
Staking the firm's place in multiple societies



By Michael A. Witt, Professor of Asian Business and Comparative Management at INSEAD, with Chris Howells, Deputy Editor

Corporate Social Responsibility (CSR) means different things to different people in different countries. Here's how to sort out the nuances.

More than half of all companies in the S&P 500 index and Fortune 500 are now publishing sustainability reports. In Asia, the phenomenon is growing too. While only 14 percent of SGX-listed companies engaged in sustainability reporting last year, that was a 25 percent increase on the year before.

“More and more companies are really looking at how they can build a sustainable way of doing business and I think that is the case whether you’re in Europe, whether you’re in the United States or whether you’re in Asia,” says Alexandra Schaapveld, an independent director of Malaysia’s Bumi Armada and French company, Vallourec. “I feel in all of these regions, sustainability and your license to operate is becoming more and more important.” She spoke to INSEAD Knowledge on the sidelines of the INSEAD Directors’ Forum in Singapore in February.

Corporations are finding themselves under ever more scrutiny: there is continued public outrage over executive pay and corporate wealth on the one hand and concern over unemployment as companies stand accused of hoarding cash. So how can CSR strategy overcome these negative perceptions, particularly in foreign business environments?

“The key determinant is whether CSR is explicit or implicit - where “explicit” means it’s up to the company, there is no social expectation; “Implicit” means there is usually a societal expectation,” said **Michael A. Witt**, a Professor of Asian Business and Comparative Management at INSEAD. In other words, some societies have expectations of their companies, others may not; an important distinction for executives allocating resources and budget to CSR activities across borders.

Explicit and implicit expectations

In his paper, *The Spirits of Corporate Social Responsibility: Senior Executive Perceptions of the Role of the Firm in Society in Germany, Hong Kong, Japan, South Korea and the USA*, Witt finds that executives in the five economies are concerned with the roles of their firms in society to different extents and in different ways, with those in Japan most so and those in Hong Kong least so.

Witt’s findings came from interviews with top-level executives of major firms in each country.

“We noticed that, counter to what the literature found earlier, we only have one place that treats CSR as something explicit, and that is Hong Kong,” said Witt. “It seems that among senior executives in Hong Kong, there’s no clear expectation that companies engage in any kind of social responsibility activities. What basically happens there is that usually companies are family-run or at least family-controlled. Once they have attained a certain level in terms of wealth, that is when they transition to engaging in CSR.”

On the contrary, Japan and Germany consider society to be much more important. In these countries, as well as the USA and South Korea, firms’ approach to CSR reflected a sense of responding to societal expectations.

Stakeholder versus production-oriented CSR

“For German executives, the very fact that they actually engage in production of goods and services is already a contribution to society. The people would quite often say; ‘We produce needed goods and services for society.’ Funnily enough, the customer doesn’t pop up. Basically, it’s the notion of engineers preparing a very good product, and if the product is good, then it will sell. So that would be their notion of how you can contribute,” said Witt.

“On the other hand, in the Japanese context, executives would be much more focused on serving society by treating their employees well, and also by making sure these employees have long-term, stable jobs,” he added.

U.S. executives, on the other hand, tended to consider contributing to society as secondary to producing shareholder value. Key avenues of contributing to society were seen in the provision of employment and in innovation.

But while the actions of industry do most of the talking for CSR in Germany, the U.S. and Japan, executives in Korea and Hong Kong stand out as having the most emphasis on charity as a means of giving back.

Absolving the sins of the *chaebol*

Nowhere was this more stark than Korean society, which has a troubled relationship with its *chaebol* (powerful conglomerates): according to opinion polls, a majority of South Koreans consider the *chaebol* “immoral”.

“This way of thinking in society also influences and informs labour relations and employer relations. When you look at Korean strikes, they are highly conflictual. Similarly, society as such is very ready to beat up the *chaebol*.”

As Witt explains, Korean business was predicated on nation-building before the 1997/8 Asian financial crisis that bankrupted the country. The subsequent economic renaissance meant “there was a much stronger focus on profitability; people also started to frame things in terms of shareholder value,” he said. Charity giving by Korea’s chaebols, therefore can be

construed as being a response to public unease over their perceived “immorality” and an effort to buy acceptance from the Korean public.

“It’s possible that charity as such was something that was readily available to implement as a CSR strategy, where before it was not needed,” Witt added.

No convergence in sight

Internationalisation, therefore, does not mean standardisation when it comes to CSR, according to Witt. “It’s not just because these societies have different ideas about how companies should contribute to society. They also have different ideas about what the different reasons for the existence of the companies themselves are. And on top of that, of course, they’re culturally very different. That means they have very different worldviews, and think in different ways. And they’re also institutionally very different – different laws, rules, regulations, practices.”

“As companies globalise, acceptance into local society as a legitimate and responsible player becomes an important objective. Diversity in CSR practices means that a one-size-fits-all approach will not work. Companies need to localise their CSR approach, just as they localise their products.”

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