CORPORATE SOCIAL RESPONSIBILITY:
MAKING TRADE WORK FOR THE POOR

DAVID LAMOND
David Lamond & Associates
1 Billyard Place
Carlingford NSW 2118
AUSTRALIA
Tel: +61 2 9871 8840
Fax: +61 2 9871 8840
email: daplamond@bigpond.com

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Purpose: This paper introduces the special issue of *Management Decision* by exploring the themes of the issue and the contribution of each of the articles in the collection.

Approach: Drawing on the common understanding of corporate social responsibility (CSR), this paper points to the development of strategies and processes for exercising that responsibility in the context of international trade.

Value: This article provides an introduction to and overarching framework for this special issue on making trade work for the poor.

Keywords: CSR, poverty, United Nations International Trade Centre, UNCTAD/WTO.

About the Author: Professor David Lamond is Principal of David Lamond & Associates, Academic Advisor to Emerald Group Publishing, and Visiting Professor at Wuhan University. He earned his PhD in managerial psychology at Macquarie University. His research addresses topics including the history of management thought, personality and managerial style, organisational culture and job satisfaction. He is Editor of the Journal of Management History.

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Background

Whether the discussions are rooted in philosophical, legal, political or geopolitical origins (Capaldi, 2005), companies and communities alike are paying increasing attention to the idea of corporate social responsibility (CSR) (see, for example, Jones, Comfort, and Hillier, 2007; McWilliams, Siegel, and Wright, 2006; Spar and La Mure, 2003). On both sides of the Atlantic, companies are seeking to integrate social and environmental concerns in their business operations investing more in their people, the environment and their relations with stakeholders (*cf*, for example, European Agency for Safety and Health at Work, 2004; European Commission, 2004; Kakabadse, Rozuel and Lee-Davies 2005). This has led even to a re-thinking of companies as relationship builders rather than just relationship managers (Lozano, 2005) and the redefinition of the corporation as "an organization engaged in mobilizing resources for productive uses in order to create wealth and other benefits (and not intentionally destroy wealth, increase risk, or cause harm) for its multiple constituents, or stakeholders" (Post, Preston and Sachs, 2002: 17). Accordingly, organizational wealth is understood as "the summary measure of the capacity of an organization to create benefits for any and all of its stakeholders over the long term" (Post, *et al*, 2002: 45).

At the World Economic Forum in January 1999, Kofi Annan, former Secretary-General of the United Nations, challenged business leaders to join the Global Compact – an international initiative to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation in the areas of human rights, labour, the environment and anti-corruption and create a more sustainable and inclusive global economy (United Nations, 2007). One of the more well-known examples on the company side is Nike. Infamous through the 1990s for the third world sweatshops of its overseas suppliers (see, for example, Locke, 2002; Spar and La Mure, 2003; Zadek, 2004), Nike is now acting on, and reporting on how it has exercised, its corporate social responsibilities. In doing so, it has developed a global corporate responsibility strategy that includes improving working conditions in its contract factories through "a holistic, integrated business approach to our supply chain" (Nike, 2007:10). Now, Nike has been named No. 69 on the *Fortune* "100 Best Companies to Work For" list (Fortune, 2007), moving up 31 places from 2006. Yet, despite the efforts of companies such as Nike and others, along with the work of the UN and EC, the plight of the world's poor is no less stark.

In his Preface to the 2006 United Nations World Economic and Social Survey, Kofi Annan, observed:

> **Our world is richer than ever before, but it is also marked by enormous inequalities, both within and between countries. The average annual income of someone living in the world's richest country, Luxembourg, is more than one hundred times larger than that of the average citizen of Sierra Leone, one of the world's poorest. Such big differences in living standards should be a matter of great concern, because they**

> **reflect serious inequalities in life opportunities. This calls for a robust policy response at both the national and international levels, so that all countries can achieve the Millennium Development Goals and other agreed development objectives.**

As part of its response to this challenge, the International Trade Centre (ITC) held an Executive Forum on "Making Trade Work for the Poor", in Berlin during September 2006. Emerald Group Publishing, in conjunction with ITC, UNCTAD/WTO, decided to publish a special issue of *Management Decision* using selected papers from the 2006 Executive Forum, together with a limited number of papers submitted independently for consideration. The papers we have selected cover a quite proper discursive consideration of alleviating poverty that is the purpose of this special edition. Taken together, they offer some frameworks for analysis, some lessons from history, a collection of case studies and some thoughts about how to measure progress.

In the initial set of articles, we consider some of the big geo-political issues associated with socioeconomic development – the "great game" of Central Asia (Kidd, 2007) and South-South trade (Agatiello, 2007). We then look to Fourie (2007) for some lessons from the past to inform our current and future efforts. With this appreciation, of the contexts within which we seek to alleviate poverty, Skae and Barclay (2007) provide a way of framing process. We move on to a series of case studies, as examples of what is happening on the ground in terms of poverty alleviation - Caras Do Brasil (Faces of Brazil) (Barin Cruz, *et al*, 2007); a "grass roots" NGO using agricultural programs to generate economic viability in developing countries (Duke and Long, 2007); and an analysis of transaction costs in group microcredit in India (Shankar, 2007). Dwyer (2007) asks "how do we know if it's working" and then proceeds to consider how we might determine this. We conclude with Thierry's (2007) identification of the "elephant in the room" – the existing gender gap in trade strategy formulation that hinders trade performance – and a proposal for more coherent and effective programs that capitalize on existing market structures and women's entrepreneurial drive, with their more effective integration into the export value chain.

Geo-politics, socioeconomic developments and lessons from the past

In coming to grips with the ways that we can indeed "make trade work for the poor", it seems reasonable to start with the development of better understanding of how we arrived at this point in the first place and a better understanding of the dynamics that appear to sustain the inequality. The first two articles in this collection consider the geopolitics of Central Asia on the one hand (Kidd, 2007), and the place of South-South trade as an alternative to North-South trade Agatiello, 2007) on the other.

Ross' (2007) bibliography of "Central Asia", prepared for the Muir S. Fairchild Research Information Center, appears to define Central Asia as constituted by five of the "stans" – Kazakhstan, Tajikistan, Turkmenistan, Kyrgyzstan, Uzbekistan. Diamond (1997) presented a sweeping 13-millennia historical argument as to why western European culture came to dominate, centred on "guns, germs and steel". Central Asia was a regular subject of discussion regarding, for example, plant

(Diamond, 1997: 159, 167) and animal (Diamond, 1997:57, 142, 149) domestication, and the barbarian invasions of its pastoral roaming nomads.

"Central Asia" though, is a relatively young artefact, according to Kidd (2007). He includes Afghanistan in his definition and notes that Afghanistan especially of the "stans" has been the subject of "The Great Game" over the last several centuries, its ownership regularly passing from Tsarist Russia to the British Empire and back again, until the arrival of more recent occupiers. While recognising the work of the various agencies contributing to Central Asian redevelopment, such as EU-TRACEA, UNDP, CAREC, and the World Bank, Kidd (2007) argues that much could be achieved if there was an effort to develop the regional transport infrastructure by implementing ultra high speed maglev rail systems across Central Asia.

At a recent workshop in Washington on how to achieve an orderly reduction in the large and unsustainable global imbalances in current account positions, thirty of the world's leading experts presented analyses and evaluations of the requirements for such an adjustment (Ahearn, *et al*, 2007). A series of individual country papers explored the underlying factors behind surpluses and deficits and the scope for adjustment in the current account , while a collection of multi-country simulation papers produced estimates of policy variable changes and corresponding exchange rate adjustments that would be consistent with scenarios for a reduction in current account imbalances. The workshop did not include a discussion of the North-South/South-South trade issues.

The significance of South-South trade is given by the fact that, from a time only two decades ago, when developing country trade was viewed as the weakest of the world trade segments, trade flows between developing economies reached more than $1 trillion in 2003 (Agatiello, 2007). Much of this increase has been the result of regional preferential trade agreements (Commonwealth of Australia, 2004), arrangements which, Agatiello (2007) notes, are inconsistent with the rules-based multilateralism, that is the first-best choice of mainstream economic theory. Agatiello (2007) goes on to argue that South-South trade can indeed be an alternative to North-South trade, continuing to play an important role in developing country trade, especially in the Asian Pacific region. At the same time, he points out that, with the change of status of China and India away from that of "developing country", a more multilateral approach may be necessary.

Two thousand five hundred years after Heraclitus observed that change is the only constant, we are continually bombarded by the view that all is change in the lot of humans and that we need new solutions to new problems and new dynamics. Presumably, this would apply too to making trade work for the poor. But are there any lessons we can learn from previous efforts to alleviate poverty? Fourie (2007) suggests that there are. In his examination of black poverty in 21st century South Africa, Fourie (2007) maintains that, while the magnitude and severity is much greater than that of the white poverty at the start of the 20th century (and has grown from somewhat different roots), efforts to alleviate black poverty in South Africa can benefit from the insights gained by an exploration of the responses to the earlier white poverty.

The keys to white poverty in the early 1900s were, according to Fourie (2007), a poor education system and conservative culture of the isolated farmer, fast urbanisation, the Anglo-Boer war and many severe droughts. While government labour and welfare policies contributed little to the long-term alleviation of white poverty, economic growth was the most important factor in eradicating white poverty (Fourie, 2007). Fourie (2007) argues that economic growth is still the key to combating poverty, along with improvements in education and property rights, creating numerous positive externalities. In his view, then, a government focus on policies that promote higher economic growth and job creation is, as was the case for white poverty in the post-1930s, the only solution to black poverty in South Africa today.

Implementation: A Framework for Action and Examples

Discussions on the eradication of poverty often sound like discussions on leadership – everyone agrees we should have it, but no-one necessarily agrees on what it is or how we should go about it. In their paper on managing the linkage between export development and poverty reduction, Skae and Barclay (2007) seek to remedy that situation, by proffering a management framework through which the linkage between exports and poverty reduction can be better understood and strengthened. We then move to several specific examples, in the form of case studies from Brazil (Barin-Cruz, *et al*, 2007), Malawi and Ethiopa (Duke and Long, 2007), and India (Shankar, 2007).

Having found that many strategies stop short of providing the sort of detailed action steps that would result in a project's objectives being effectively implemented and its impact being measured, Skae and Barclay (2007) use the International Trade Centre's Priority Assessment Framework for Export Development to prepare a hypothetical strategy for the Rwandan coffee sector, as an exemplar of how the framework, which primarily addresses competitiveness issues, can be applied to the design and implementation of poverty reduction initiatives in the context of export development. This framework, they maintain, can be used to guide national strategy-makers, trade support organizations, sector associations, NGOs and the donor community in formulating, implementing and evaluating trade-related poverty reduction strategies.

Inspired by the framework that incorporates the notion of sustainable development in business strategy, as proposed by Steurer, *et al* (2005), Barin Cruz, *et al* (2007) present the first of our three case studies, in their examination of the Caras do Brasil (Faces of Brazil) commercialisation programme run by the Pão de Açúcar Group (the second largest supermarket chain in Brazil). Pão de Açúcar brings to its shelves products from various parts of Brazil that have been produced by groups and organisations which promote social inclusion, preserve the environment, and find creative alternative ways of generating income using sustainable methods of production. These products include such items as banana flour, sweet preserves, jams and honeys, candles, pots, baskets and boxes, and coffee, honey and sugar.

The paper proffers an example of programs that seek to develop commercial activities in partnership with producers from poorer regions by way of seeking an equilibrium between the economic, social and environmental dimensions of societal activity. Beyond demonstrating the straightforward success of the program though, Barin-Cruz, *et al* (2007) also show that, in this case at least, the pressure of stakeholders is predominantly related to social concerns rather than the environmental concerns that drive the model presented by Steurer, *et al* (2005) and highlight the importance of separating transactional and interactional stakeholder views as a way of infusing the framework with a higher level of detail.

Duke and Long (2007) present Healing Hands International (HHI) as their example of a grass roots non-government organisation (NGO) which has implemented a program to help impoverished communities in developing countries move out of famine and poverty and into self-sustenance and economic viability, using agricultural programs to generate economic viability. The HHI program starts with agricultural training in "survival gardening", leading on to small farm production, and then to larger cooperatives. This type of program appears to be successful in Ethiopia and Malawi. In Malawi, for example, the program produces crops that are transformed into meal supplements which are traded internationally. Although in the early stages, where structured methods of evaluation are yet to be developed, Duke and Long (2007) suggest that programs like HHI appear to provide evidence of success that will aid in the effort to solicit more financial support, and other organizations can use their program as a benchmark for developing similar programs in other countries around the world.

When the topic of using microcredit (the provision of very small loans to entrepreneurs who would not otherwise qualify for bank loans) is raised, most attention tends to be focussed on Dr. Muhammad Yunus, winner of the 2006 Nobel Peace Prize, and his bank, Grameen (*cf* Wikipedia, 2007). Both have been criticised as well as praised, by both ends of the political spectrum (*cf* Neff, 1996; Tucker, 2006). One area of criticism, high interest rates on microcredit loans and the transaction costs that contribute to them, has been examined by Shankar (2007), with a view to being able to draw implications on how lending rates in microcredit could be reduced in a sustainable manner.

Shankar (2007) studied three established microfinance institutions in India to determine the composition of transaction costs, and found that the key drivers of direct transaction costs are field worker compensation and the number of groups handled per field worker, with collection activity as the single largest contributor. On the basis of the study findings, Shankar (2007) proposes that microfinance institutions can reduce direct transaction costs by increasing the number of groups per square kilometre, while indirect costs can be reduced by minimising the number of layers of fixed costs and implementing alternative revenue generating activities that can be undertaken with minimal incremental costs.

Evaluating success

Public trust of, and investment in, poverty reduction programs is a function, at least in part, of the credible demonstration of the impacts of those programs, by way of authoritative performance reporting (Dwyer, 2007). As Skae and Barclay (2007) note in their paper, however, many strategies stop short of providing the detailed action steps that would result in a project's objectives being effectively implemented and its impact being measured. Dwyer (2007) seeks to identify some current best practices in this area and suggest a model with potential indicators, which could be utilized to measure incremental results and impacts in relation to human development issues. He also discusses ways of incorporating the stakeholder perspective into the performance measurement framework. He maintains that an understanding of performance measurement theory and stakeholder engagement process can enable business leaders to create practical performance measurement frameworks, which in turn will lead to enhanced reporting and accountability for poverty reduction impacts and results.

Futures of poverty reduction programs?

The collection of papers to this point provides some particularly useful insights into the nature of the poverty reduction problem and the context within which attempts to deal with it must operate, suggests some frameworks for action, together with some lessons from history, presents a series of case studies that can be taken as leads for similar initiatives, and promotes the importance of stakeholder driven evaluation processes as a basis for demonstrating the effectiveness of the programs so implemented. At the same time, concern has been expressed about the extent to which poverty reduction in particular and corporate social responsibility in general appear to have developed according to a "white man's agenda" (*cf* Marshall, 2007; Thierry, 2007).

Marshall (2007) argues that CSR is already gender patterned, with the leadership of organization-based discourses and practices dominated by men, while women are seen to be operating at the margins. She argues that these fundamental gender inequalities need to be identified if ecological sustainability and global social justice are to be addressed effectively. In the same way, Thierry (2007) identifies gender as the "elephant in the room" as far as trade strategies aimed at export-led poverty reduction are concerned. She concludes that the existing gender gap in trade strategy formulation will hinder trade performance until pro-poor trade strategies engage more inclusive decision making processes and the use of gender impact assessments. Thierry (2007) says that programs will be more coherent and effective if they capitalise on women's entrepreneurial drive by integrating them into the export value chain.

Together, the papers in this special issue constitute a useful beginning point for the exploration of the role that corporations can play in sustainable futures for all of us.

In closing, I pay a special word of tribute to my co-editor, Rocky Dwyer, who really is the inspiration behind this issue of *Management Decision*. Together we hope that we have made some small contribution towards making trade work for the poor.

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