Tang, Hull and Rothenberg 2012).

Aguilera, Rupp, Williams and Ganapathi (2007) points out in their article that some corporations implement CSR practices on a superficial level instead of making it a central part of the company strategy. The reason for this superficial adoption is that corporations want to take advantage of the beneficial aspects of CSR without putting in the work needed to make CSR a core part of the organization. Aguilera et al. (2007) also states that the employees view of the company is important when it comes to their commitment to the company. If the employees identify themselves with the specific company and feel committed to it, it may have a positive effect on CSR initiatives since employees are an important part of those initiatives (Aguilera et al. 2007).

### 3.3.1 Factors having an effect on CSR commitment

The head of a business has, as stated above, an important role when it comes to commitment to CSR. Amina and Richard (2012) points to the influence of directors in SMEs which is enterprises having less than 250 employees or having a turnover of less than 50 million Euro (European Commission 2013). According to Amina and Richard directors of SMEs have the possibility to obtain a more personal relationship with the staff compared to directors of larger corporations leading to a more informal working environment. Because of this, there is a possibility that directors of SMEs are more likely to think about CSR in a way being more ethical than directors of larger corporations. Hemingway (2005) also points to personal morality and personal values as something having to be taken into consideration when it comes to how motivated a director is to commit to CSR. The location of a business and especially the level of local foothold is another factor, as mentioned earlier, that effects commitment to CSR. Amina and Richard (2012) states how many SMEs have a strong connection to the region where they operate leading to CSR activities for the local region being viewed as important.

The size of a company is another factor being important regarding commitment to CSR and implementation of CSR practices. According to Amina and Richard (2012) SMEs seldom have the financial resources and knowledge to implementing CSR practices on their own which is supported by Roberts, Lawson and Nicholls (2006). When the financial situation creates an obstacle for CSR implementation Amina and Richard (2012) argues how the role of the director is very important since if the director doesn't believe the financial situation allows the company to invest in sustainable practices, no such investments will occur. Thus, the director's perception of the financial situation in an SME is of great importance when it comes to level of commitment to CSR (Amina and Richard 2012).
3.4 The Business case of CSR

According to Carroll and Shabana (2010) arguments for and against CSR have been expressed since the debate over CSR began. In 1970 Milton Friedman criticized CSR advocating how businesses shouldn’t be concerned with social issues and to instead focus on maximizing profits for shareholders return on investment. He argued that the social problem should be handled by the free market and if the free market can’t handle the problem, the governments should be the ones to solve it. This is, according to Carroll and Shabana (2010) one of the main objections to CSR. Another objection is that businesses aren’t suited to handle social issues, mainly because managers don't have the knowledge to make social decisions. These are some of the main argument against the concept of CSR. Advocates of CSR, on the other hand, claims social responsibility is important for the long term survival of a business (Carroll and Shabana 2010).

Research conducted by Choi, Kwak and Choe (2010) show how there is a positive connection between CSR and financial performance. The research shows more explicit how CSR has a positive effect on return on assets (ROA) and return on equity (ROE). The connection between CSR and a company’s financial performance is however according to Lin, Yang and Liou (2009) not always easy to analyze. One of the main reasons for this is how investments in development don’t have an immediate effect on the financial performance. The effects derived from such investments will not become visible in a short term perspective. However, the research conducted by Lin, Yang and Liou (2009) show how CSR can have a positive impact on long term financial performance. Tang, Hull and Rothenberg (2012) points to consistency regarding CSR as very important. If a company has an inconsistent approach to CSR the effects on the long term financial performance might not be as noticeable as it could be. Inconsistency also has a negative impact on the knowledge of CSR since the learning process is interrupted by the inconsistency.

Even though an immediate connection between CSR and financial performance is hard to point out there are benefits from working with CSR. Existing research, according to Amina and Richard (2012) points to positive aspects from CSR for both SMEs and larger companies. Some of these positive aspects are improved corporate image and reputation, better working relations with the staff, improved product quality and productivity. Other advantages linked to CSR are cost reduction and increased efficiency related to careful management practices. Mahon and Wartick (2003) addresses how existing research show the importance of good corporate reputation. Reputation can be used in two ways. The first way is by improving the competitive position on the market and the second way is by maintaining a market position when being under pressure from competitors (Mahon and Wartick 2003).

CSR activities and sustainable practices have also shown to be important to employees and job applicants. Aguilera et al. (2007) argues how a company's social performance is an important factor when it comes to attracting new employees. Research shows that employees prefer to work for socially responsible firms and they use the company's social reputation to decide whether they would like to work for the organization or not. Aguilera et al. (2007) also points out that the employees will to contribute to social initiatives is linked to the company's level of commitment to CSR. According to Greening and Turban (2000) CSR also contributes to an increased chance of attracting skilful workers which is important in regards of gaining a competitive advantage.
A firm may also gain advantages from CSR by being proactive. CSR is often characterized by proactivity and Burke and Logsdon (1996) claims how being proactive is crucial when it comes to creating value for a firm. As an example they mention that by being proactive in regards of educating the workforce and commit to new technology, a firm has the possibility to increase their efficiency and in the end gain advantages towards competitors (Burke and Logsdon 1996).

In a report by the United Nations International Development Organization (UNIDO) Raynard and Forstater (2002) suggests how even though there is a risk CSR standards may have a negative effect on the development of SMEs in developing countries by them acting protectionist, the possible positive aspects are many. The report points out that if a firm successfully integrates CSR in the business strategy, benefits such as improved productivity and corporate reputation alongside with improvements in management might be a reality (Raynard and Forstater 2002).

3.5 Labour relations and CSR in Vietnam

In 1986 the Vietnamese government introduced structural economic reforms meant to transform the countries centrally planned economy to a more market oriented one. That meant breaking the monopoly of state owned enterprises (SOEs) and allowing the economic system to react to market forces (Collins 2011). With these reforms came many changes in the labour legislative system. One of the most central changes came in 1994 when labour contracts were introduced allowing enterprises to themselves handle their own recruitments and dismissals. Other changes taking place in the 1990s concerned setting limits for minimum wages, introducing a 40 hour working week and passing on new policies for health insurance and social security (Collins 2011).

Collins (2011) claims trade unions are considered to be a key component of Vietnams labour legislative system but that the unions aren’t working as they should. The Vietnamese government hasn’t been able to adapt its labour policies to the new influences of a market capitalistic economy. There are formal procedures for how labour strikes should be initiated but many workers have organized strikes for better working conditions and higher wages, without official permission from the union. Partly because they don’t have the knowledge of the official procedures, but also because they feel the unions are inadequate in meeting their demands (Collins 2011). According to Kim (2013) the public law enforcement of Vietnams labour laws are not working properly either. Not only are there weak inspections of how laws and regulations are complied. Ineffective and low penalties are issued when violations occur, and sometimes government officials even claim money to pass controls.

Kim (2013) also discusses the effectiveness of codes of conduct in Vietnams footwear and apparel industry. According to Kim many Vietnamese factory managers are reluctant to engage in issues concerning compliance with codes of conduct. In general they see such issues as merely increased costs. For them to really focus on such concerns, social auditors have to be pragmatic and explain what benefits engaging in such compliance will lead to. It also helps the social auditors if they claim that parts of the compliance actually means obeying the law set up by the Vietnamese government. Luu Trong (2011) supports the view regarding Vietnamese businesses managers lacking awareness of the importance of CSR. Vietnamese business needs long term strategies to implement CSR programs but the fact that the majority of Vietnamese businesses are
SMEs where concerns of sustainability haven’t been a priority brings big obstacles (Luu Trong 2011)

Kims (2013) study reveals how Vietnamese workers in general have a vague sense of what rights they have, stated in the codes of conduct for their employers. However, these codes work more as a way of raising the workers awareness of what they are not receiving from their employers, rather than being an instrument for improved working conditions. This awareness could and is increasingly working as a catalyst for opposition towards factory management in Vietnam (Kim 2013).

3.6 Summary of theoretical framework

CSR is evidently a matter of increased importance for the corporations of today. It stands for corporate responsible actions towards stakeholders, the environment as well as the corporation itself. In the model of the CSR pyramid, economic and legal responsibilities such as being profitable within law compliance lay as the foundation for ethical and philanthropic responsibilities. The stakeholder theory identifies several actors with something at stake from a company’s activities who can influence the company in return. Business managers should therefore incorporate the idea of stakeholder management in their business strategies.

Codes of conduct were developed by MNCs as a response to external pressure from stakeholders as a way of ensuring decent working conditions for the workers producing their products at their suppliers. The code of conduct delivered to the suppliers consists of policies and requirements the supplier agrees to comply with. To verify such compliance the MNCs can choose to conduct audits to spot deviations and demand improvements. Merely focusing on auditing doesn’t however necessarily lead to improvements since reasons for deviations rarely are identified. By instead collaborating and working together with suppliers in order to reach the requirements stated in the code, chances increase of successfully implementing the code. Suppliers also need to be committed to CSR in order to reach sustainable practices and factors determining such commitment can be local foothold, size, financial resources, head of business and CSR knowledge.

CSR practices bring several corporate benefits connected to financial performance although most relevantly on a longer term perspective. With CSR practices, the corporate reputation improves which attracts both customers and workers. It also increases: workers commitment, productivity and efficiency as well as contributing to improved working relations with the staff and product quality.

The government of Vietnam has initiated many reforms to transform its economy to a market oriented one. These reforms have meant many structural changes in the labour legislative system but a functioning system for trade unions have not been accomplished. Vietnamese factories are also increasingly experiencing the influence of codes of conduct. However, instead of them working as means for improved working conditions the codes can also act as catalysts for workers to gather opposition towards factory management for what they are not receiving.
3.7 Analysis model

The following analysis model has been developed from understanding the theoretical framework. The model will be used as guidance when analyzing the results from our empirical study in order to answer the thesis purpose and research questions.

![Diagram of Analysis model]

**Figure 4: Analysis model**

The model shows how external pressure from stakeholders demanding increased responsibility for the labor practices at the suppliers of MNCs leads to MNCs developing codes of conduct. The code of conduct contains several requirements concerning matters for better working conditions as well as for a safe and decent working environment. The supplier receives the code of conduct from the MNC and is responsible for the implementation process leading to investments derived from the requirements stipulated in the code. When the code of conduct has been successfully implemented the supplier will experience several benefits leading to an impact on their profitability but in a longer term perspective. After experiencing how the code of conduct practices lead to benefits interplaying with future profitability the suppliers commitment to CSR should increase and the supplier should also develop an increased understanding of the importance of CSR compared to the time before they complied with the code of conduct. The commitment to CSR should also increase when the benefits lead to realized increased profitability.

When analyzing our results customers and employees will be the relevant stakeholders to focus on. The MNC responding to external pressure will act as customer to the suppliers and the suppliers employees will act as the stakeholder experiencing the changes derived from the code of conduct. The role of supplier management will be crucial to understand how commitment to CSR is created as well as how the management acts to implement the code of conduct. The role of the MNC will also be important when analyzing their approach used to verify how the practices are complied. Finally, how the suppliers managers reason regarding the benefits experienced from code of conduct compliance and how those benefits interplay with profitability will be crucial when analyzing if they commit to CSR differently after starting to comply with the code of conduct.
The following key concepts have been singled out from the theoretical framework and are meant to be used as complementary guidelines when analyzing the results from our study.

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<td>Head of business</td>
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<td>Knowledge of CSR</td>
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Benefits and profitability
- Improved reputation
- Increased: worker commitment, productivity and efficiency
- Improved worker relations
- Improved product quality
- Long term impact on profitability
4 Empirics

Here we present the results from our empirical study. The code of conduct and the strategy when implementing the code of the MNC is first presented. We will then present our three suppliers with the results gathered from each case. Supplier number one will receive a more extensive description compared to the other two cases since we had better access to that case when our research was conducted. The chapter will be finalized with the results from an interview of the importance of CSR for long term profitability.

4.1 The code of conduct

The MNC’s code of conduct contains several elements. The following information, gathered from the MNC’s code of conduct will help to explain the essence of the code.

Suppliers shall, at all times, comply with local laws and regulations, industrial standards and ILO and UN conventions. Child labour shall not be used. No one is allowed to work under the age of 15 unless a higher age is stated in local law. No one shall be subject to forced labour. The employment is freely chosen. No one shall be forced to stay and work after standard working hours and all kinds of corporal punishment are forbidden. Employees should also receive their salary directly from the factory where they work.

The working environment shall be safe and hygienic. Chemicals used in production are to be stored in a separate warehouse in a safe way. Clear safety instructions shall be provided and usage of chemicals restricted by the MNC is strictly forbidden. Escape routes and emergency exists shall be highlighted and there shall be a management representative at the workplace, responsible for health and safety.

Working hours shall not be excessive. The workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with at least one day off for every six day period. Any type of discrimination is prohibited and workers shall have the right to form and join trade unions to bargain collectively. Suppliers shall make sure that wages and benefits are paid in accordance with the legal standards and all overtime shall be compensated.

Workers shall receive training systematically and if dormitories are provided, they shall comply with the regulations concerning health and safety and it must also meet up with the standards concerning local minimum legal space.

The supplier management shall have a good understanding of the content in the code of conduct and there shall be a qualified person at the workplace in charge of social compliance issues. That person would be responsible for documenting, updating and implementing all legal regulations and laws, such as ILO and UN conventions, national laws and environmental laws. The management system shall also ensure that the MNC’s code of conduct requirements is always being fulfilled.

The code is finalized by stating that the supplier shall make sure to support and co-operate in the implementation and monitoring of the code. That means that the supplier shall: provide the MNC
with relevant information concerning their business, at any time permit inspections from the MNC, maintain records of name, age, working hours and wages paid for each worker, inform verbally and in writing (in local language) the workers concerned of the provisions of this code and also to refrain from disciplinary action, dismissal or otherwise discriminating against any worker for providing information concerning observance of this code.

There are some requirements stated as minimum requirements meaning they have higher priority and must be in place for the MNC to place orders. If they are breached, an immediate action plan will take place. Those requirements are:

- No child labour
- No forced labour
- No deposits or illegal deductions from wages
- No discrimination
- Clean drinking water shall be available for all floors and dormitories
- First aid boxes shall be clearly marked and include necessary first aid material
- Emergency exits and escape routes shall be free and enlightened
- Fire extinguishers and fire equipment shall be available in a sufficient number and at appropriate locations

### 4.2 Strategy when implementing the code of conduct

The MNC employs what they call code of conduct coaches that work on the field in close contact with the suppliers, coordinated from the MNC’s head office. These codes of conduct coaches do not have an auditing approach when they inspect the factories to review how the code of conduct is complied. According to the code of conduct coach responsible for the suppliers in Vietnam, his focus when getting the code of conduct requirements in place is to collaborate with the suppliers. To listen to what problems suppliers have in order to get the practices in place, to be pragmatic and to show patience with improvements. Most important is coaching and educating the suppliers in CSR matters and code of conduct compliance. To provide the appropriate knowledge of CSR and to explain the benefits sustainable investments will lead to. This approach is, according to the code of conduct coach, derived from the size of the MNC. As a shoe supplier contractor they are relatively small without the purchasing power of bigger competitors. Therefore the collaborative approach is the by far the most adequate in order to get the CSR practices in place.

The code of conduct coach operating in Vietnam explains how the way he coaches the suppliers in the implementation process of the code of conduct depends very much on the characteristics of the supplier. For their biggest suppliers with up to 2000 workers, similar to supplier number two in the following presentation, a management system is most likely in place and the supplier have knowledge of CSR. Such circumstances simplify the goal of successfully implementing the code of conduct since clear routines and different processes to adapt to changes are in place. The code of conduct coach claims how such suppliers reach agreements with the MNC of when a CSR investment should be in place and then rightfully and reliable place the investment.

His role is however much more vital when working with suppliers without a working management system and without any knowledge of CSR. In that case, like in the case of supplier
one in the following presentation, the focus is on educating, collaborating and to step by step work with improvements.

The minimum requirements are the first priority when starting to implement the code of conduct. When they have been complied and when there are routines for how to maintain the minimum requirements, the priority moves on to the rest of code of conduct content. The previous year, the code of conduct coach claims how getting the practices for chemical processes was of high priority because their suppliers had already the processes for the minimum requirements in place from the year before.

The essence of the coaching is to educate and train both management and workers in how to understand the importance of the code of conduct from both a human rights perspective, as well as for the benefits it will lead to. The code of conduct coach claims that CSR shouldn’t be seen as charity. The goal is always that the practices also will contribute to increased profitability for the suppliers.

**4.3 Supplier number one**

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<td>Number of employees:</td>
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<td>Of whom are women:</td>
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<td>Sales to export:</td>
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<td>Quality of shoes produced:</td>
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<td>Time of Co-operation with MNC:</td>
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**4.3.1 Background to CSR and code of conduct compliance**

This supplier is the smallest supplier involved in the study and the only supplier that can be categorized as an SME. The supplier has two main customers. The biggest one is the MNC but they also have an influential customer from Japan. The MNC is however the only customer having provided the supplier with a code of conduct. According to the factory manager, the Japanese customer’s only concern is product quality and therefore they only help the supplier with technical issues.

The factory manager claims he always had a positive attitude and willingness to treat his workers respectfully and to provide to them a decent working environment. He also says that he favours a flat organization without hierarchy where the communication is open between workers and management. This attitude is derived according to the factory manager from the time he studied at a European university in Vietnam.
The supplier started its co-operation with the MNC after 10 years of business producing for other customers. Working with customers not giving CSR priority was according to the factory manager a big obstacle for him to practically engage in CSR because he didn’t have any knowledge of how to do. After starting to co-operate with the MNC, this started to change, continuously. The MNC didn’t only provide a code of conduct, they also gave assistance in how to implement the code, assistance provided by the MNC’s code of conduct coach.

The factory manager had, as stated above, a positive attitude to CSR practices and therefore he also had a positive attitude to comply with the code of conduct. With the help and knowledge provided by the MNC’s code of conduct coach, the factory manager wanted to start improve the working environment. But the process wasn’t very easy. The factory is small without big financial resources so a strategy of getting the sustainable investments in practice was needed. The supplier needed to have close co-operation and communication with the MNC and it needed to systematically place money, from order revenues to meet the code of conduct requirements. Another important part of the strategy was to focus on one part of the code of conduct and to gradually move on to other parts.

The factory manager also claims that another reason for wanting to engage in CSR practices was because he knew benefits could be reaped from doing so.

4.3.2 Investments made from code of conduct compliance

Both the factory manager and the MNC’s code of conduct coach expressed how the working environment was very different before the code of conduct practices came into place. The MNC’s code of conduct coach mentions how the working environment was much worse and also how the quality of the shoes produced were of worse quality leading to the supplier receiving many claims. However after just a short time of working with the implementation of the code of conduct, improvements in the working environment were seen.

It took however a lot of time and effort from the supplier in the beginning. In 2011 when they started to work with the code of conduct, the management system struggled with gaining knowledge of CSR. The year was categorized by many changes in the organization and things didn’t work efficiently. Not until the year after. In 2012 the management system had improved its organizational skills and it had gained a lot of knowledge of CSR and code of conduct compliance. The MNC’s code of conduct coach was vital in this period giving assistance and being patient with improvements. At the end of 2012, the management system was organized and working fluently and most of the code of conduct requirements had been met. This meant the MNC’s code of conduct coach now only needed to assist on how to maintain the code of conduct practices.

Several investments were made when starting to implement the code of conduct. The production facility needed to be reshaped. More toilets came into place and more lights and electricity were installed. A separate chemical storage was also set up and no chemicals restricted by the MNC were used in production, chemicals that could increase the risk of cancer. There were also a lot of investments made in worker training. All the workers received training in the content of the code of conduct and all workers also received health and safety and first aid training.
4.3.3 Benefits from code of conduct compliance

The factory manager speaks of many improvements seen from the code of conduct compliance. He mentions more happy and satisfied workers and decreased employee turnover. The turnover decreased from a level of 30% per year to only 10% per year. The CSR investments also gave an impact on worker commitment. 60-70% of the workers have according to the factory manager worked there for over 3 years and 30% over 5 years. The reputation as a shoe supplier also enhanced after complying with the code of conduct. The factory manager claims that now more customers seek his factory for enquiries which he argues must be derived from customer “word-of-mouth”.

Shortly after the working environment started to improve the MNC also started to place more orders. The Japanese customer who according to factory manager was very positively surprised when they saw the improved working environment also placed more orders. The facility got much better with more toilets and more lights. Investing in the working environment and having a close relationship with the workers also led to minimized risk of labour strikes that other factories experienced.

The biggest benefit being seen according to the MNC’s code of conduct coach was the improvements in the management system. After one year of learning about CSR and code of conduct compliance the management system had developed clear routines for different processes. The overall organization improved which combined with more knowledgeable workers understanding how to work both efficient and safe, led to increased productivity. The quality of the shoes produced also improved, both the factory manager and the code of conduct coach mentions how claims of shoes not meeting up to quality standards decreased substantially.

4.3.4 Worker perception of CSR at the factory

The factory manager claims the management team had meetings with the workers concerning the changes derived from the code of conduct. In the beginning workers didn’t really understand and they were a bit reluctant to co-operate but after one year however, they started to understand the benefits they would gain. The HR manager at the factory says the workers ask more about their rights and details about their salaries now. She says the workers have gained much more knowledge in that matter. She also says that when the workers get training in health and safety and chemical processes, they feel they are being taken cared off and therefore their commitment increases.

According to the factory manager, workers would earn less at his factory compared to the really big factories in Vietnam. But despite that he claims workers choose his factory because when they come to the factory for an interview, they see happy workers and a friendly atmosphere. One female worker claims she chose to work for the factory because of the good and friendly working environment. She says that the salary is the same in many other factories and when working for this factory she feels comfortable and respected. Another male worker who worked for the factory for over seven years witnesses of many improvements in the working environment over the past two years, improvements especially in the facility, the organization and chemical processes. He also claims that much more training are provided now compared to before.
Training in the code of conduct content such as health and safety and dealing with chemicals. Lastly, the worker also point out how there are now better routines for communication with management and that the factory always complies with the law and gives workers the right salary and benefits while some other factories don’t.

4.3.5 Effects on profitability and the introduction of a bonus system

The factory manager says how for more than two years, profits actually decreased. The dips in profits are according to the factory manager derived from all the investments being made from complying with the code of conduct, both monetary investments and non-monetary. The factory manager however claims how in the next year the profit is expected to increase. Now when the management system is working better and the organization is more fluent, the focus will be on maintaining the code of conduct practices rather than investing in new practices. Therefore profits will be increased in the near future. The factory manager says he substituted short term profits for the possibility of reaching increased long term profits. Longer term profits derived from attracting new customers and receiving more orders.

The factory manager also says he introduced a bonus system at the factory to increase productivity and profitability. The workers at the factory now receive a bonus if production targets are reached. The factory manager argues how the friendly and open working environment was to remain but the workers needed an incentive to be more productive. Therefore the factory manager recently implemented the system and it has increased the productivity notably since.

4.4 Supplier number two

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4.4.1 Background to CSR and code of conduct compliance

This supplier is the largest supplier involved in the study and the only one producing high quality shoes. It has six major customers and the MNC orders account for about 10% of the total orders. The Taiwanese owned and managed supplier has been active in Vietnam since 1998. Before they moved to Vietnam they had a factory in China and the amount of experience gained during the
years has contributed to a developed and functioning management system. Both the assistant factory manager and the MNC’s code of conduct coach points to a good management system being crucial when implementing a code of conduct. According to them, a good management system contributes to faster changes and investments being needed.

The MNC is not the only customer expecting the supplier to comply with a code of conduct. The assistant factory manager states how most of the shoes they produce are exported to Europe and European companies that tend to give CSR more attention than companies from other regions.

Since the start of the business relationship between the supplier and the MNC two strikes have occurred. The reason for these strikes has been workers wanting higher wages even though receiving a bit more than the legal minimum wage. These strikes were considered illegal. The MNC’s code of conduct coach explains how the workers who initiated the strikes didn’t have the right knowledge of how to start a strike legally by informing the trade union to get official permission. Therefore the strikes were initiated without official permission and were considered illegal.

4.4.2 Investments made from code of conduct compliance

According to the assistant factory manager the most significant investment being made during 2012 from complying with the code of conduct of the MNC was improving the chemical storage. They removed all restricted chemicals the MNC didn’t accept to be used in production and got an understanding of which other chemicals to use. The code of conduct coach says how it has been easy to get the supplier to understand the importance of using the right chemicals and storing them correctly compared to other suppliers.

Another major change that the HR manager points to is how the health and safety situation in the factory has improved. The workers have received education regarding such issues and investments to improve the safety have been done. Such investments have been improved lighting safety, better placed fire extinguishers, reduced noise level in the factory, safer location of material storage and better routines for handling a crisis.

Both the assistant factory manager and the code of conduct coach claims the supplier has good facilities and a good financial situation compared to other, smaller suppliers. They often quickly understand what changes needing to be made and have the resources to realize such changes.

4.4.3 Benefits from code of conduct compliance

The supplier has years of experience from working with customers providing a code of conduct. The assistant factory manager mentions a better working environment and reduced employee turnover as two of the most beneficial aspects of such compliance. She says how it’s easier to get a stable production environment if the workers stay long term and are happy. To point out the impact the improved working environment has had she mentions that half of the workforce have worked in the factory for more than five years and that the employee turnover is only 2-3% per month. The MNC’s code of conduct coach also claims the working environment has improved.
He says workers now feel less pressure and that the relationship between workers and factory management has become more respectful.

Improved reputation is also a positive aspect derived from code of conduct compliance according to the assistant factory manager. Since the majority of the customers are European or operate in Europe, CSR investments have been necessary to be able to keep existing customers and to attract new customers. The assistant manager also points out how even though the management system has been stable for many years, the level of organization and management has improved during the years of complying with codes of conduct. The MNC’s code of conduct coach has also provided knowledge that has made certain processes in the production more efficient.

4.4.4 Workers perception of CSR at the factory

One female worker having worked for the factory for seven years claims she has experienced noticeable changes regarding the safety situation in the factory. They have received a lot of training during the last years and she mentions, as an example, that a majority of the workers in the factory recently have received training with fire extinguishers. She also mentions how the working environment as a whole improved during the last few years.

The presence of foreign customers is according to her evident at the factory since the management has decided to make the codes of conduct clearly visible inside the factory in Vietnamese language.

4.5 Supplier number three

4.5.1 Background to CSR and code of conduct compliance

This supplier is the second largest supplier involved in the study. It is a joint stock company since the government owns 60% of the factory and the workers 40%. It has eight major customers and the MNC is the second largest as they account for 20% of the production capacity.
The supplier has been active since 1990 which according to the assistant factory manager has led to them developing a large amount of experience regarding production of shoes as well as a good reputation of having quality products and workable prices. This reputation has, according to the assistant factory manager, spread through “word-of-mouth” since previous customers being satisfied have recommended them to other potential customers. She believes their reputation and workable prices are the two main factors when it comes to attracting customers.

The supplier has, as mentioned earlier, eight customers. Only one of them has an own code of conduct for compliance which is the MNC involved in this study. Some of the other customers participates in BSCI and have implemented their standards. Previous customers have also been participating in BSCI and the assistant factory manager points to having experienced issues regarding the customers participating in BSCI. The main issue has been how customers participating in BSCI have demanded investments in social practices without providing the knowledge needed to do those investments. When the auditors came they had not been able to realize the improvements and therefore failed the audit. As a contrast the MNC and their code of conduct coach provides the knowledge needed to make the necessary improvements and the assistant factory manager also stresses how the MNC give them time to make improvements.

### 4.5.2 Investments made from code of conduct compliance

Complying with the MNC’s code of conduct has resulted in several investments being necessary. Some of these investments included a new chemical storage and more secure lighting. The assistant factory manager claims how the knowledge provided by the MNC’s code of conduct coach has been very valuable and that they feel it is their responsibility to invest in health and safety even though such investments could be costly. She also argues how they would continue to make such investments even if they didn't have a customer providing a code of conduct. As an example she mentions how they are already planning to make CSR investments not being demanded by the MNC or any other customer.

### 4.5.3 Benefits from code of conduct compliance

The assistant factory manager points to several positive aspects of complying with the code of conduct. Even though the supplier had a quite good reputation and image before starting with the compliance, they still feel it has improved their reputation and competitive advantage. An example of this, the assistant manager mentions how they now are on a list of appropriate suppliers provided by BSCI. According to the assistant factory manager, that list is very valuable to European customers and gives them an advantage over competitors not being on the list.

The most important factor when it comes to attracting new and skilful workers is according to the HR manager having a good working environment. The wage is basically the same in all the factories in the area so a friendly and safe working environment is very important. The assistant factory manager also emphasizes the importance of having a good working environment and the investments made since starting to comply with the MNC’s code of conduct have contributed to a better working environment in the factory.
4.6 The importance of CSR for long term profitability.

When discussing CSR with the code of conduct coach of the MNC, it is evident how it could be vital for suppliers to invest in such practices to remain competitive in a longer term perspective. He argues how the minimum wage in Vietnam doubled in recent years from 50 to 100 dollars a month. If it will keep increasing in the same pace in the future, customers ordering low quality shoes might move to other countries with lower costs of labour, like for example Myanmar. The key in being able to face the challenge of increased labour costs is for suppliers to have the technology to produce higher quality shoes and to invest in CSR according the code of conduct coach.

The code of conduct coach claims how the main reason for CSR being so vital for future competitiveness is because it improves reputation. According to the code of conduct coach customers will in the future especially if higher quality shoes are to be ordered looking for suppliers with good CSR practices in place. Customers will seek the suppliers with the best reputation from CSR practices and therefore it’s vital to have a good attitude to code of conduct compliance and CSR investments. Of course suppliers need to have the right technical practices in place to produce high quality shoes which is an issue and challenge for supplier number one and three, but still, CSR practices is very important for customers caring about their own image and reputation. Ways of getting the reputation are according to the code of conduct coach by being audited to receive scoring results from BSCI or through customer “word-of-mouth”.

The code of conduct coach also argues how in the long term, workers will want to work for the suppliers with the best working environment which will increase their commitment to stay long term. It will also be easier to employ skilled workers having the knowledge of how to produce higher quality shoes. He also claims how the Vietnamese government will support the suppliers with the best CSR practices because part of code of conduct compliance means complying with the laws and regulations set up by the government.

According to the code of conduct coach some factories with foreign ownership not producing higher quality shoes think in a short term perspective. Their main priority is increasing profits as fast as possible without concerns of CSR. Those factories, according to the code of conduct coach will increase their chances of being bankrupt in the near future when losing orders from customers demanding better CSR practices. The code of conduct coach claims for long term profitability, suppliers must have strategies to implement both matters of CSR and processes for being able to produce higher quality shoes. Such strategy will lead to not only enhancing supplier’s reputation. Producing higher quality shoes means suppliers will receive a higher price for every order leading to increased revenues. Better production technology also leads to a more efficient production environment enabling suppliers to cut working hours and in that way balance increased labour costs when wages increase.
5 Analysis

When analyzing the results from the empirical study we have turned to our analysis model and the key concepts singled out from the theoretical framework. The idea of the following analysis is however to find the answers for our research questions and purpose. The first part of the analysis will answer the research questions being 1. What factors determines the supplier’s commitment to CSR? 2. What factors determines a successful code of conduct implementation? The analysis will be finalized by exploring the factors concerning the thesis purpose regarding how code of conduct compliance affects a Vietnamese shoe supplier’s view of committing to CSR as a way of increasing its profitability.

5.1 Factors determining the suppliers commitment to CSR

The key concepts of CSR commitment gathered from the theoretical framework have proven to be relevant when analyzing the results of our study. However, in our analysis we have put the concepts in context to our results leading to modifications of explanatory variables for CSR commitment. To sum up the suppliers commitment to CSR practices we find customer orientation and knowledge of CSR as well as management and ownership to be central. Other factors such as size, length of business operations and quality of shoes produced could also be isolated as explanatory factors but we find those factors inclusive when focusing on the factors we find central.

We find it important to stress how no explanatory factor to CSR commitment are mutually exclusive from another. When discussing knowledge of CSR as an explanatory factor you must realize how the supplier’s knowledge in most cases is derived from customers. The customer in our case on the other hand works proactively with supplier management for them to gain knowledge and how well that can be achieved is very much up to the receptiveness from management when learning of such matters. Therefore, to understand the factors explaining CSR commitment you need to realize how the factors correlate with each other.

Another important part we must emphasize is how even though the factors well explains all three suppliers commitment to CSR practices, the way these factors can be perceived by each supplier differs. It is evident when analyzing the results from our empirical study how each supplier is a unique case with its own characteristics and attributes.

5.1.1 Customer orientation and knowledge of CSR

Stakeholder influences are the root for the CSR practices seen at the suppliers producing for the MNC. As Waddock and Graves (2002) claims increased external pressure on MNCs outsourcing production, led to the development of codes of conducts. These external influences on the MNCs lead to the suppliers having to comply with the codes developed by their key stakeholder, their customers. The commitment to CSR is therefore rooted from the stakeholder influence of customers.

The manager of supplier number one couldn’t realize his ambition of acting socially responsible and further commit to CSR practices until the corporation with the MNC started. For supplier
number two, many years of business and many years of code of conduct compliance has led to them committing to CSR practices. For supplier number three previous customers demanded CSR practices as well. The difference for supplier number three was how customers demanded CSR commitment by complying with the BSCI standards without providing any knowledge or assistance in the implementation of the standards.

The MNCs providing the suppliers with codes of conduct is therefore the starting point to CSR commitment. The suppliers commit to CSR because they are demanded to do so from their customers and if they don’t, they would lose orders. This corresponds to Lim and Tsutsui (2012) and Egels-Zanden and Bergström (2013) claims of wanting to appeal to international trade partners and the threat of losing buyers as what should motivate suppliers to commit to CSR practices. All foreign customers didn’t give CSR the same priority however. In all cases managers emphasized the demands of CSR practices from European customers. To do business with customers from Europe all managers claimed commitment to CSR being vital. The manager of supplier number one claimed as a contrast how his Japanese customer only concern is product quality when doing business with the supplier.

Suppliers can, however, have CSR knowledge and an ambition to commit to CSR even without the influence of customers. The manager of supplier number one stressed the importance of the knowledge he gained from his educational background as why wanting to commit to CSR. Correspondingly supplier number three claimed they would commit to CSR even without customer demands. Luu Trong (2011) points to lack of CSR knowledge from Vietnamese business managers as an obstacle for commitment to CSR practices. However, the results from supplier number one and three show how knowledge and awareness of CSR to some extent existed but not the practical knowledge to transform that to real practices.

5.1.2 Management and ownership

Local foothold and head of business are important factors determining how companies commits to CSR (Amina and Richard 2012). The owner and factory manager of supplier number one is Vietnamese and the labour force he accounts for are of the same nationality. For supplier number three the local foothold relationship can possibly be seen as even stronger when the Vietnamese government acts as main owner. The management of both these suppliers do have a positive attitude to CSR and complying with codes of conduct which partially derives from how the responsible actions are directed to the workforce from their own community. The Taiwanese management of supplier number two also had a good attitude and committed to CSR but naturally without local foothold of owners and management as an explanatory factor.

According to Hemingway (2005) personal values and personal morality of business managers must be taken into consideration when determining commitment to CSR. The factory manager for supplier number one claims he always desired acting socially responsible towards his workforce and as soon as help was provided in how to practically realize such actions, the manager did so. According to Carroll (1991) the manager of supplier number one could be categorized as a moral manager as he views ethical conducts as a moral responsibility. Supplier number one is also the only SME involved in the study which supports Amina and Richards (2012) arguing of how managers of SMEs naturally have a closer and more personal connection to the employees.
Factors such as size, length of business operations and quality of shoes produced have relevance when determining the suppliers CSR commitment. We have, however, chosen to exclude those factors as separate explanatory variables. Supplier number two for example has been in the business for many years, are of large size and produce high quality shoes. But they have not committed to CSR because they embody such factors but because those factors have attracted customers demanding CSR commitment.

5.2 Factors determining the implementation of the code of conduct

The process of code of conduct implementation is vital for the possibility of benefits being reaped. The suppliers receive the code of conduct from the MNC and are responsible for the implementation of the code. Our results reveal how certain key factors are of importance for the suppliers to successfully implement the code. Corresponding to the concepts gathered from the theoretical framework the key factors are: the collaborative approach of the MNC and its step by step strategy, the supplier’s practical knowledge of CSR as well as their management system and finally the financial resources of the suppliers.

Again, how the factors are perceived by each supplier differs and the factors also, as mentioned before, correlate with each other.

5.2.1 Knowledge and management system

The results from our empirical study reveals how a functioning management system and practical knowledge of CSR are essential for the code of conduct to successfully be implemented. The manager of supplier number one had, as stated before, the desire to act ethically but no practical knowledge. Neither was the management system functioning well lacking clear routines for different processes. It wasn’t until the management gained knowledge of CSR and the value of organization that the management system was developed to a certain level of fluency with CSR practices working efficiently in the organization. This would correspond to Amina and Richard (2012) arguing regarding knowledge from management being an essential factor of successfully implementing CSR practices in especially SMEs.

As a contrast to supplier number one, supplier number two with its size, financial resources and years of experience developed a functioning management system where management successfully established various routines for different processes and decentralized certain responsibilities within the organization. The MNC’s code of conduct coach emphasizes how the implementation process is less time consuming when the management system works with such fluency.

For supplier number three the MNC is their only customer having provided a code of conduct. In this case, like in the case of supplier number two years of experience have improved their management system. The problem for them has been how no customer prior to the MNC explained how to practically implement CSR practices.
5.2.2 The collaborative approach of the MNC

According to the code of conduct coach of the MNC education and collaboration are key components when coaching in the implementation process of the code of conduct. He claims that when suppliers don’t have the right knowledge needed to implement the code of conduct, assistance needs to be provided. Therefore working together with mutual understanding is very important in the implementation process according to the code of conduct coach. Such collaborative approach of the MNC corresponds to Lim and Phillips (2008) and Kims (2013) reasoning. They reason how if CSR practices within a supplier organization shall be a realization, the suppliers need to both be listened to and understood as well as pragmatically coached both how and why they should conduct the implementation.

The case of supplier number one gives a good example of the MNC and the supplier collaborating to reach improvements. The management of the supplier provides a commitment to improve and the code of conduct coach of the MNC provides the knowledge for practical implementation. With time knowledge is then transferred to the supplier so it by itself knows how to maintain the code of conduct practices.

The collaborative approach can be put in contrast to an auditing approach focusing on the case of supplier number three. For them, previous customers demanded compliance of BSCI standards without providing any knowledge of how to conduct the implementation. Therefore the supplier failed audits of how the standards where complied. It wasn’t until the MNC’s code of conduct coach started to work with the implementation of its own code of conduct the supplier could get the help needed to pass the audits. By listening and providing knowledge, the MNC’s code of conduct coach helped the supplier to meet the necessary requirements leading to the audits being passed. Teuscher, Grüninger and Ferdinand (2006) criticized BSCI audits as a monitoring approach identifying problems without analyzing why there is a problem to find solutions.

Supplier number one and three emphasized the importance of the assistance received from the MNC in the implementation process of the code of conduct. Supplier number two also communicated gratefulness for the assistance given, but in this case a well-functioning management system and financial resources enabled faster implementation of the CSR practices.

5.2.3 Financial Resources and the step by step strategy

Having the financial resources to invest in the CSR practices needed when meeting the code of conduct requirements was a big concern for supplier number one as a contrast to supplier number two. Amina and Richard (2012) argues how SMEs seldom have the financial resources to implement CSR practices and Roberts et al. (2006) points to managements view of the financial situation being crucial for investments to be made. Supplier number one, as an SME, are highly dependent on order revenues to place investments in CSR practices. In order to meet the code of conduct requirements the supplier formed a strategy of systematically setting aside money from order revenues to step by step implement the code of conduct, starting with the minimum requirements. Such strategy corresponds to Tang, Hull and Rothenberg (2012) reasoning of focusing on a few related areas of CSR in an implementation process and to gradually move on to other areas as the best way of implementing CSR practices without losing effectiveness. The
MNC with their collaborative approach also rewarded the supplier with the patience of accepting gradual improvements to reach all requirements.

5.3 Benefits from CSR and CSR and profitability

The purpose of our study is to explain and contribute to an increased understanding of how complying with a code of conduct set up by an MNC affects the suppliers view of committing to CSR as a way of increasing its profitability. Our analysis model show how implementing a code of conduct provided by the MNC leads to benefits for the suppliers which affects the supplier’s commitment to CSR. Our results show how successfully implementing CSR practices in forms of requirements stated in a code of conduct leads to several benefits. Our results also show, correspondingly to our analysis model, how these benefits interplay with profitability but in a long term perspective. In a short term perspective, profits could actually decrease as in the case of supplier number one.

The MNC’s code of conduct coach pointed to how one part of code of conduct compliance is meant to increase the supplier’s competitiveness and profitability. According to Carroll (1991) being profitable, within compliance of laws and regulations, must be the foundation for engaging CSR since no concerns apart from profitability will be a priority if losses are being reported. Freeman, Wicks and Parmar (2004) however argues how profitability best is reached incorporating CSR by looking after stakeholders.

When analyzing the benefits being reaped from CSR we find it relevant to establish two categories, internal benefits and external benefits. In internal benefits we have placed increased worker commitment, reduced employee turnover, developing a management system as well as increased effectiveness and productivity. In external benefits we have placed improved corporate image and reputation.

5.3.1 Internal benefits

Many authors such as (Burke and Logdson 1996; Raynard and Forstater 2002; Aguilera et al. 2007; Amina and Richard 2012) identify several benefits from CSR practices reflecting internally in the organization. They mention more satisfied and committed workers, improved worker relations, better production processes, increased efficiency and improved quality. The results from our study do on a high level correspond to such research although our results reveal how reduced employee turnover and developing a management system can be seen as additional and substantial benefits for the suppliers.

Supplier number one decreased its employee turnover from 30% to 10% per year and were rewarded with workers staying at the supplier for many years despite tough competition. The supplier was also able to reduce claims of shoes, minimize the risk of labour strikes and increase productivity. The improvements in the management system were however the biggest benefit for supplier number one according to the code of conduct coach of the MNC. The supplier developed and established better routines concerning implementing and maintaining CSR practices which affected the efficiency of routines for the whole organization. The factory manager of supplier
number one also, rather contradicting, claimed productivity increased from complying with the
code of conduct but still chose to introduce a bonus system to increase productivity.

Supplier number two also pointed to low employee turnover as a benefit from code of conduct
compliance. The supplier has however experienced two labour strikes possibly derived from its
large size and the management being foreign. The former confirms Amina and Richard (2012)
claims of SMEs having a closer and more personal connection to their employees leading to
better working relations with the staff.

Supplier number three emphasized the benefits we have categorized as external benefits and our
analysis of these benefits follows.

5.3.2 External benefits

Good CSR practices enhance corporate reputation (Raynard and Forstater 2002; Mahon and
Wartick 2003; Amina and Richard 2012). All suppliers mentioned how customers, especially
Europeans seek suppliers with CSR practices in place and therefore they claim how the
investments made when complying with the code of conduct improved their reputation. Supplier
number one mentioned how their reputation which has spread to customers by “word-of-mouth”,
has led to them receiving more enquiries from new customers. Supplier number three claimed
that their CSR practices have led to them being listed by BSCI as an appropriate supplier.

The management of the suppliers also pointed to how improved reputation from CSR practices
leads to attracting the skilful workers they need in their production. The managers mentioned
how the salaries are so equal between factories that workers will choose to work for the factories
where they feel they are being taken cared off the most. If a higher salary can’t be a decisive
factor when choosing your employer other factors such as working conditions and working
environment will decide workers attraction to various employers. The benefit of being able to
attract workers derived from good CSR practices has been stated by both Aguilera et al. (2007)
and Greening and Turban (2000) in their research.

As the code of conduct coach of the MNC mentioned, a good corporate reputation from CSR
practices could be vital for the chances of long term survival and long term profitability. We will
analyze why next.

5.3.3 Long term impact on profitability

The MNC’s code of conduct coach emphasized the importance of CSR for long term
profitability. Vietnamese suppliers will in the near future most likely experience two events.
Increased minimum wages leading to increased labour costs and customers demanding better
CSR practices derived from increased external pressure on MNCs.

The results from the suppliers show how they are aware of such outcomes in the future and
therefore know they must commit to CSR. The managers of the suppliers emphasized how
especially the external benefits from code of conduct compliance leads to commitment to CSR
practices. As the code of conduct coach argued, suppliers must commit to CSR if they are to have
any chance of long term survival since customers in the near future possibly only will turn to Vietnam for production of high quality shoes. Low quality shoes will move to other markets like Myanmar where the labour costs are cheaper.

CSR commitment and long term profitability for the suppliers therefore seem to be correlated and the relationship has been pointed out by others. Carroll and Shabana (2010) points to CSR and long term business survival, Lin, Yang and Liou (2009) to CSR and long term financial performance and Tang, Hull and Rothenberg (2012) to how consistency with CSR eventually will increase profitability. Supplier number one does have a clear strategy to meet the future challenges of being a shoe producer in Vietnam. The supplier substituted short term profits for CSR implementation and developed strategies to invest revenues and profits in better technology to produce higher quality shoes. By doing so they can, as the code of conduct coached mentioned, increase their revenues by increasing their price as well as balance their labour costs by cutting working hours when wages increase. Supplier number one has acknowledged the future challenges and developed an approach to respond. Investing in a good working environment, worker training and better technology is just what Burke and Logsdon (1996) meant when they emphasized the importance of being proactive.

Supplier number three also communicated awareness of what being needed for long term profitability. They know they need to invest in CSR and the right technology to produce high quality shoes. Supplier number two however already have the advanced technology and produce high quality shoes so for them the future threats aren’t as eminent as for supplier number one and three.

Our analysis model based from the theoretical framework show how a supplier has some sort of commitment to CSR before the implementation process of a code of conduct starts. When the implementation of the code of conduct starts, the supplier will reap benefits leading to increased CSR commitment. Our analysis model also show how these benefits leads to long term increased profitability which increases the commitment even more. Our results corresponds well to the model since the benefits experienced by the suppliers works more as factors determining the long term business survival for the suppliers rather than being instruments for direct increased profitability. In the short term the effects on profitability could be negative when several investments alongside with organizational changes have to be made, but in the long term, such investments will be paid off and future profitability will be a growing possibility.
6 Discussion

In this chapter we discuss and express our opinions concerning the results and analysis. We will also present our conclusions and give recommendations for further research.

We believe our results have the relevance to contribute to the debate concerning the effects of codes of conduct in developing countries like Vietnam. We find it interesting how our results reveal how the supplier managers aren’t opposed to investing in CSR practices. Our results show quite the contrary how such investments can be welcoming even though it means setting aside both human and financial resources. Supplier number one and three clearly communicated the ambition of acting socially responsible, while supplier number two, who experienced CSR and code of conduct compliance for many years, communicated how such practices mainly are seen as a basic component of the overall business strategy.

Our results also reveal how ambition of acting socially responsible must be separated from practical knowledge of how to implement CSR practices. Just being provided with a code of conduct doesn’t lead to conversion of such requirements into real practices. Therefore the MNC’s collaborative approach must be emphasized as being crucial for the code of conduct to successfully be implemented. We have also learned how external pressure on MNCs leading to the development of codes of conduct can’t be viewed as a global occurrence. All suppliers mentioned how European customers provides codes of conduct and concerns for the working conditions, which means exporting solely doesn’t contribute to CSR commitment since it utterly depends on where the products are exported to.

Our analysis shows how benefits being reaped from a successful code of conduct implementation can be seen as instruments for increasing the possibility of long term profitability. We would however like to amend how some benefits definitely are derived from the code of conduct implementation while for other benefits other factors must taking into consideration. Reduced employee turnover, increased worker commitment and the ability to attract workers are definitely derived from CSR practices. When wages are so similar between shoe factories in Vietnam we find it natural how workers turn to and stay at the factories where they are offered a good working environment and not being pressured.

Being able to increase productivity and quality are however benefits being affected by CSR practices but with other factors interplaying. To improve productivity and quality the technical aspect also has to be included and taken into consideration. Workers need to have sufficient technical knowledge to be productive as well the factory need to have advanced machines to increase productivity and improve product quality. We also argue how the introduction of a bonus system at supplier number one as a way of increasing productivity after CSR practices came into place, further proves the ambiguous relationship.

What we want to emphasize and what we feel previous research have paid less attention to, is the benefit of improving a management system of especially SMEs. If receiving assistance and coaching in how to implement CSR practices derived from a code of conduct, it leads to managers of SMEs revising organizational procedures. The case of supplier number one, which is an SME, proves how being provided a code of conduct and receiving assistance in the
implementation process of the code not only led to improved working conditions and a better working environment. It also led to better overall routines affecting the efficiency of the entire organization.

To end the discussion we would like to point to the effect of improved corporate reputation from CSR practices and how important such reputation will be for shoe suppliers in Vietnam in the future. The managers from the suppliers involved in the study all emphasized how CSR practices improves their reputation leading to the only thing the suppliers need for long term survival which is customers placing orders. Vietnam has developed rapidly in recent years and if the development continues, other markets will emerge with lower costs of labour attracting attention from foreign customers. For the suppliers to keep the customers they have and to attract new customers they need to demonstrate a competitive advantage. That advantage should be being able to have the workforce and technology to produce higher quality products alongside with long term CSR strategies. By doing so, customers can feel safe in terms of 1. Suppliers long term production stability 2. Not being subjected to external pressure 3. Settling the ethical consciousness.

6.1 Conclusions

When drawing conclusions from the analysis and discussion we have again turned to the purpose and research questions of the thesis. Our purpose was to explain and contribute to an increased understanding of how complying with a code of conduct set up by an MNC affects a Vietnamese shoe supplier’s view committing to CSR as a way of increasing its profitability. The research questions supporting the purpose were: 1. What factors would determine the supplier’s commitment to CSR? 2. What factors would determine a successful code of conduct implementation?

We conclude the following:

1. If the MNCs want the CSR practices from a code of conduct implemented at suppliers with no former practical knowledge of CSR, having a collaborative partnership with the suppliers will be crucial.

2. Initially, suppliers commit to CSR because they are demanded to when being provided with a code of conduct from customers. Compliance with the code leading to both monetary and non-monetary investments are a challenge for the suppliers but not unwelcoming. Management of suppliers can prior to working with a code of conduct have ambitions of engaging in socially responsible actions. By being assisted in the implementation process of such code management can convert such ambitions into real practices.

3. Benefits from successfully implementing codes of conduct are a reality for the suppliers. Most relevantly code of conduct compliance leads to decreased employee turnover and more committed workers, as well as improved corporate reputation attracting both customers and workers.
4. The supplier’s commitment to CSR increases when experiencing the benefits gained from complying with a code of conduct. The suppliers are also aware of the importance of CSR practices for long term profitability. In the future Vietnamese shoe suppliers might only attract attention from customers ordering high quality shoes. Therefore the suppliers know they must commit to both CSR and new technology if they are to have any chance of achieving long term profitability.

6.2 Recommendations for further research

As we mentioned, we believe our results contributes to the debate concerning the effects of CSR practices in developing countries like Vietnam. However, the findings and results of our study may not be possible to generalize to other industries and to other contexts. Future research regarding the same subject in other developing countries and in other industries would be very interesting as it would bring clarity to the importance of CSR.

Existing research and our findings show that benefits can be reaped from committing to CSR. We know that it can affect a company's profitability in a positive way, what we don’t know for sure is what the exact results of this commitment will be. A longitudinal study starting from now would therefore be necessary to assess the exact implications of committing to CSR.
References


Egels-Zanden, N. and Bergström, O. (2013)." Hållbara leverantörsled". Handelns Utvecklingsråd: 102


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8 Appendix

The following interview guides were used when conducting the semi-structured interviews.

8.1 Interview guide supplier management

About the Company (Supplier)

1. What is your role at the company?
2. When did the company start its business?
3. Who is the owner of the company?
4. Can you describe the company structure? Different departments?
5. How many employees do you have? Of whom are men/women?
6. What type of shoes are you producing?

Customers

1. How many customers do you have?
2. How many of your customers are foreign? How much of the sales derive from exports?
3. For how long has the MNC been your client?
4. Why do you believe your customers chose you as their supplier?
5. What do you believe is your strengths and weaknesses compared to your competitors?

CSR

1. What is your view on investing in sustainable practices?
2. Have all your customers their own code of conduct? If so, how do they differ from each other?
3. What’s your view on complying with the MNC’s code of conduct?
Benefits and obstacles from working with CSR

1. What benefits do you see from working with CSR (complying with codes of conduct) when it comes to your productivity?

2. What benefits have been the most prominent in your case? How would you rank the factors?

3. What’s your view of CSR (complying with codes of conduct) as a way of gaining a competitive advantage?

4. What obstacles do you see from working with CSR (complying with codes of conduct)?

5. What obstacles have been the most prominent in your case?

6. What’s your view on the dilemma of cutting costs to remain competitive in a competitive market and investing in sustainable practices? Is it a dilemma for you?

7. What’s your view on investing in sustainable practices that in the short term will lead to increased costs but that in the long term leads to potential benefits that would increase your profitability?

8.2 Interview guide operational staff

1. For how long have you been working in the shoe making industry?

2. For how long have you been working for this factory?

3. Why did you choose to work for this factory?

4. What are your duties at this factory?

5. Have you received any special training to conduct these duties?

6. Are there clear routines for how you should work?

7. What’s your view of the health safety situation at the factory?

8. What are the most important criteria for you when choosing the factory you want to work for? Except for your wage?

9. Are you aware of the influence the factories foreign customers have on your working environment? If so, in what way?
8.3 Interview guide code of conduct coach

1. What's your role at the MNC?

2. For how long have you been working with social compliance?

3. How would you describe your work of getting the suppliers to comply with your code of conduct?

4. How would you describe the three different factories attitudes towards CSR and code of conduct compliance?

5. What do you believe is the reason for these differences?

6. Have you seen a change in attitude since you started working together with these factories and if so – how has their attitude changed?

7. What changes are you seeing in the different factories after they started to work with CSR and code of conduct compliance?

8. How are you communicating the benefits social compliance leads to?

9. What's your view of CSR as a way for the suppliers to achieve long term profitability?

10. What's your view on the future for your suppliers in regards of their development in sustainable practices and their future financial situation?

11. How can in your opinion Vietnamese suppliers remain competitive in the shoe manufacturing industry if the wages keeps increasing?
Högskolan i Borås är en modern högskola mitt i city. Vi bedriver utbildningar inom ekonomi och informatik, biblioteks- och informationsvetenskap, mode och textil, beteendevetenskap och lärarutbildning, teknik samt vårdvetenskap.

På institutionen Handels- och IT-högskolan (HIT) har vi tagit fasta på studenternas framtida behov. Därför har vi skapat utbildningar där anställningsbarhet är ett nyckelord. Ämnesintegration, helhet och sammankoppling är andra viktiga begrepp. På institutionen råder en närhet, såväl mellan studenter och lärare som mellan företag och utbildning.

Våra ekonomiutbildningar ger studenterna möjlighet att lära sig mer om olika företag och förvaltningar och hur styrning och organisering av dessa verksamheter sker. De får även lära sig om samhällsutveckling och om organisationers anpassning till omvärlden. De får möjlighet att förbättra sin förmåga att analysera, utveckla och styra verksamheter, oavsett om de vill ägna sig åt revision, administration eller marknadsföring. Bland våra IT-utbildningar finns alltid något för dem som vill designa framtidens IT-baserade kommunikationslösningar, som vill analysera behov av och krav på organisationers information för att designa deras innehållsstrukturer, bedriva integrerad IT- och affärsutveckling, utveckla sin förmåga att analysera och designa verksamheter eller inriktas mot programmering och utveckling för god IT-användning i företag och organisationer.

Forskningsverksamheten vid institutionen är såväl professions- som design- och utvecklingsinriktad. Den övergripande forskningsprofilen för institutionen är handels- och tjänsteutveckling i vilken kunskaper och kompetenser inom såväl informatik som företagsekonomi utgör viktiga grundstenar. Forskningen är välrenommerad och fokuserar på inriktningarna affärsdesign och Co-design. Forskningen är också professionsorienterad, vilket bland annat tar sig uttryck i att forskningen i många fall bedrivs på aktionsforskningsbaserade grunder med företag och offentliga organisationer på lokal, nationell och internationell arena. Forskningens design och professionsinriktning manifesteras också i InnovationLab, som är institutionens och Högskolans enhet för forskningsstödande systemutveckling.

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