1 Introduction

Poverty reduction is now the overarching development objective. Until recently, the main actors in the poverty reduction dialogue have been international agencies, governments and non-government organisations, with business enterprises rarely being involved in either shaping policy or as active participants in poverty reduction programs. In part, this reflects the perceived incompatibility between commercial objectives and wider social interests, including that of poverty reduction. However, the lack of involvement by firms in shaping poverty-reduction policies is surprising given that markets are well-recognised in economics and development discourses as an efficient provider of goods and services (CDR 2001:15). There is also emerging consensus among development institutions, and increasingly governments, that private markets are not only the engine of economic growth and wealth creation but are necessary for improving social welfare. However, in this view, responsibility for social objectives such as poverty reduction, and public goods lies with the state and non-government organisations (NGOs).

Yet there is considerable controversy and debate on the relationship between the private sector and world poverty. As Nelson (2002:1) puts it “…private enterprises – especially multinational companies – tend to be seen as either savours or villains in the fight against poverty”. Academic debate on whether markets deliver net benefits to the poor often focuses on the unintended consequences of business practice, particularly in developing countries, and is amplified by concerns from civil society that the market economy has adverse social, cultural and environmental impacts (McIntosh & Mohan 1999:3).

Nonetheless, the last decade has witnessed a re-examination of the roles and responsibilities of the private sector with firms increasingly expected to demonstrate Corporate Social Responsibility (CSR), by addressing the social and environmental impacts of their activities. The outworking of CSR principles is demonstrated through such actions as greater commitment to ethical standards, community investment, stakeholder engagement, and more transparent reporting of social and environmental performance (UNIDO 2002:1). Adherence to CSR principles has, for many firms, posed challenges in how to balance commercial objectives with the needs of other stakeholders. These include employees, suppliers, customers, governments, local communities, and the environment, and represent a significant shift from the traditional view of maximisation of shareholder value as the overarching concern of private business.

The CSR movement has gained significant momentum in Europe, North America, and other parts of the developed world, driven by a variety of external pressures including governments, international agencies, and NGOs. These external influences appear to have reinforced a process of voluntary change by some firms whereby they have redefined their purpose and activities from solely profit maximisers to that of change agents in society.

Furthermore, the significant changes in the global economy including globalisation of production and increasing trade with poorer economies have enabled greater opportunities for firms, particularly transnational corporations (TNCs) to participate
with states and NGOs in social development goals. Accordingly, development agencies, including the World Bank (2002) and the United Kingdom’s Department for International Development (DFID) (2000b), have begun to recognise the importance of including the private sector in poverty-reduction strategies if the millennium goal of halving poverty by 2015 is to be achieved (DFID 2000b:3). In these strategies firms are encouraged to play a direct role in poverty reduction, either by engaging with local communities themselves or acting in partnership with states or NGOs, alongside efforts at making markets more pro-poor.

In recent years development discourses have also begun to focus on the role that CSR might play in poverty reduction. However, the theoretical issues associated with direct involvement by business in poverty reduction are less well articulated than with other “stakeholders” such as customers, employees, suppliers, governments, and the community more broadly. There remains a challenge to find the appropriate balance between commercial objectives and social benefits. Nonetheless, some empirical evidence is emerging that businesses in developing countries are actively involved in alleviating poverty in the communities in which they operate.

The purpose of this paper is to outline the proposed research into the social dimensions of business practices, particularly as they relate to poverty reduction, using Fiji as the case study. Most of the existing research on poverty reduction has focused at the macro or sectoral levels of the economy, with relatively little documentation of the business-poverty interface using the firm as the unit of analysis (Shankleman and Selby 2001:9). Hence, this research aims to primarily assess the nature, extent and effectiveness of pro-poor business initiatives. These initiatives may range from direct actions, such as philanthropy, to core business practices that have indirect, but positive, effects on local communities. An important aspect of the study will be to document the mechanisms by which the actions of specific businesses affect the poor and an understanding of the motivations driving this behaviour.

Fiji will be selected as the country case study primarily due to the absence of previous work on this topic, the prevalence of poverty, and the diversity of business activity. This study will adopt a case study approach by selecting a smaller number of firms than in a statistical survey, with more depth of analysis. This approach will provide insight into the nature of business activities that positively contribute to poverty reduction as well as identifying what changes might need to be made. These insights will better inform development policy that aims to harness the contributions of the private sector for the achievement of these social goals. Furthermore, it will contribute empirical data on how and why firms engage with the poor by providing a Pacific Island case to the existing literature.

While the links between business practice and poverty levels may be positive or negative, this study also recognises that poverty may have a negative effect on business performance in developing countries. The potential problems associated with pervasive poverty include low productivity associated with poor worker health, restricted market growth due to low incomes, and threats to a firm’s assets in a climate of social instability. While the primary objective will be to evaluate the nature and effect of pro-poor business initiatives, the study will also consider poverty’s effects on the commercial performance of the case study firms.
The criteria for selecting the case study firms will be determined after initial interviews have been held with the relevant departments. However, it is expected they will come from a range of sectors including primary industries, garment manufacturing, and tourism. These industries present an ideal case study, given their importance to Fiji’s economy and prominence in development planning. A cross-sectoral approach will provide insight into the variations in poverty-reduction practice that exist across industries and the drivers that influence firm behaviour. Furthermore, it is intended that the case study firms will vary in terms of size, ownership, and locality. The approach adopted in this research will fall short of measuring the reduction in poverty attributable to a particular firm’s activities. Nonetheless, case studies of specific firms should provide rich insight into the mechanisms by which firms directly and indirectly affect the lives of the poor.

Section 2 of this proposal reviews the literature on poverty and business practice. It begins with a discussion of theoretical perspectives on definitional issues, the causes of poverty, and the strategies for poverty reduction. The discussion then moves to a review of the corporate social responsibility literature followed by the theoretical and empirical work on the role of business in reducing poverty.

Section 3 of this proposal outlines the research design and methodology, beginning with a discussion of the purpose and justification for the proposed research. After stating the definitions that will be adopted, the primary and subsidiary research questions are then presented followed by a discussion of the methods for data collection and analysis. In the final sub-sections, a proposed chapter outline and work schedule is presented.
Any study of the links between business practice and poverty reduction will be multidisciplinary on account of the apparent differences between each issue. For example, the study of business conduct and the role of firms in society has traditionally been the preserve of business and management studies. However, the last decade has witnessed a growing academic literature on the corporate social responsibility (CSR) of firms ranging from theoretical perspectives to empirical case studies. CSR literature now emanates from other academic fields including ethics, economics, environment, organisational behaviour, and more recently, development discourses.

In contrast, poverty reduction, has long been recognised as a field of research in its own right, although one having roots in the fields of economics, political science, and sociology amongst others. As noted earlier, while poverty reduction strategies have been a focus of governments, international agencies and NGOs, there has been little direct dialogue with firms about the role they can play in such strategies. This in part reflects the tensions between commercial objectives and wider social interests such as poverty reduction. Recently there has been growing interest in exploring the role of firms in poverty reduction with academic research on the topic originating from within the corporate social responsibility, corporate governance, and development fields. The following sections provide an overview of the current thinking and empirical evidence on the business-poverty interface.

2.1 Poverty and poverty reduction

Conceptualising poverty

The conceptualisation of poverty has changed considerably over the past 50 years. Poverty can be absolute, meaning complete material destitution or it can be relative, whereby people live in a worse way compared with others in the same society (UNDP 1999:17). The historical perspective of poverty was simply the inadequacy of income and resources to meet basic needs. Although incomplete as a measure, income data alone paints a sobering picture of the magnitude of the problem of poverty. The World Bank (2001a:3) estimates that nearly half of the world’s population or 2.8 billion people live on less than US$2 a day. Furthermore, this inadequacy of income translates into poor social outcomes, particularly as measured by health indicators such as rates of infant mortality. For example, nearly 20 percent of children in the poorest countries will not reach their fifth birthday compared with a mortality rate of only one percent in the richest countries (World Bank 2001a:3). Hence, economic definitions see poverty as material deprivation in essentials such as food, shelter, and money, which impacts on the non-economic aspects of people’s lives.

Recognition of the non-economic consequences of material deprivation lead to more comprehensive and multi-dimensional definitions of poverty. For example, McIntosh and Mohan attempt to describe the complexity of poverty by stating that “a person, community, or country may be ‘poor’ due to a deficit of finance, buying power,
knowledge, social capital or resources (environmental or otherwise)” (1999:2). Hence, the non-economic definitions of poverty incorporate such aspects as inadequate information, empowerment, participation and access to resources.

The shift in defining and measuring poverty is evident from the changed focus of development institutions during the last decade. The main policy emphasis of the 1990 World Development Report was how to raise income-earning opportunities and the importance of economic growth and trade liberalisation in lifting the poor out of deprivation (World Bank 1990). Whereas the 2001 World Development Report defines poverty and deprivation as a lack of fundamental freedoms, which has its origins in economic, political and social processes. Consequently, the 2001 Report argues that poverty-reduction strategies must address issues of access, opportunity and empowerment within these processes (World Bank 2001a:1). Prominent non-government institutions (NGOs) such as Oxfam, have also adopted this multi-dimensional view (Watkins 1995).

In seeking answers to the causes and consequences of poverty an extensive literature has emerged that links poverty with such issues as trade, globalisation, foreign debt, international finance, gender, labour standards, environment, and human rights, among others.

One of the implications of adopting a broader view of poverty is that policy responses based solely on addressing income and consumption will no longer be adequate. It is one matter to implement policies that facilitate trade, investment and private sector growth, and while these may raise incomes in themselves they will do nothing to address the problems of access, vulnerability, and inequality that exist in society. As the World Bank (2001a:VI) puts it:

We have learned that traditional elements of strategies to foster growth – macroeconomic stability and market-friendly reforms – are essential for reducing poverty. But we now also recognise the need for much more emphasis on laying the institutional and social foundations for the development process and on managing vulnerability and encouraging participation to ensure inclusive growth.

This poses challenges for poverty policy. Economic reforms need to be integrated with institutional and other social reforms for which a suite of policies will be necessary, requiring change at the international, national and local level. In effect, broadening the definition has raised the risk of policy failure.

Problems in finding a comprehensive definition of poverty that encompasses its many dimensions are matched by the difficulties in statistical measurement of the condition. The measurement of poverty is in itself a complex and controversial issue, beyond the scope of this paper. Nevertheless, a broad overview of the topic is needed. The attraction of defining poverty in income and consumption terms relates to the relative ease with which these variables can be measured. As mentioned earlier, the World Bank (2003) continues to use the US$1 and US$2 a day as references lines for income poverty, below which a person is said to be poor. That it uses a common unit, has long time series data, and is updated every three years are among the strengths of this measure. However, income poverty measures fail to capture the social aspects of poverty including vulnerability, access to social capital, and social exclusion. Nor do they measure inadequacy of consumption.
Consumption measures of poverty typically take the form of calculating inputs such as nutritional status, house size, and hospital beds available. They are often combined with income measures to determine absolute poverty lines – that is, the minimum income or consumption necessary to sustain life. One weakness of using a consumption measure, however, is that it neglects the effect of savings and therefore potential future consumption (Streeten 1998:29).

Another measure is the head-count ratio, which simply counts the number of poor within a population but fails to inform how far below the poverty line the poor are nor the distribution of poverty among those below the line. For this reason, Streeten favours the use of a composite indicator known as the Foster-Greer-Thorbecke Index. This index “combines the head-count ratio, the proportionate shortfall of the average poor person below the poverty line, and a poverty-aversion parameter that gives weight to the poorest of the poor” (1998:29).

In recognising these other dimensions of poverty, the United Nations Development Programme (UNDP) has adopted a composite index, the Human Poverty Index (HPI), which measures deprivations of human development. These are vulnerability to:

- an early death – measured by the probability at birth of not surviving to the age of 40;
- exclusion from the means of acquiring knowledge – measured by the adult illiteracy rate; and
- lack of access to economic provisioning – measured by access to improved water sources and the percentage of children under five who are underweight (UNDP 2001).

The choice of poverty measure invariably results in trade-offs between comprehensiveness and universality of application. The latter is important for comparisons of performance across countries and over time. Here too the choice of indicator will be important. As Ravallion (2001: 1803) notes that while the poor are concentrated in the developing world, cross-country comparisons are beset by data problems that pose hazards for development policy. The measures themselves are important for understanding the dimensions of poverty, notwithstanding the fact that aid donors and governments clearly need quantifiable indicators by which to assess the performance of poverty-reduction programs.

**Poverty reduction strategies**

Before considering the approaches for addressing the problem of poverty, it needs to be stated why poverty-reduction is a worthwhile objective for society. Poverty reduction has become the overarching objective of most development agencies, and increasingly governments, because of its importance in enabling each person to fulfil his or her full human potential. As well as being a worthy end itself, Streeten (1998:2) identifies four practical reasons why poverty reduction should be pursued. Firstly, reducing poverty raises the productivity of labour. Secondly, poverty alleviation would reduce the desired family size, thereby lowering population growth rates. Thirdly, poverty reduction may reduce certain types of environmental degradation as the poor are often responsible for loss of local environmental amenity through deforestation, desertification, and soil erosion. Finally, reducing poverty contributes
to improved social stability including democratisation and strengthening of civil society.

The economics discipline has traditionally favoured macroeconomic solutions to poverty reduction. These focus on the importance of pursuing economic growth and favourable trade policies to expand market opportunities and raise incomes. Grounded in neo-liberal theory from such writers as Hayek (1944, 1960), Friedman (1962), and Arndt (1992), there is strong empirical evidence that economic growth is the pathway to poverty reduction. Although this literature is too extensive to be reviewed here it includes the contributions from authors such as Pritchett and Summers (1996), Easterly (1999), and Stern (2002). A major thrust of neo-liberal theory, as argued by Sen (1999), is the nexus between capitalism and freedom whereby growth of the market economy is seen as the means by which the poor can find opportunity and financial security.

The link between private sector growth and poverty reduction in development thinking is based on the following logic. A significant reduction in income poverty will not occur without economic growth, which is central to development. Since economic growth is best achieved by ensuring private sector growth, then the private sector is, indirectly, a significant vehicle for poverty reduction (CDR 2001:16). This is because collectively the private sector usually represents the largest source of employment and investment, and significant sources of tax revenue in developing countries (IFC 2000:1,17). Furthermore, the Asian Development Bank claims that microeconomic reforms have enabled the private sector to participate in the provision of physical and social infrastructure (ADB 2002:9). This frees up resources of the public sector enabling the possibility of higher social spending in sectors such as education and health.

Accompanying the ‘growth alone’ policies of the 1980s was the so-called ‘trickle down effect’. This ‘trickle down effect’ was premised on a belief that the benefits of economic growth would eventually flow to society’s poorest, thereby reducing poverty even if inequality were to rise. While the ‘trickle down effect’ itself has been refuted as an economic doctrine by eminent development economists such Heinz Arndt (1983), it persisted as a poverty-reduction theory through most of the 1980s.

Development thinking in the 1990s began to question the efficacy of the ‘trickle down’ effect. While the importance of the market in poverty reduction was still considered a mainstream view among international agencies and multilateral agencies, there was widespread recognition that markets alone may not be sufficient to ensure adequate distribution of benefits to the poorest. For example, faith in the market paradigm has been questioned by Killick (1989), de Soto (2000), and Schulpen (2000) and even the World Bank (2001b:12) and IFC (2000:12, 29), which acknowledge the difficulties in quantifying the relationship between private enterprise and income growth.

Poverty-reduction policies throughout the 1990s have continued to emphasise the importance of economic growth in raising incomes and wealth, but with appropriate re-distribution policies to ensure inclusion of the poor. With the recognition of the need for re-distribution, the state has returned to prominence in promoting growth and directing development (MacWilliam 2002:143). This view is also reflected in the policies of international agencies such as the UK’s Department of International

Current strategies for addressing poverty recognise the need for complementary action at the macro, meso and micro levels of society. These include enabling actions (such as private sector development), indirect/inclusive actions (such as sectoral support for education, health, infrastructure and agriculture), and direct/focused actions (such as training, microfinance, and women’s initiatives) (Cattarinch 2001:5).

**Being poor in Paradise: The nature and extent of poverty in Fiji**

No region of the world remains untouched by poverty although its prevalence and effects vary considerably. Poverty in Pacific island countries is generally less visible or as extreme as in other parts of the world (UNDP 1999:17). This is evident from the Human Poverty Index (HPI) in which countries such as Niue, Tonga and Cook Islands have HPI values that are among the lowest in the developing world, indicating low rates of poverty (UNDP 1999:19). More recent data shows Fiji fares worse in poverty statistics with an HPI value of 21.3, placing it 38th among 88 developing countries for which the index is calculated (UNDP 2002). However, the UNDP concedes that HPI data for Pacific island countries does not reflect the extent of poverty on account of their relatively high literacy rates and small geographic size that enable better access to services (UNDP 1999:19).

One potential reason why Fiji fares worse in poverty data compared with some other Pacific island countries, despite having a larger and more broadly based economy, is that relatively more poverty data has been collected in Fiji. As Walsh (2000:1) notes, there have been many studies of poverty in the past 20 years with each broadly confirming the findings of its predecessors. These include Stavenuiter (1983), Barr (1990), Bryant (1992), Ahlburg (1995), Government of Fiji and UNDP (1997), and Walsh (1998). The data for these studies are derived from two Household Income and Expenditure surveys (HIES), one conducted in 1977 and another in 1990-91 (Walsh 2000:1). Of the studies conducted, the most comprehensive is the 1997 Fiji Poverty Report conducted jointly by the Government of Fiji and the UNDP. It provides a rich insight into the economic and demographic characteristics of the lowest 20 per cent of households and how they are linked to the national economy. This study also details the processes of impoverishment, the means by which the poor cope, and the policy environment in which poverty is being addressed (Government of Fiji and UNDP 1997:1).

However, the statistical data in the report and subsequent analysis is based on the 1990-91 HIES, which is now more than 12 years old. Nonetheless, its relevance is based on two assertions. Firstly, the two HIES provides an important baseline for understanding changes in the extent and characteristics of poverty in the 13-14 years between the surveys. Secondly, the 1990-91 HIES remains the most current source of economic and demographic data on Fijian poverty and provides the basis on which poverty policy is based.

The HIES estimated the national poverty line in 1990-91 at F$83.00 a week for a household of five people in rural areas and F$100.08 for urban households. Income poverty, in part, reflects the dual nature of Fiji’s economy with a predominantly
agricultural rural sector and an urban-based business sector. Since the 1977 survey the
income gap between rural and urban households had closed marginally, while the gap
widened within urban and rural areas (Government of Fiji and UNDP 1997:2). The
report reveals that the number of households living in absolute poverty is quite small.
However, relative poverty, whereby income and wealth are unevenly distributed and
certain groups remain disadvantaged, is a more significant issue. This is reflected in
the data that shows that about 40 per cent of Fijian households were either poor or
vulnerable to poverty in 1991 (Walsh 2000:1).

Furthermore, the 1990-91 survey revealed some distinctive demographic
characteristics among poor households. For example, one in eight poor households are
headed by women and these are among the poorest. Another significant finding is that
83 per cent of heads of poor households work and that these “working poor” have
limited skills, restricted access to resources of the land and sea, and sometimes, social
barriers that add to insecurity (Government of Fiji and UNDP 1997:2-3). The
availability of casual and permanent employment also contributed to disparities across
provincial regions. Average incomes were found to be lowest in Lau, Bua, Kadavu
and Nadroga/Navosa with incomes from businesses and employment concentrated
into relatively few households (Government of Fiji and UNDP 1997:24-25). Although
the poor may lack income in these regions, they may nonetheless have access to land
and sea for subsistence. Surprisingly, the survey revealed that income inequality was
more pronounced within the major ethnic groups rather than between them. For
example, while Indo-Fijian households generally had higher incomes than Fijian
households, the former group are overly represented in the lowest 10 per cent of
income groups (Government of Fiji and UNDP 1997:25).

With relatively good empirical data, the existence of poverty across Fijian society is
well recognised among policy-makers, international agencies and academics.
Throughout the 1990s, the Government of Fiji (GOF) renewed its emphasis of a
welfare approach to poverty reduction. This approach was based on a range of social
safety nets that target poor households. There was also a growing realisation within
the GOF of the need for collaboration with NGOs and international development
agencies in assisting the poor (Government of Fiji and UNDP 1997:4). Despite these
efforts, there appears to have been little real progress in reducing either poverty or
inequality within Fijian society. MacWilliam (2002:138) believes this is due to the
breakdown of traditional means of re-distribution dictated by cultural norms and
social safety nets combined with poor systems of governance.

The Fiji Poverty Report (Government of Fiji and UNDP 1997:4) recommended a
three-pronged strategy to reduce poverty based upon improving the productive
capacity of people, improving access to and the performance of social services, and
building capacities at the local level to assist the poor. In an interview for World
Investment News, Fiji’s Prime Minister, the Hon. Laisenia Qarase stated that Fiji
requires a sustained economic growth of around five per cent to provide jobs for the
unemployed. To this end he stated that the “there is a lot in the budget [2003] to
strengthen the business sector but there are also a lot of programmes that work
towards alleviating poverty” (WINNE 2002:4).

It seems clear that the GOF views economic growth and the facilitation of investment
as separate issues to that of poverty reduction. While the former might be viewed as
economic in nature, the latter is seen as a social problem whose responsibility lies
with the state and not the market. This separation of objectives is perhaps one explanation why, on the one hand, the role of NGO collaboration in poverty reduction is prominent, while on the other, the private sector has been conspicuously absent except in terms of employment generation. Perhaps the failure to seek the cooperation of business and harness its resources for social change is one explanation for the limited achievements in reducing poverty in Fiji and most developing countries.

2.2 Perspectives on the social responsibility of business

Origins of the Corporate Social Responsibility movement

Debates about the social responsibilities of corporations have been around for decades. Likewise, there has been a long tradition of philanthropy by business in many societies. For example, Community Chests dating back to the early twentieth century were an early form of corporate philanthropy by which businesses acted in partnership with the State to address poverty and deprivation in communities (McIntosh and Mohan 1999:5). However, these types of activities have not generally been regarded as important business goals. Conventional theory of the firm, which has been central to economics and corporate governance doctrines, has always viewed profit maximisation and the creation of shareholder wealth as the end goals of business activity. Furthermore, the ‘invisible hand’ of market forces is considered sufficient to serve society’s interests (Henderson 2001:2-3). Or as the economist Milton Friedman once argued, the only social responsibility of business is to engage in activities that increase profits (Friedman 1962:133).

However, the moral challenge of poverty and other social problems has caused a re-examination of the role of every institution in society, including private business. Newer thinking is challenging the conventional theory to accept a broader view of a firm’s role and responsibilities that are over and above its legal obligations. This new ethos charges firms with a direct role in promoting social welfare or as collaborators with governments and NGOs in addressing society’s problems. The pursuit of corporate virtue gained momentum during the 1990s as the private sector generally, and transnational corporations in particular, have begun to define their codes of conduct and recognise the effects of their activities on other groups in society (Henderson 2001:7).

This new ethos reflects a cultural change within firms that recognises the firm’s obligations to other internal and external stakeholders including employees, suppliers, customers, and the local community. Although there is no universally accepted definition, the term ‘Corporate Social Responsibility’ (CSR) is now widely used to reflect the social obligations of the corporate sector. In his taxonomy of CSR-related terms, Hopkins (2001:11) states that CSR:

…is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. The aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation.

One weakness of the CSR label is its passivity, implying obligations that may not necessarily be matched by actions. For this reason, some American academics prefer
the concept of ‘corporate social responsiveness’ as it places emphasis on performance rather than motivation (Hopkins 2001:3). Other widely used terms include ‘corporate social investment’ and ‘socially responsible investment’. Similarly, a multiplicity of terms is used to describe the firms that adhere to this social ethos including ‘good corporate citizens’, ‘citizenship companies’, ‘the ethical corporation’, and those that endorse the ‘triple bottom line’ of economic viability, environmental sustainability, and social acceptability. This variety of terms poses dangers for consistency in the way firm behaviour is interpreted (Hopkins 2001:1-2). For some firms, social obligations are met through acts of philanthropy, while for others CSR represents a new corporate framework whereby the needs of all stakeholders are central to the firm’s operations. As Handy (1998:179-204) asserts, these responsibilities not only involve changes in corporate conduct, but also redefine the firm as an institution in society to one that serves societal interests. These social interests generally fall into two broad categories: responsibility towards society and responsibility toward the environment. Figure 2.1 shows the important CSR issues and their relationship to a firm’s stakeholders.

Figure 2.1  Mapping CSR: Issues and Stakeholders

Source: UNIDO (2002)

One influential author in the CSR literature is Simon Zadek, who has written extensively on changing corporate values. He describes the influence and progress of the CSR movement in terms of three generations as leading firms become more ambitious in their level of social engagement and influence. Zadek (2001) identifies these three generations as:
1. First generation of CSR – showed that it was possible for firms to be socially responsible in ways that contribute to commercial success. This traditional form of CSR is perhaps the most widespread and usually manifested in corporate philanthropy. The motivation for this level of engagement is typically the enhancement or protection of the firm’s reputation.

2. Second generation of CSR – sees CSR as part of a firm’s long-term business strategy. It is founded on the view that serious engagement in CSR practices is good for business, as expressed in ‘business case’ arguments for CSR.

3. Third generation of CSR – is still in its infancy with relatively few firms reaching this level of commitment. This level of CSR involves broader contribution to social issues such as poverty reduction and environmental degradation by influencing the market, public policy environment, and consumer education.

Although CSR had its origins in Europe and the United States, in recent years there has been increased interest in understanding and measuring the development benefits that might accrue to developing nations from improved corporate practices. The market-led model of development, currently pursued by most developing countries, sees the expansion of markets as the preferred avenue of development, with a robust private sector providing employment, incomes, and goods and services.

However, the notion of CSR has expanded the role of markets as an avenue for development in both a philosophical sense and in a practical sense. At a philosophical level, there is the notion of changing responsibilities in which firms are expected to exercise a duty of care toward all its stakeholders. At a practical level, firms are increasingly expected to become positive agents for social change. Henderson (2001:1) sees this as a modern development of the concept, which has gained broadly-based and influential support throughout the 1990s. It is perhaps appropriate to consider this new version of the concept as the “CSR movement” given its rapid adoption over the last decade and the extent to which it appears to be shaping corporate behaviour.

Drivers of the CSR movement

The CSR movement appears to have been driven by a number of reinforcing developments, both inside and outside the business world. The UNIDO (2002:2) sees the growth of the CSR movement has been driven by:

1. Changing values – firms are increasingly recognising that they have responsibilities not only for wealth creation but also for social and environmental outcomes.

2. Changing strategy – assuming a greater level of social and environmental responsibility is seen as important for the firm’s strategic development and long-term survival.
3. **Public pressures** – there is increasing pressure from institutions such as NGO’s, consumers, media, and governments for firms to become more socially responsible.

As mentioned above, the public pressures for change in corporate conduct has occurred on several fronts including NGOs, many of which monitor and report corporate misdemeanours. As the UNDP (2000:80) points out, the number of NGOs has risen from 23,600 in 1991 to nearly 44,000 in 1999. These organisations are increasingly taking advantage of technologies such as the Internet to facilitate networking and information flow between groups ranging from grassroots organisations to those involved in international lobbying.

Growth in the Socially Responsible Investment (SRI) market is placing further scrutiny on the social performance of firms. For example, the SRI market has moved from a small, niche market to the point where in the United States, $1 in every $8 is invested according SRI criteria (Forstater et al. 2002:20). The launch of share indexes such as the FTSE4Good Index in the UK and the Dow Jones Sustainability Index in the United States, is further evidence of the mainstreaming of social criteria into financial markets (UNIDO 2002:22).

Added to this, there is also increasing product demand from socially and environmentally aware consumers, the concerns of which firms must now address. This was shown in a survey of public attitudes to CSR conducted by Environics in 23 countries and across six continents. It found that two out of three people want firms to contribute to broader social goals and that 20 per cent claim to have acted as ethical consumers in their product decisions (Environics 1999).

Henderson (2001:7) adds another driver of change to the above list. He believes that a number of unfortunate episodes in the mid-1990s involving large transnational corporations (TNCs) caused a renewed scrutiny of corporate conduct. These include notable instances involving firms such as the Royal Dutch/Shell Group and local communities in Nigeria, Reebok and Nike and low wages and poor working conditions in overseas plants, Nestle’s promotion of infant formula in developing countries, and accusations that McDonalds and other fast-food chains are contributing to poor dietary health. These episodes have been costly in financial and reputational terms, prompting renewed attempts by these firms to restore credibility.

The promotion of CSR values has also come from within the business world itself, fostered by a range of business organisations that are becoming increasingly influential. This, somewhat surprising, driver of change has helped to mainstream CSR values among the largest corporations. One prominent organisation is the World Business Council for Sustainable Development (WBCSD), whose membership of more than 150 large TNCs in 30 countries have committed themselves to CSR values (Henderson 2001:9). Similar degrees of influence are seen in the range of national counterparts that have emerged with the stated intention of promoting CSR to the private sector. These include the Prince of Wales Business Leaders Forum in Britain, CSR Europe in Europe, Business for Social Responsibility (BSR) in the United States, and TBL Australia in Australia.

A more recent development that provides further support of CSR values is its endorsement by several governments. The governments of Britain, Australia and
South Africa, have validated CSR as a public policy and begun to examine ways in which CSR can be promoted. Britain is perhaps the most striking example with a Minister for CSR being appointed in May 2000 with the main aim of making the business case for CSR, coordinating information, and promoting CSR activities (Henderson 2001:9). In Australia, the Federal Government announced in 1999 the creation of the Community Business Partnership Program (FACS 2003) with similar aims to those of its British counterpart. While the governments of Britain and Australia have stopped short of applying regulatory pressure for CSR, South Africa is tightening regulatory pressure on firms in an effort to improve corporate governance and encourage public reporting of social and environmental performance (KPMG 2001:3).

Some commentators, including Utting (2000) and Jenkins (2001) also point out that claims of socially responsible behaviour by firms can be used to circumvent potentially more stringent regulation being imposed on business. In this scenario, firms opt for less rigorous voluntary initiatives in preference to external regulation. This issue will be discussed in more detail later in this section. There seems little doubt that an increasing number of highly visible transnational corporations see the “corporate citizen” label as an important strategy in preserving their business reputation.

**Finding a contextual framework**

Despite the momentum of the CSR movement in the last decade, there is surprisingly little empirical evidence of how business practices directly affect social outcomes. In particular, academic scholarship on CSR has lagged behind the contributions of non-academic authors such as private consultants, who have sought to fill the gaps in knowledge and training on CSR issues. While there is a growing literature of case studies and theoretical papers that outline problems and proposed solutions, the existing research is hampered by the absence of a clear conceptual framework for interpreting the social responsibility of firms (CSR Europe, 2002).

As mentioned earlier, the discourses on CSR have suffered from the multiplicity of terms used to define a firm’s relationship with society. This has undoubtedly hampered theoretical justifications for CSR and introduced confusion over the roots of the concept. For example, Davenport (2000) argues that CSR and Corporate Citizenship discourses have different origins – the former, from academic literature, as suggested by Jennings (1999), while the latter is a more practitioner-based approach. However, other writers such as Swanson and Niehoff (2001), Waddock (2001), and Banerjee (2002) suggest that despite the disagreements around terminology, there is a common central theme: the relationship between business and society.

A theoretical basis that is generally used to justify CSR values and practice is stakeholder theory. Stakeholder theory is commonly traced back to the strategic management literature of the early 1960s and stands in strong contrast with the shareholder model of firm behaviour, which has prevailed in the economics literature for around 200 years. However, Jennings (1999:2) argues that the concept had its origin in law dating back to the 1930s when legal questions were raised about whether it was appropriate to consider the interests of non-shareholders: those who have invested no capital but nonetheless have cares or concerns about the enterprise’s
activities. These questions were unresolved and the debate was renewed thirty years later when the Stanford Research Institute defined stakeholders as “those groups without whose support the organisation would cease to exist” (Jennings 1999:2).

Debates about stakeholder theory were again re-ignited in the 1980s following the publication of R. Edward Freeman’s (1984) book entitled *Strategic Management: a stakeholder approach*, which according to Jennings (1999:3) “sparked a revolution in management and corporate governance”. Management was given the new task of identifying all relevant stakeholders and stating how the firm should respond to each. Since that time, stakeholder theory has gained acceptance among management academics including Donaldson & Preston (1995), Kochan & Rubinstein (1997), and Davenport (2000).

In recent years, stakeholder theory has drawn considerable criticism within the management and organisational behaviour literature. Authors such as Jensen (2001:297) argue that purposeful behaviour requires a single objective and hence it is logically impossible for a firm to maximise the benefits to more than one stakeholder. Apart from the operational ambiguities, other writers such as Jennings (1999:8) and Marcoux (2000) argue that stakeholder-oriented management undermines the property rights of shareholders because stakeholders are given a voice even while having no capital at risk. This according to Marcoux (2000) potentially devalues an investor’s shareholdings because the fruits of a firm’s success must be shared with other non-equity stakeholders, and may even go so far as to eliminate the issuing of shares to finance the firm’s growth.

The divide that exists between stakeholder and shareholder theorists remains unresolved. As Windsor (1998:537) puts it:

> The lack of an explicit specification of the relationship between stakeholder and economic reasoning is a major lacuna. While stakeholder theory has achieved a degree of acceptance in the strategic management literature, now being commonly noted in new textbooks as a tool of strategic analysis, there is substantial resistance to stakeholder reasoning in the financial-economics literature. There is a counter-movement favoring stronger stockholders’ rights and corporate-governance standards; shareholder value and economic value-added notions are gaining currency.

While stakeholder theory advocates equality in a firm’s dealings with stakeholders, the greatest challenge lies in applying the concepts to business practice (Jennings 1999:6). At an operational level, stakeholders that have a commercial interest in the business will most likely have precedence over other stakeholders, whose interests are external and social in nature. This limitation is certainly evident if the poor are regarded as stakeholders. As McIntosh and Mohan (1999:4) argue, some stakeholders will inevitably receive more managerial attention because they have a greater effect on business objectives. Consequently, poor people who lack representation and a clear voice will be relegated to the position of secondary stakeholders or simply neglected. Likewise, marginalisation of the poor has often been pointed out in the development studies literature as an outcome associated with firms pursuing the single objective of profit maximisation.

The controversies and ambiguities in the theoretical literature have not prevented CSR from entering the development studies literature as development agencies seek to harness CSR for improving social outcomes. Yet the issues that divide the theorists
also play havoc for the practitioner, where differing objectives have frustrated dialogue between the private and public sectors. This is nicely illustrated in an anecdote from a 1994 meeting between United Nations personnel and senior business figures. In trying to find common ground, the will was there but the context was missing. As Marshall Carter, CEO of State Street Bank commented “When we talked about our fiduciary responsibility – to ensure that shareholders are not exposed to undue risk – you could see the development people reaching for their dictionaries” (Garrison 1997).

Since that time, however, international agencies and governments have begun formulating a policy position on the social responsibilities of business. For example, the United Nations General Assembly (2000), IFC (2000), DFID (2000a&b), European Commission (2001), World Bank (2002), and UNIDO (2002) have each published policy papers on CSR and related issues. These policy papers represent an attempt to incorporate the private sector into the development dialogue and find a contextual framework from which CSR can be encouraged. Not surprisingly, civil society has also been quick to state its own position, which in general, seeks greater accountability of the private sector for issues such as wages, working conditions, and environmental management.

**Measurement and reporting of CSR activities**

As UNIDO (2002:17) point out, there is relatively little comparable data that tracks the adoption of CSR by firms over time. The data that does exist is based on industry surveys that generally focus on the largest firms. This is partly due to the voluntary nature of reporting of social performance, an issue that is discussed later in this section. What is known is that an increasing number of transnational firms of European and American origin are engaged in CSR, although the extent to which these activities are focused on poverty reduction is unknown. According to the UK-based organisation, CSR Network (2001:4-5), their survey of the largest 100 corporations (Global 100) found that 54 per cent had CSR programs and reported their social performance. Of the remaining firms, most had engaged with social or environmental issues, although no comprehensive data was provided. Similar results have also been reported in UK and European surveys of attitudes to CSR among the TNCs by organisations such as the Centre for Social Markets (2001), and Prince of Wales Business Leaders Forum (2001).

CSR is also becoming more common among Australian firms with a report on corporate philanthropy showing that the top 100 publicly listed firms voluntarily gave A$112 million to community programs in 2001/02 (Corporate Good Works 2003). Yet there was a concentration at the top end, with the top 10 accounting for nearly 60 per cent of the total and 45 of the top 100 not making any contributions to community programs or not publicly reporting on them. There also appears to be a strong link between corporate financial performance and the level of community support. This is reflected in the 8 per cent decline in corporate giving from the previous year, which was attributed to global economic volatility and uncertainty (Corporate Good Works: 2003).

Despite the emergence of statistical data on CSR among large firms, little is known about the level of CSR activities undertaken by small and medium sized enterprises (SMEs). In particular, there is an absence of data on firms in developing countries.
except for anecdotal evidence of the practices of particular firms or at best country studies such as Kemp’s (2001) research on Indonesia. Although there is growing interest in harnessing CSR for social development, the World Bank acknowledges that CSR has not yet taken hold as a modus operandi among firms in developing countries (2002). This view is supported by Shankleman and Selby’s (2001) study of selected firms in Tanzania. They found there was little awareness of CSR concepts, such as stakeholder consultation, ethics and human rights, with paternalism being the dominant characteristic among the firms studied (2001:34). This is perhaps not surprising in countries where interest in social and environmental issues is nascent and the activities of NGOs is still limited. Apart from domestic firms, little is also known about the extent to which CSR values and practices have extended to the subsidiaries of transnational corporations that operate in developing countries. Likewise, little is known about the mechanisms by which the actions of individual firms affect the poverty status of the communities in which they operate.

In recent years, greater attention has been given to ensuring adequate systems of recording and reporting social and environmental commitments by firms. This in itself has been problematic, although necessary, in ensuring the validity and accuracy of firms’ CSR activities. During the 1990s, a proliferation of standards and corporate codes of conduct has accompanied the rise in CSR. Unlike the attempts at regulating industry activities by national governments in the 1970s, these codes have originated from industry itself, and more recently, multilateral agencies (UNIDO 2002:39). Their defining characteristic is their voluntary nature, which as Jenkins (2001:iii) argues “range from vague declarations of business principles applicable to international operations, to more substantive efforts at self-regulation”.

Jenkins suggests that codes of conduct can be classified into five main types: company codes, trade associate codes, multi-stakeholder codes, model codes, and inter-governmental codes (2001:iv). These codes vary widely in their scope and tend to be concentrated in certain sectors including textiles, chemicals, and extractive industries. Some codes focus on specific issues such as labour standards, which are more likely to be found in the textile, footwear, sports goods, and toy industries. Environmental codes, however, are more commonly found in large-scale primary and manufacturing industries including forestry, oil, mining, and chemicals (Jenkins 2001:iv).

With the proliferation of corporate codes have come questions concerning their value and impact. Apart from a degree of confusion which results from having multiple codes with varying degrees of adherence, authors such as Utting (2000:vii) and Jenkins (2001:iv) express concern about the potential for codes to be used to deflect criticism or reduce the demand for government regulation. In this somewhat pessimistic view, voluntary codes are an attempt to stave off potentially more stringent regulation by national governments. Furthermore, collective bargaining by trade unions and activism by NGOs may be weakened if firms use compliance with industry codes to justify certain business practices.

In response to the proliferation of corporate codes and the inevitable problem of gaps and overlaps, a number of multilateral institutions have begun developing global standards. These standards seek to establish universal principles for the management and accounting of social and environmental performance and, according to Jenkins (2001:iv) have the best chance of being complementary to the efforts of governments
and trade unions in monitoring corporate conduct. A summary of these standards is shown in Box 2.1.

Despite the existence of environmental accounting for more than 10 years (Westley 2002), public reporting of environmental performance remains dominated by large TNCs operating in developed countries, with relatively little penetration in developing countries. One study that confirms the low level of environmental reporting in Fiji was undertaken by Lodhia (2001). This study assessed the potential role of accountants in promoting environmentally sustainable practices in Fijian business through the use of environmental accounting. He found that none of the six large firms interviewed were publicly reporting their environmental performance even though they had systems in place to manage their environmental conduct (2001:12). The study concluded that voluntary environmental reporting in Fiji had been ineffective and suggested that education and mandatory reporting are necessary for improving corporate awareness of these issues (2001:16).

Box 2.1  Emerging Global Standards

The Global Reporting Initiative (GRI): The GRI originated from the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme. The GRI’s mission is to develop and disseminate voluntary reporting guidelines to be used by firms in reporting environmental and social performance.

SA8000: This has been developed by Social Accountability International as a standard for workplace conditions and independent verification of factory conditions.

Ethical Trading Initiative (ETI) Base Code: This is a global standard that covers employment and working conditions based on International Labor Organisation conventions and the United Nations Declaration of Human Rights and Rights of the Child. This voluntary code consists of a partnership between firms, unions and NGOs.

AA1000: This was developed by the Institute of Social and Ethical AccountAbility and is used as an accounting, reporting, and auditing standard.

ISO: The International Organisation for Standardization (ISO) is a worldwide federation of national standards bodies from 130 countries. The ISO standards focus mainly on customers, staff, and suppliers in the delivery of quality systems for product management (ISO9000) and environmental management (ISO14000).

The OECD Guidelines for Multinational Enterprises: These guidelines provide voluntary principles and standards for business conduct, particularly that of multinational enterprises.

Source: UNIDO (2002:39)

In contrast with environmental reporting, social reporting by firms is still very much in its infancy, in part reflecting the difficulties in identifying social outcomes of business practices let alone how to measure them. However, the low level of social reporting by firms and statistical data should not be taken to mean that CSR is largely absent in developing countries. CSR data in developing countries is most likely to be
understated because the activities of smaller, less visible businesses are generally not included. UNIDO (2002:67) suggest that there is “an abundance of evidence that ‘silent’ CSR is thriving in developing countries, albeit under a different name and with a different approach”.

2.3 Critiques of the CSR movement

Despite what appears to be a universal acceptance of the social obligations of the business sector, the CSR movement has drawn criticism from economists and NGOs. These criticisms were perhaps first expressed in the now famous maxim attributed to Friedman (1962:133-9) that “the business of business is business”. Since that time there has been a small but vocal minority of academics that resist social obligations being thrust upon firms. Their primary concern is the difficulty in reconciling the interests of shareholders with that of other stakeholders, which as mentioned earlier, has drawn considerable criticism on theoretical grounds. Differences also exist in the practical outworking of CSR including where to define the boundaries of a firm’s responsibility.

One of the most vocal critics of CSR has come from the academic economist David Henderson (2001) who sees it as a radical doctrine with the potential to undermine the market economy. His criticism of CSR is based upon its perceived effects in the following areas:

Threats to profitability – The pursuit of CSR involves firms making payments that exceed their legal obligations. This invariably raises a firm’s costs as they attempt to support community projects or pay above market wages. Furthermore, the need for management to be concerned with wider, non-commercial goals is costly in time and resources. It also requires more elaborate accounting and reporting systems. Henderson considers that these added costs and distraction from strategic activities would adversely impact financial performance causing firms to lose sight of the primary objectives. He cites the case of the American firm Levi Strauss that suffered declining sales, profits and shareholder value, which was attributed to management’s over-zealous commitment to CSR (2001:23-23). Henderson also refutes the claim made by advocates that CSR is good for business because customers demand socially responsible behaviour. He questions the legitimacy of this assumption by saying that society’s expectations are anything but homogenous (2001:27).

Unrealistic expectations – Henderson sees that firms, particularly TNCs, have become silent or passive in facing their critics and advocates of CSR. This inability to defend their operations stems from he considers to be a “lack of understanding of the rationale of a market economy and the role of profits within it” (2001:2). This has led to an approach of appeasement whereby firms engage in CSR in a misplaced effort to live up to ‘society’s expectations as interpreted by those advocating CSR. These firms may then have a strong interest in ensuring competitors are subject to the same CSR criteria and will mobilise public opinion or lobby governments to enforce regulations. This, Henderson argues, not only impairs the performance of firms, but will distort competitive forces, weaken economic performance, and reduce welfare (2001:3).
Global salvationism – On philosophical grounds, Henderson opposes the notion that self-selected firms can and should decide what constitutes the best interests of society – a role reserved for democratically elected governments. This radical reinterpretation of the role of business has given rise to what he terms ‘global salvationism’, a belief in which capitalism must be reformed for the sake of the environment, humanity and the planet itself. He rejects these views as alarmist. In particular, he argues that globalisation has not marginalised the poor or poor countries, nor has it increased the power of firms to influence events. Rather, he contends that globalisation has freed cross-border trade and capital flows with the effect of reducing the power of individual firms as markets have become more open and competitive (2001:2-3).

A second source of criticism has come from NGOs. Some such as Corporate Watch (2001) argue that genuine social initiatives will invariably sacrifice profits and thereby threaten shareholder returns and make the firm vulnerable to takeover or bankruptcy. In this scenario market pressures will win over good intentions and heartfelt commitments. Corporate Watch, along with other diverse NGOs such as Greenpeace (1997), EarthRights International (2003), and Movement for a Socialist Future (2003), also claim that CSR has become a defence mechanism in response to heightened external scrutiny. They use terms such as ‘greenwash’ to indicate the extent to which TNCs have exaggerated their social and environment commitment with little real change in corporate conduct. For these critics, the private sector is escaping accountability and continues to be at the root of environmental and development problems. Although beyond the scope of this paper, there is a growing literature that examines TNC environmental performance and the issue of ‘greenwash’ including Greer and Bruno (1996), Karliner (1997), and Seabrook (2001). Yet even amongst environmentalists, there are those such as Suzuki and Dressel (2002) who argue that large-scale change towards sustainability has already commenced.

UNIDO (2002:14) quite nicely summarises these opposing views held by the critics of CSR:

In essence therefore, neo-liberal economists believe that CSR is both bad for companies and society, while those more antipathetic towards capitalism believe it to be good for companies but bad for society. Those on the right believe that the power of business is overstated while those on the left believe it is out of control. Critics on both sides rally against what they see as the illegitimate influence of unaccountable organisations in what should be the role of democratically elected government.”

A third source of criticism arises from a concern that CSR obligations will place unjustifiable burdens on firms in developing countries, which have less capacity to absorb higher costs and meet stringent performance standards. For this reason they reject the application of universal CSR standards because firms in developed countries have “done their polluting and exploitation” and therefore have a competitive advantage in trade and investment (UNIDO 2002:14). These concerns are invariably linked to debates about trade and export competitiveness where there is risk of CSR standards being used as a form of ‘protectionism by the backdoor’ (UNIDO 2002:49). From this standpoint, developing countries, which often compete on the basis of low wages and more lax environmental standards, will be disadvantaged through mandatory performance standards. As an example, Blowfield (2000:8-9) cites the case of the cut-flower industry in Kenya, which has been forced
to adhere to codes of practice, based on the Dutch flower industry with more stringent pesticide and energy requirements.

A fourth source of criticism of CSR is the significant monitoring and auditing burden that it places on firms. In addition to undertaking initiatives for societal or environmental improvement, the firm is required to monitor its compliance against the various codes of practice. Furthermore, with the push for external verification by external auditors, further cost and time burdens are imposed upon the firm. This issue is particularly pertinent for SMEs and firms in developing countries that are less able to afford such costs. Increasingly, TNCs are imposing CSR criteria on smaller firms as part of their ethical sourcing policy. This has the potential to exclude some SMEs from a supplier relationship because they are unable to meet the minimum standards for certification (UNIDO 2002:50).

Many of the above criticisms are based on their perceived theoretical effects or anecdotal evidence and pose real challenges for the continued acceptance of CSR. However, as a field of study CSR is still in its infancy and requires systematic empirical research to determine the extent to which the concerns expressed by critics are valid.

2.4 Theoretical issues linking business and poverty reduction

The case against business involvement in poverty reduction

Despite the apparent mainstreaming of CSR values, the notion that firms can and should have a direct role in poverty reduction moves CSR into new territory. As mentioned in Section 2.2 this is what Zadek (2001) regards as the third generation of CSR with firms assuming a deeper level of engagement in addressing society’s problems.

In considering the potential role that firms might play in reducing poverty the question may be asked as to why business should have any interest in poverty on account of its seeming incompatibility with commercial objectives. After all, businesses are not charities, so in comparison with other CSR activities, poverty reduction seems a much broader social goal outside the interests and influence of individual firms. Hence, there are several reasons why even amongst firms that espouse CSR values, poverty reduction may be a low priority.

Perhaps first and foremost, poverty may be regarded as a social problem whose solution lies at the feet of governments, international agencies and NGOs and not the responsibility of business. In this sense, the poor are not usually considered to be stakeholders because they are outside a firm’s typical relationships with consumers, workers, suppliers, or governments. This is evident from the thousands of profitable firms in developing countries that daily go about their operations in apparent disregard to the poor around them. As Hopkins (2001:9-10) suggests in the case of TNCs, this may simply reflect the lack of experience that firms have in dealing with poverty. He asserts that the poor are not well represented as employees of TNCs or even as suppliers to TNCS in developing countries. However, recent studies of certain
industries such as Oxfam’s study of coffee production (2002) confirm a clear link between the poor and rich along the supply chain.

Hopkins (2001:9-10) also argues that in addition to lacking experience with poverty, firms also lack expertise in dealing with issues of poverty reduction. On a pragmatic level, firms would prefer their employees possess entrepreneurial rather than social policy skills. Hopkins goes further to argue that there is no overwhelming rationale for firms, even large-scale TNCs, to acquire this expertise.

Another reason might be that a firm’s commitments to the poor might be categorised as part of its responsibility to the local community more broadly, but not specifically identified as such. While, engagement with communities is not necessarily the same as engagement with the poor, clearly the poor are present in all communities and hence firms may be assisting this group without it being explicitly acknowledged.

Firms may also have a preference for involvement in CSR activities that have a more tangible outcome that can be directly linked with the firm. These might include improving unsafe working conditions of employees, exercising responsibility for the practices of firms along the supply chain, or ensuring product safety for customers. In this line of reasoning any contribution of an individual firm is unlikely to make any significant difference in reducing poverty and as Hopkins (2001:9-10) asserts, the firms own actions are too remotely linked to the poor themselves.

The case for business involvement in poverty reduction

Despite the above reasons why the private sector should not engage in poverty reduction activities, there is now growing interest and theoretical justification for inclusion of the poor in the private sector’s sphere of social obligations. These range from an appeal to self-interest – the business case for CSR and poverty reduction – to the more altruistic motivations of business owners.

The business case argument aims to demonstrate that pro-poor initiatives can have tangible benefits for the firm as well as the poor. This line of argument suggests that the futures of the firm and society are inextricably linked with causality in the business-poverty interface running in both directions. That is, while business practices may affect the nature and extent of poverty, widespread poverty is also considered to have a negative impact on the business environment, production, and market growth. As Shankleman and Selby state ‘business needs a reliable, healthy and efficient workforce, a stable and safe environment to expand its market and customer base’ (2001:5).

Furthermore, Forstater et al. (2002:9) argue that broader societal issues, such as poverty, must be integrated into corporate strategies because four out five consumers are in poor, developing countries. They suggest that firms that fail to reach and serve this market with ‘appropriate and culturally appealing products and services will soon be at disadvantage’ (2002:9). While this may be true of the private sector in aggregate, individual firms are accustomed to targeting their products and services at particular market segments, often in which the poor are excluded. For example, it may be hard to justify on market grounds why a five-star tourist resort that caters to the very rich should be involved with the poor when this group is unlikely to ever be
customers. On a pragmatic level, the imperative of short-term survival will often take precedence over philanthropy or other forms of social investment.

Nonetheless, the business-case arguments put forward by authors including Forstater et al. (2002), Shankleman and Selby (2001), and MacGillivray (2002) have merit because raising incomes and attracting new customers is in the long-term interests of most firms. Many developing countries represent a large and often untapped potential market. Poverty reduction can therefore be perceived as being in a firm’s own interests as higher incomes create potential customers. As MacGillivray argues, ‘innovative businesses will increasingly spot new markets by developing better indicators to understand poor people’s needs’. Furthermore, these innovative firms can build brand loyalty by being among the first to cater to the needs of the poor (2002:4). Yet relatively few of the world’s TNCS appear to have taken this opportunity for market development in the bottom tier of consumers.

Prahalad and Hart (2002:4) argue that TNCS have traditionally focussed on the top levels of the consumer pyramid, comprising around 2 billion people with annual incomes in excess of US$1,500, where there is considerable over-capacity and intense competition. However, the remaining 4 billion people with annual incomes of less than US$1,500 are a largely untapped market. They see significant opportunities in this low-income market for innovative firms that harness new technologies, such as electronic commerce, and new business models that challenge existing assumptions about the poor. Prahalad and Hart (2002:4) identify these widely held assumptions as:

1. The poor are not the firm’s target consumers because of an inability to compete profitably in this market;
2. The poor cannot afford and have no use for the products and services offered by firms in developed markets;
3. Only developed markets are willing to pay for and appreciate new technology;
4. Low-income consumers are not important to the long-term viability of firms in developed markets;
5. Managers are not willing to accept business challenges that have a humanitarian dimension; and
6. It is difficult to find talented managers who want to work in low-income markets.

The above authors challenge these assumptions by demonstrating how innovative firms working amongst the poor can create buying power, shape consumer aspirations, tailor local solutions, and improve market access (2002:8). Furthermore, they provide examples of TNCS that have begun to successfully tap into these markets. They assert that these more inclusive models of capitalism will not only prosper the firms involved but also bring greater prosperity to the poor (2002:14). This view is in keeping with conventional economic growth theories, discussed earlier, that predict rising incomes associated with private sector growth and development.
At a philosophical level, pro-poor initiatives may also provide firms with a ‘licence to operate’ in poor communities by ensuring cooperation with local people, support from the government, and possibly building political capital and goodwill (World Bank 2002). This argument stems from the recognition that businesses do not operate in a vacuum but are integrally linked to society as illustrated in Figure 2.2.

Certain industries, such as tourism, are particularly vulnerable to local and international instability for which poverty is seen as a contributing factor (Roe et al. 2002:1). This point is also argued by Wolfensohn, who stresses the importance of business leadership in tackling the conditions that lead to alienation and extremism, such as terrorism. Wolfensohn suggests that businesses need to act as a positive force within communities by ensuring economic inclusion for the marginalised (2001:4).

Apart from the self-interest that is inherent in the business case for poverty reduction, another motivation is that firm owners’ are driven by a sense of goodwill and concern. The approach here, as quoted by Chandler (2001, in Forstater et al. 2002:52), is one of ‘doing right because it is right, not because it pays’. In this scenario, poverty-reduction initiatives by firms arise simply because senior managers have the resources, passion and commitment to improve social conditions of society. While this line of reasoning runs counter to the self-interest embedded in market ideology, there is nonetheless ample evidence of the legitimacy of this motivation in corporate giving. As Tyler and Tyler (2002:11) found in their study of Caribbean hotels “those that are the most active in their communities appear to act as they do largely because their owners have a deep personal interest in making some type of contribution to society”.

Figure 2.2  CSR and the Poor
Another notable example is the Travellers’ Philanthropy Program, an initiative of the Turtle Island Resort in Fiji’s Yasawa Islands. This luxury resort is located in a community of about 3,500 people with annual incomes of about US$1,000 and limited access to schools and health care. The resort’s owners see their mission as being a vital resource in the community and have created the Yasawas Community Foundation to address needs where government services are not provided. Guests are also encouraged to provide cash gifts or volunteer professional services, which are used to provide community medical and dental clinics, incentives for education, and job-training programs (BEST 2002).

This is not to suggest that abiding concern for local needs is incompatible with business interests. Corporate philanthropy may occur from altruistic motivations but nonetheless have very tangible benefits for the business concerned. This is often pointed out with high profile firms such as The Body Shop, which operates in more 50 countries and demonstrates that values-driven firms can nonetheless be financially successful. The founder of The Body Shop, Anita Roddick, has publicly stated that the firm’s mission is “to dedicate our business to the pursuit of social and environmental change” (The Body Shop 2003). To this end, the firm is engaged in a range of social and environmental initiatives including The Community Trade Programme, which seeks to reduce poverty in tangible ways through employment, incomes, and community development funds. This fair-trading initiative also addresses more intangible issues associated with poverty, namely, the absence of participation and empowerment. For example, The Body Shop has integrated small-scale and community-based initiatives in northeastern Brazil into the firm’s supply chain with the aim of enabling greater economic and social independence (The Body Shop 2003).

While the CSR and business-poverty literature suggest many positive reasons why firms engage in poverty reduction, there is however a less noble motivation, albeit one that probably applies to only a small number of firms. These businesses may provide financial or in-kind support to local communities as a means of masking the firm’s illegal activities. Philanthropy of this type is driven by self-interest but unlike the self-interested activities of legally abiding firms, its primary aim is to win community support while hiding illegal activities such as money-laundering and illicit drug production. Perhaps the most extreme examples of these types of businesses are the drug cartels of Columbia, which, in the absence of adequate public services, have provided livelihoods to poor farmers. Efforts at reducing the dependence among poor farmers on the drug cartels have focused on strengthening services to the poor and providing alternative but legal forms of livelihoods (UNODCCP 2000:19-22).

The nature of business impacts on the poor

Forstater et al. (2002:68-76) see that businesses can impact upon the lives of the poor in three main ways: through their core business activities, through social investment that is beyond the commercial objectives of the firm, and through public policy influence.

Core business activities include the range of direct benefits that firms provide in the ordinary course of supplying private consumer goods and services. These include benefits for their employees, many of whom may be poor, including livelihoods and through local job creation. Not surprisingly, Spenceley and Seif’s (2003:38) study of
pro-poor tourism initiatives in South Africa found the provision of employment and casual labour opportunities created the most significant and lasting impact on the livelihoods of the poor. The benefits arising from the core business activities of the firm are not only restricted to employees. Other poor stakeholders including suppliers and customers can benefit when businesses adopt practices such as ethical sourcing of inputs and product safety. Furthermore, reducing negative effects from production may also indirectly improve the lives of the poor, many of whom live close to industrial locations. Firms may, for example, adopt cleaner technologies that reduce waste and emissions, thereby improving the health status of the local population and the productivity of natural resources.

Private business can also contribute to poverty reduction in a much broader context through social investment. These contributions are often a form of public good or service, which might otherwise be provided by the government. They may indirectly assist the poor through a range of initiatives including the provision of infrastructure; access to natural resources; and cash or material donations for community projects in education, social services, health services, and infrastructure development.

Firms may also contribute to policy dialogues about the role of business in poverty reduction. Progressive business influence may include working with governments to make markets more pro-poor by ensuring complementarity with governments’ own efforts toward poverty reduction. However, this is one of the more controversial aspects of business influence as many NGOs raise concerns about the “capture” of governments and international agencies by business interests (Forstater et al. 2002:75). Table 2.1 provides examples of business strategies and initiatives that can benefit the poor.

**Table 2.1  Examples of pro-poor strategies and initiatives**

<table>
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<tr>
<th>Level of influence</th>
<th>Pro-poor Strategies</th>
<th>Examples of Initiatives</th>
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<tr>
<td><strong>Core business activities</strong></td>
<td>Employment opportunities</td>
<td>Employment of local staff</td>
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<td>Pay and benefits</td>
<td>Payment above minimum wages</td>
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<td></td>
<td>Training and skill enhancement</td>
<td>Access to training opportunities for employees</td>
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<td></td>
<td>Working conditions</td>
<td>Access to employer provided housing, health care; gender equality</td>
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<td></td>
<td>Products and services to poor people</td>
<td>Provide essential services for quality of life</td>
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<td></td>
<td>Business opportunities with poor people</td>
<td>Local procurement, fair trade, supply chain responsibility</td>
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<tr>
<td></td>
<td>Reducing negative production externalities</td>
<td>Adopting cleaner technology, responsible waste disposal</td>
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<tr>
<td><strong>Social investment</strong></td>
<td>Philanthropy</td>
<td>Short-term community support through cash and material</td>
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<tr>
<td>Community/social projects</td>
<td>Long-term support in local or national projects in areas such as infrastructure provision and social programs</td>
<td></td>
</tr>
<tr>
<td>Capacity building and education</td>
<td>Support for training, access to information</td>
<td></td>
</tr>
<tr>
<td>Access to natural resources</td>
<td>Reducing environmental degradation, access to land</td>
<td></td>
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<tr>
<td>Enhancing cultural identity</td>
<td>Support for community organisation, cohesion, and pride</td>
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<tr>
<td><strong>Public policy influence</strong></td>
<td><strong>Public policy influence</strong></td>
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<tr>
<td></td>
<td>Pro-poor influence over industry, trade, and competition policy</td>
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</tbody>
</table>

Source: adapted from Tyler & Tyler 2002; Forstater et al. 2002; World Bank (2002); and Spenceley & Seif (2003).

### 2.5 Empirical studies of the business-poverty interface

Until recently the literature on the business-poverty interface mainly comprised economic analysis of the effects of market growth, trade and globalisation on poverty reduction. An overview of this literature was presented in Section 2.1. However, the links between poverty and business practice have also been explored in other contexts including social, political, and environmental. Although beyond the scope of this research, they include the relationship between business and communities (Steidlmeier 1993; Madeley 1999), and the politics of capitalism (Freeman 1998). There is also an extensive sustainable development literature that explores the role of firms in environmental degradation and its links with poverty, including contributions from Gladwin (1993), Hart (1995), Shrivastava & Hart (1995), and Welford (1995).

At another level, research has begun to emerge on the role of TNCs in poverty and poverty reduction (Caves 1996; Wells 1998).

While there is a growing theoretical literature on the business-poverty interface, the empirical literature that examines the links between business practice and poverty reduction, particularly at the firm level, is still quite small (McIntosh & Mohan 1999:8). Previous empirical work has typically aimed to document, measure or evaluate the poverty impact of business, with various authors attempting to categorise the social impacts of business practice. Westley (2002), for example, identifies the social impacts of Shell International’s operations as having demographic, socio-economic, health, infrastructure, environmental, cultural, and equity dimensions. Similarly, studies by Ashley (2000) and Cattarinich (2001) discuss the impacts of tourism in terms of its economic, social, cultural and environmental effects.

Another dimension of social impact is the extent to which a business’ operations are felt at the local, national or international level. While large-scale transnational corporations are likely to have impacts across all three levels, smaller, nationally-owned firms are more likely to have localised impacts, perhaps reaching as far as the national level. Potential impact may also be influenced by such variables as
ownership structure, infrastructure requirements of the firm, extent of local sourcing, labour intensity, and so on. Although there have been relatively few studies of the business-poverty interface, those that have been undertaken have examined the issue at one of the following levels:

**Macro level:** Research at the macro level has typically examined the business environment and the extent to which firms practice engagement with other stakeholders. This approach was recently adopted by Kemp (2001) in her study of corporate social responsibility in Indonesia. Similarly, cross-country comparisons are sometimes made by examining the social performance of selected industries across two or more countries. An example of this approach is a study undertaken by Perry and Singh (2001) that compared the environmental performance of firms in Singapore and Malaysia. Although not focusing specifically on poverty, this study covered a range of CSR issues that may impact upon the livelihoods of the poor.

**Sectoral level:** A sectoral approach typically examines the social performance of firms in the same locality or industry grouping. However, analysis is not confined to the firm but also includes the public and private institutions that shape the sector’s performance with respect to poverty reduction. One sector where there is a growing empirical literature at the sector level is tourism. These include Bennett et al.’s (1999) general study of the development and poverty reduction potential of tourism, Ashley’s (2000) study of tourism in Namibia, Renard’s (2001) study of St. Lucia, and Spenceley & Seif’s (2003) study of South Africa. The case studies of pro-poor tourism have shown that the impacts on the poor are highly contextualised according to the economic, social, cultural and environmental setting of the industry. This finding indicates the need for a research approach based on in-depth analysis of a small number of businesses rather than one of surveying a high number of tourism operators.

Mining is another sector generating interest in CSR and poverty reduction. In Papua New Guinea (PNG), for example, considerable work has been undertaken on the mining sector’s impacts on local populations. Authors such as Filer (1990; 1997) have documented the effects, both beneficial and otherwise, of compensation payments made to local communities affected by PNG’s mining development, while Banks et al. (1994) and Barwick (1995) identify the social benefits that have accrued to local communities. The specific initiatives undertaken by mining companies such as Placer Pacific Limited in PNG have included the upgrading of infrastructure, programs for education and skill development, recruitment of local villagers, and the establishment of social monitoring programs. Due to the remote localities in which these mines operate, the mining company becomes, in effect, a form of de-facto government providing services that would otherwise be provided by the State. Hamann (2002) has undertaken similar empirical work documenting CSR in the mining industry in South Africa.

**Firm level:** This approach attempts to describe and measure the contribution of individual firms to poverty reduction and is advocated by Bury (2001) as the preferred approach in developing countries. Typically, these take the form of case studies of individual firms such as Tavis’ (1982) study of a firm in the Philippines, Shankleman & Selby’s (2001) analysis of five firms in Tanzania, Khanya’s (2001) analysis of a copper mine in Zambia, Cattarinich’s (2001) study of pro-poor tourist operators across a range of developing countries, and Shell International’s own analysis of its
poverty impact (Westley 2002). Case studies have also been undertaken of particular firms in conjunction with sector-level studies, such as Spenceley and Seif’s (2003) study of five tourism operators in South Africa.

Apart from the above firm-level empirical studies, there is considerable anecdotal evidence of poverty reduction initiatives being undertaken by firms. Apart from the examples discussed earlier, others are found in UNIDO (2002), Forstater et al. (2002), and The Body Shop (2003). One weakness of the firm-level, case study approach is its reliance on the responses of firms themselves in stating the impacts of their activities on the poor. This potentially biases the results towards favourable outcomes, since firms may be reluctant to declare the negative effects of their operations. This limitation can be overcome by using other investigative techniques to verify the responses of firms and by allowing the poor to give their own views on, for example, the tourism industry’s impact upon their livelihoods.

While the above literature indicates growing interest among firms in participating in poverty reduction, there is clearly greater scope for what the World Bank (2002) describes as more systematic engagement of the private sector with the poor.
3 Research design and methodology

3.1 Research purpose and justification

From the preliminary literature review, several important issues emerge:

- Firms are increasingly expected to fulfill social and environmental obligations, while continuing to meet the objectives of maximizing returns to shareholders. However, the theoretical case for corporate involvement in pro-poor initiatives remains weaker than that of other stakeholders;

- The conceptual framework that explains why firms should embrace CSR is still controversial with varying degrees of acceptance across the economic, management, and organisational behaviour disciplines;

- The CSR movement appears to have been driven by the private sector itself, although significant momentum is also now coming from NGOs, the ethical investment industry, socially-aware consumers, and more recently, government and multilateral donor agencies. However, the evidence suggests that the level of CSR reporting by firms, particularly in developing countries, is still quite low;

- Despite the above, there is evidence of firms engaging in pro-poor activities in some developing countries, ranging from deliberate acts of philanthropy and social investment to core business activities that have direct and indirect benefits for the poor. The extent of corporate participation in poverty reduction appears to vary widely across industries with some, such as tourism, being more active in pro-poor activities;

- Despite the hope of improved social outcomes arising from pro-poor business practice, relatively little is still known about the nature of direct and indirect linkages between business and poverty; and

- To date, there has been no comprehensive empirical work that evaluates the poverty impact of business practices in Pacific Island countries. While some empirical work has been undertaken that evaluates corporate environmental performance in Fiji, for example by Lodhia (2001), the results suggest low levels of environmental and social reporting by Fijian firms.

The above issues point to the need for a closer examination of the social dimensions of business practices, and particularly the linkages between business and poverty. This includes understanding the extent of poverty impact arising from the different contexts in which businesses operate. These include differences in business size, ownership, corporate governance, sector of operation, and partnerships with other stakeholders in society. There is also clearly a need to test the efficacy of CSR models for their applicability to developing countries given the concerns raised in the literature that CSR is a luxury that only large-scale firms from developed countries can afford. The research approach will require using and, in some cases, adapting the
existing social indicators of corporate social performance and making a detailed description of firm behaviour as it relates to poverty alleviation.

This research aims to identify the linkages between business and the poor with the purpose of assessing the nature, extent and effectiveness of pro-poor business initiatives. In addition to documenting the poverty-reduction initiatives of specific firms, this study also aims to understand the reasons why firms engage in these practices. In exploring these motivating factors, particular attention will be given to the role of government policy in influencing the CSR decisions of firms.

With the World Bank and United Nations now recognising the importance of private sector participation in poverty-reduction, the challenge remains as to how greater business involvement can be achieved. Hence, a greater understanding of the business-poverty interface may reveal important lessons for the formulation of sectoral and poverty reduction policies with realistic expectations of what can be achieved in Pacific Island countries.

Selection of the country case

As the second largest economy among Pacific Island countries, Fiji presents as an ideal case, having a diversified industrial structure that enables cross-sectoral comparison of business practice. Furthermore, as the Fiji Poverty Report (Government of Fiji and UNDP 1997) has shown, poverty in all its senses, remains a key social problem in Fiji. In summary, Fiji has been selected as the country case for the following reasons:

• There have been no comprehensive studies on the linkages between business and poverty in Fiji;

• Studies such as the Fiji Poverty Report (Government of Fiji and UNDP 1997) indicate a high prevalence of poverty even amongst households with at least one member working;

• Poverty-reduction features prominently as a policy priority for the Fijian government. Furthermore, the policy focus has centred on private sector development as the vehicle for addressing poverty;

• There are diverse influences on firms’ behaviour including obligations imposed by sectoral policy, customary tenure, and unions;

• As the largest economy in the South Pacific, Fiji has a diversity of industries of across the primary, manufacturing and service sectors;

• The presence of large transnational corporations enables comparisons between domestically-owned versus foreign-owned firms; and

• The archipelagic geography of Fiji may highlight the importance of certain firms whose operations may be critical for poverty reduction on smaller and remote islands;
3.2 Key Definitions

The following definitions will be adopted in this study:

*Poverty* – As discussed in Section 2.1, poverty is a multi-dimensional problem that extends beyond the inadequacy of income or consumption but may also be defined in terms of social exclusion such as limited access to social resources including education and healthcare. However, for the purposes of this study, poverty will be defined in income terms using recent estimates of the Basic Needs Poverty Line (BNPL) from the data provided in the Poverty Status Discussion Paper, which was published on 9 May 2003. It provides a provisional estimate of the 2002 BNPL of F$114.12 per week as the minimum gross income required to meet basic household needs (ADB & MFNP 2003:9).

*Pro-poor business initiatives* – This definition will be adapted from Ashley’s (2002:11) definition of pro-poor initiatives to mean “the actions or steps that are being taken to increase the involvement or benefits to the poor”. For the purposes of this study it will also include unintentional activities undertaken by the business that have benefits for those in poverty. The benefits of these activities may be either direct, as in the case of higher wages or philanthropy within the community, or indirect, such as the creation of market opportunities through access to firm-owned infrastructure. In this study, pro-poor initiatives will be categorised according to core business activities, social investment, and public policy influence, as identified by Forstater et al. (2002:68). The study also recognises that firms may be engaged in initiatives that benefit the poor, but they may be referred to in more generic terms such as ‘community involvement’.

*Business* – This is defined as any incorporated or unincorporated private sector organisation that operates on a commercial for-profit basis. It may also include government-owned enterprises, whose primary purpose is to generate profit. The terms ‘firm’ and ‘business’ will be used interchangeably throughout this study although it is recognised that not all types of business organisation are ‘firms’ in the legal definition of the term.

3.3 Research questions

The primary research question that arises from the proposed research is ‘What is the nature, extent and effectiveness of pro-poor business initiatives in Fiji within a CSR framework? This question begins with the assumption that firms have a role to play in poverty reduction as identified in the earlier discussion of the ways in which firms can help reduce poverty. This assumption appears reasonable given the empirical evidence from other countries that suggest that firms have varying levels of engagement with the poor in their business practices. It is recognised that firms may not explicitly identify their CSR initiatives as primarily aimed at poverty reduction. Therefore in the first instance, the research will establish the extent to which the principles of CSR are reflected in the values and activities of Fijian businesses and once this has been established, then consider which of activities are beneficial to the poor. In addressing these issues, the research will seek answers to the following subsidiary questions.
**Firms’ attitudes toward CSR and poverty reduction**

This aspect of the research will identify differences in perceptions among firms on issues of social responsibility, broadly, and poverty reduction, specifically, by addressing questions such as:

- Is corporate social responsibility a stated objective of firms in Fiji?
- In what issues or areas do Fijian firms consider they have social responsibility?
- What differences exist in perceptions of social responsibility between locally-owned firms and transnational corporations?
- Are the poor regarded as stakeholders by Fijian firms?
- What motives are driving business involvement in poverty reduction?

**Nature and extent of pro-poor business initiatives**

This aspect of the research will explore the conduct of selected firms with respect to their interaction with other stakeholders in Fijian society. It will examine the types of initiatives undertaken by firms, the priority areas of involvement, and the amount of resources devoted to poverty reduction activities. It also aims to explore the avenues that exist for collaborative arrangements between business and State, and business and NGOs. It will add to the empirical base by addressing the following questions:

- In what direct/indirect ways have firms assisted the poor through their core business activities?
- In what direct/indirect ways have firms assisted the poor through social investment?
- In what ways have firms influenced public policy on issues of poverty and poverty reduction?
- What resources have firms devoted to pro-poor initiatives?
- To what extent have pro-poor business initiatives been undertaken in collaboration with other organisations?

**The effectiveness of pro-poor business initiatives**

Measuring the impact of a firm’s poverty reduction initiatives is fraught with difficulties, in part due to the multiplicity of variables that affect poverty status in society. Impact assessment is further hampered by the limited nature of social indicators of performance and the low level of public reporting. Nonetheless, some measure of effectiveness can be ascertained by assessing firm-provided outputs indicated in the literature as being beneficial for poverty reduction. This will enable
some assessment of whether the initiative has had any useful effects. The research questions intended to evaluate the effectiveness of poverty reduction initiatives include:

- In what ways have firms impacted positively on the livelihoods of the poor?
- In what ways have firms impacted negatively on the livelihoods of the poor?
- How does poverty impact upon business performance?
- How have pro-poor initiatives affected the business’ performance?
- Are there significant differences in the activities of firms that claim to be pro-poor and firms that make no such claims?

**Regulatory and external environment**

As previously mentioned, the private sector is increasingly expected to take its place in addressing social problems, including poverty. This aspect of the research aims to explore the expectations that other stakeholder organisations have of business involvement in poverty issues. The data will primarily be used to assess the extent to which the regulatory environment has influenced firms’ CSR practices, particularly those that relate to poverty reduction. The research questions include:

- What influence have government policy and regulations had on the type and level of pro-poor initiatives?
- What effects do unions, industry associations, and international organisations have on business involvement in poverty reduction?

### 3.4 Proposed research methods

**Research approach**

The research approach taken in this study will be consistent with earlier empirical work on the business-poverty interface – that is, in-depth case studies of a small number of businesses. The theoretical framework used to guide the research will be based on the three levels of poverty impact from socially responsible businesses, as identified by Forstater et al. (2002:68-93). This research will also evaluate the business-case argument that features as the main theoretical justification for business involvement in CSR broadly, and poverty reduction, specifically. Figure 3.1 provides an overview of the research approach to the three levels of business impact on poverty reduction.

**Figure 3.1   Research approach to the three levels of business impact**
**Primary data collection**

The primary data will be collected from selected businesses with the aim of assessing the nature and extent to which these businesses engage with the poor in their corporate values, governance and business practice. While the firms will be the main source for obtaining primary data, where possible other interviews will be conducted with a range of potential stakeholders, including employees, suppliers, and relevant community groups. It is also recognised that unions may influence labour standards in Fiji and have consequent effects on the working poor. Where relevant, primary data will be collected from union representatives.

In order to assess the effectiveness of pro-poor initiatives, the study will rely on intermediary indicators of social performance such as those shown in Table 3.1 (p.52). Again, the firm will be the main source of this data. One of the difficulties in assessing the effectiveness of pro-poor initiatives is the problem of causality – namely to what extent can the actions of specific firms be isolated from the contribution of the industry generally or other initiatives with the same objectives (Ashley 2002:6). A further problem arises from linking outputs with outcomes. Poverty reduction is an outcome, whereas the pro-poor initiatives of firms are outputs that may have either a positive or negative impact on an individual’s poverty status.
The primary data will be collected through semi-structured interviews with each of the case-study businesses. The draft business questionnaire is shown in Appendix 1. Initially, interviews will be held with relevant personnel from the Ministry for Commerce, Business Development, and Investment, other departments, and industry associations to assist in identifying potential case-study firms.

**Secondary data collection**

This research will also rely on the analysis of secondary data to overcome the risk of bias from relying only of the responses of the case-study firms. The secondary data will consist of two main data sets. Firstly, poverty data will be collected from statistical records of the Fijian government and the Fiji Poverty Report (Government of Fiji and the UNDP 1997). It will include data on household incomes and consumption, and where available, disaggregated by age, gender, ethnicity, and geographic locality. It will be analysed in conjunction with the data collected from the case-study firms to determine the extent to which pro-poor initiatives complement or conflict with the existing social supports. In this context, the analysis will identify which groups live in poverty and to what extent they are linked, either directly or indirectly, with the selected businesses.

The second data set involves collecting information on the public policy environment. This includes the regulatory framework governing the conduct of Fijian firms including relevant industry, sectoral, poverty, taxation, or investment policies. This data will be analysed to determine the types of government regulations or incentives that either promote or hinder pro-poor business initiatives. As with the poverty data, the policy data will be analysed in conjunction with the responses provided by the case-study firms. Table 3.1 shows some of the performance indicators that will be used for answering the subsidiary research questions and the intended sources for collecting this data.

**Table 3.1 Performance indicators and data sources**

<table>
<thead>
<tr>
<th>Research questions</th>
<th>Measures/indicators</th>
<th>Data sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms’ attitudes toward CSR</td>
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</tr>
<tr>
<td>Is corporate social responsibility a stated objective of firms in Fiji?</td>
<td>Management responses, evidence in strategic plans and mission statements</td>
<td>Business questionnaire, annual reports or other publicly available information, company strategy documents</td>
</tr>
<tr>
<td>In what issues or areas do Fijian firms consider they have social responsibility?</td>
<td>Management responses, evidence in strategic plans and mission statements</td>
<td>Business questionnaire, annual reports or other publicly available information, company strategy documents</td>
</tr>
<tr>
<td>What differences exist in perceptions of social responsibility between locally-owned firms and transnational corporations?</td>
<td>Management responses, evidence of CSR programs in strategic plans and mission statements</td>
<td>Business questionnaire, annual reports or publicly available information, company strategy documents</td>
</tr>
<tr>
<td>Are the poor regarded as</td>
<td>Management responses, evidence in strategic plans and mission</td>
<td>Business questionnaire, annual reports or publicly available information, company strategy documents</td>
</tr>
<tr>
<td>Research questions</td>
<td>Measures/indicators</td>
<td>Data sources</td>
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<tr>
<td>stakeholders by Fijian firms?</td>
<td>statements</td>
<td>information, company strategy documents</td>
</tr>
<tr>
<td><strong>Research questions</strong></td>
<td><strong>Measures/indicators</strong></td>
<td><strong>Data sources</strong></td>
</tr>
<tr>
<td>What motives are driving business involvement in poverty reduction?</td>
<td>Management responses</td>
<td>Business questionnaire, interviews with other stakeholders</td>
</tr>
<tr>
<td><strong>Nature and extent of initiatives</strong></td>
<td></td>
<td></td>
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<tr>
<td>In what direct/indirect ways have firms assisted the poor through their core business activities?</td>
<td>Proportion of local staff employed, proportion of wage bill to local people, payment above minimum wages, training programs for employees, improved working conditions, products made locally, proportion on inputs sourced locally, product or service development, SME development</td>
<td>Business questionnaire, interviews with workers, suppliers, and other stakeholders, secondary data on incomes, employment, and education</td>
</tr>
<tr>
<td>In what direct/indirect ways have firms assisted the poor through social investment?</td>
<td>Cash and material donations to community projects, materials for community education, loans or bursaries for education, access to business-owned infrastructure, access to business-owned natural resources, support for cultural activities</td>
<td>Business questionnaire, interviews with workers, suppliers, community groups, and other stakeholders, secondary data</td>
</tr>
<tr>
<td>In what ways have firms influenced public policy on issues of poverty and poverty reduction?</td>
<td>Management responses, participation in public sector initiatives</td>
<td>Business questionnaire, interviews with departmental staff</td>
</tr>
<tr>
<td>What resources have firms devoted to pro-poor initiatives?</td>
<td>Costs in terms of money, in-kind donations, management time, staff time</td>
<td>Business questionnaire, published and/or unpublished accounting records and financial statements</td>
</tr>
<tr>
<td>To what extent have pro-poor business initiatives been undertaken in collaboration with other organisations?</td>
<td>Management responses, name and type of partner organisations, resources devoted to collaborative efforts</td>
<td>Business questionnaire, interviews with partner organisations</td>
</tr>
<tr>
<td><strong>Effectiveness of initiatives</strong></td>
<td></td>
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<tr>
<td>In what ways have firms impacted positively on the livelihoods of the poor?</td>
<td>To be determined after gathering data on firms’ initiatives</td>
<td>Business questionnaire, interviews with workers, suppliers, community groups, and other stakeholders</td>
</tr>
<tr>
<td>In what ways have firms impacted negatively on the livelihoods of the poor?</td>
<td>Threatened livelihoods, unsafe working conditions, engaging in uncompetitive behaviour, negative production externalities, unsustainable resource use</td>
<td>Interviews with workers, unions, community groups, government, and other stakeholders</td>
</tr>
<tr>
<td>Question</td>
<td>Impact</td>
<td>Source</td>
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<tr>
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<td>---------------------------------------------</td>
</tr>
<tr>
<td>How does poverty impact upon business performance?</td>
<td>Limited market development, poor worker productivity and health, crime and insecurity of assets</td>
<td>Business questionnaire</td>
</tr>
<tr>
<td>How have pro-poor initiatives affected the business’ performance?</td>
<td>Change in operating costs, changes in profit margins, changes in shareholder returns, opportunities for market development</td>
<td>Business questionnaire, published and/or unpublished accounting records and financial statements</td>
</tr>
<tr>
<td>Are there significant differences in the activities of firms that claim to be pro-poor and firms that make no such claims?</td>
<td>Management responses</td>
<td>Business questionnaire</td>
</tr>
</tbody>
</table>

**Regulatory and external environment**

<table>
<thead>
<tr>
<th>Question</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>What influence have government policy and regulations had on the type and level of pro-poor initiatives?</td>
<td>Management responses, Business questionnaire, interviews with government and statutory bodies, public policy statements, regulations, incentive programs</td>
</tr>
<tr>
<td>What effects do unions, industry associations, and international organisations have on business involvement in poverty reduction?</td>
<td>Management responses, Business questionnaire, interviews with other stakeholders, published and/or unpublished policy statements</td>
</tr>
</tbody>
</table>

**Scope of the research and selection of case-study businesses**

By adopting a case study approach, a small number of businesses will be subjected to in-depth analysis. The exact number of firms to be selected will be determined after the preliminary field-visit in June 2003, although it is envisaged that approximately 100 interviews will be conducted during the fieldwork phase of the research. The initial aim is to select businesses from multiple sectors including tourism (due its importance and labour intensity), garments (due to its emergence as a growth industry), and mining (the Emperor gold mine is Fiji’s largest employer).

The selection of cases will be biased toward larger businesses, as these are more likely to engage in a wider range of practices with potential poverty impact, although the study will also seek to include small and medium sized enterprises where possible. At the outset, the study will seek to include businesses that proclaim to be socially responsible or have a reputation for being so. However, the study will also include businesses that make no particular claims about being socially responsible, as this will enable a degree of comparative analysis with firms that do make such claims. The selected businesses will also comprise a mix of foreign and locally owned firms.

In terms of geographical focus, the study will include both urban and rural-based businesses including those operating on islands outside Viti Levu. However, as many firms have headquarters in Suva, Nadi, or Lautoka, these centres will be the main
locations for fieldwork, although it may be necessary to visit regional sites of operation. Table 3.2 provides a list of potential case-study businesses, however this list will expand following the preliminary field-visit to include manufacturing firms and those from the service industries.

**Table 3.2  Potential case-study businesses**

<table>
<thead>
<tr>
<th>Name of firm</th>
<th>Industry</th>
<th>Firm size</th>
<th>Ownership</th>
<th>Location of operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emperor Gold Mine</td>
<td>Mining</td>
<td>Large</td>
<td>Foreign</td>
<td>Vatukoula - rural</td>
</tr>
<tr>
<td>Pacific Fishing Company (Pafco)</td>
<td>Tuna processing</td>
<td>Medium</td>
<td>Local</td>
<td>Ovalau - rural</td>
</tr>
<tr>
<td>Fiji Pine Limited</td>
<td>Forestry</td>
<td>Medium</td>
<td>Local</td>
<td>Multiple - rural</td>
</tr>
<tr>
<td>Fijian Holdings</td>
<td>Diversified</td>
<td>Medium</td>
<td>Local</td>
<td>Multiple – urban and rural</td>
</tr>
<tr>
<td>Turtle Island Resort</td>
<td>Tourism</td>
<td>Small</td>
<td>Local</td>
<td>Yasawa Islands</td>
</tr>
<tr>
<td>Shangri-La Fijian Resort</td>
<td>Tourism</td>
<td>Medium</td>
<td>Foreign</td>
<td>Coral coast - rural</td>
</tr>
</tbody>
</table>
Appendix 1  Draft Business Questionnaire

1. About the firm

- Main products – types of products, industry placement.
- Size – turnover, number of employees, number of locations.
- Ownership – domestic or foreign, legal status, private or public.
- Relationship with local institutions such as customary land tenure.
- Financial performance – profit levels, cost structures, operating margins.
- Distribution – source of inputs, how products and inputs are transported.
- Corporate strategy – objectives of the firm (financial, social, environmental).
- Social and environmental reporting – use of reporting standards.
- History – how long in operation, major changes in operations.
- Future plans – plans for expansion, consolidation, diversification.

2. About the employees

- Changes in the workforce – size (current versus five years ago), turnover.
- Distribution of employees – skill levels, permanent versus casual, ethnicity.
- Remuneration – types of remuneration (wages, other benefits), how wages are set, changes in wage rates over the past five years.
- Recruitment and training – how employees are recruited, nature of training provided.
- Health and safety – types of protection measures, impact on efficiency and costs.

3. Roles and Responsibilities of the business

- What are the main objectives of your firm? (mission statement, corporate strategy)
- To what extent are your business objectives and practices determined by your foreign parent company? (TNCs only) Explain.
- Which groups does your firm regard as stakeholders? (employees, customers, suppliers, governments, community, poor people, environment) Why?
- Does the firm have any involvement with poor people? (employees, customers, suppliers, local community). Explain.
4. **Nature and extent of initiatives**

**Core business activities**
- Does your firm do any of the following? Why? Amount?
  - employ local staff
  - recruit people from disadvantaged groups
  - pay staff above minimum wages
  - provide other benefits to employees
  - provide training for employees
  - source inputs locally
  - business development of suppliers
  - supply products to disadvantaged groups
  - environmental protection measures
  - other

**Social investment**
- Does your firm do any of the following?
  - provide cash or materials to community groups or projects
  - provide community education
  - loans or bursaries for education
  - allow public access to the firm’s infrastructure or assets
  - allow public access to firm-owned natural resources
  - provide support for local cultural groups
  - other

- What resources has your firm devoted to the above to the above activities? (financial, in-kind donations, management time, staff time)

- Does your firm undertake any of the above activities in partnership with other organisations? (government, NGOs, other firms, donors, multilateral agencies)

- What benefit does your firm derive/expect to derive from these activities?

- How does your firm monitor progress/measure results?

5. **Effects of poverty**
- What effect does poverty have on the firm? (limited market development, worker health and productivity, crime, insecurity of firm’s assets)

- Does inequality and poverty in the community cause security problems for the firm?

- Is security a significant cost to the firm?

- What impact does poverty have on distribution and transportation?

- Are the effects of poverty increasing or decreasing? How? Why?

- What are the main barriers to expanding the domestic market?
• What are the main barriers to expanding the regional market?

6. **Regulatory and external environment**

• Does the government expect business in general to play a part in reducing poverty? How? Why?

• Does the government require your firm, in particular, to contribute to poverty reduction? How? What policies or directives? What effect has this had on the firm?

• What rules or conditions are attached to your licence or permission to operate? (returns to resource owners) (if applicable).

• Are there ways in which the actions of the government make it difficult for the firm to participate in poverty reduction initiatives?

• Are there actions the government could take to enable your firm to be more actively involved in poverty reduction initiatives?

• What involvement, if any, do unions have in your business? (pay, working conditions). Which unions? What agreements have been negotiated?

• Is your firm a member of an industry association? If yes, does it expect the firm to participate in poverty reduction initiatives? If so, in what ways?

• Do international agencies expect business in general to play a part in reducing poverty? How? Why?

7. **Other issues**

• Are there any other issues that you would like to raise?
Appendix 2  Thesis outline and work schedule

*Proposed Thesis Outline*

The following is a tentative outline of chapters in the thesis:

**Chapter 1**  Introduction  
- Background  
- Objectives  
- Research question

**Chapter 2**  The Business-Poverty Literature  
- Poverty and poverty reduction  
- Perspectives on the social responsibility of firms  
- Critiques of the CSR movement  
- Theoretical issues linking business and poverty reduction  
- Empirical studies of the business-poverty interface

**Chapter 3**  Research Design and Methodology  
- Research purpose and justification  
- Definitions adopted in this study  
- Research approach  
- Scope and boundaries of the research  
- Data collection

**Chapter 4**  Poverty in Fiji  
- Being poor in Paradise: the nature and extent of poverty in Fiji  
- Poverty reduction policies of government  
- The role of international agencies and NGOs  
- The role of unions

**Chapter 5**  The private sector in Fiji  
- Size and composition  
- Ownership  
- Geographical characteristics

**Chapter 6**  Case Study I: Primary industries

**Chapter 7**  Case Study II: Manufacturing industries

**Chapter 8**  Case Study III: Service industries

**Chapter 9**  Summary of Findings/Conclusions
**Work Schedule**

The following work schedule has been formulated to reflect the nature of the task and the integration of research activities with my on-going teaching commitments:

<table>
<thead>
<tr>
<th>Date Range</th>
<th>Activities</th>
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<tbody>
<tr>
<td>February 2002 – June 2002</td>
<td>Formulate topic</td>
</tr>
<tr>
<td>July 2002 – April 2003</td>
<td>Develop research proposal.</td>
</tr>
<tr>
<td>May 2003</td>
<td>Finalise methodology</td>
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<tr>
<td></td>
<td>Develop questionnaire</td>
</tr>
<tr>
<td></td>
<td>Preparation for fieldwork</td>
</tr>
<tr>
<td>June 2003</td>
<td>Seminar on research proposal</td>
</tr>
<tr>
<td>June 2003</td>
<td>Preliminary field-visit – 1 week</td>
</tr>
<tr>
<td>July – August 2003</td>
<td>Finalise questionnaire</td>
</tr>
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<td></td>
<td>Selection of case study firms</td>
</tr>
<tr>
<td>August 2003</td>
<td>First fieldwork trip to Fiji – 3 weeks</td>
</tr>
<tr>
<td>September – October 2003</td>
<td>Data analysis</td>
</tr>
<tr>
<td>November 2003</td>
<td>Second fieldwork trip to Fiji – 3 weeks</td>
</tr>
<tr>
<td>December 2003 – January 2004</td>
<td>Data analysis</td>
</tr>
<tr>
<td>January 2004</td>
<td>Third fieldwork trip to Fiji – 3 weeks</td>
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<tr>
<td>February 2004</td>
<td>Data analysis</td>
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<td></td>
<td>Mid-term review</td>
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<tr>
<td>March – November 2004</td>
<td>Write-up</td>
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<tr>
<td>December 2004 – February 2005</td>
<td>Review and submission</td>
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References


Blowfield, M., 2000. Ethical Sourcing: A contribution to sustainability or a diversion, Natural Resources and Ethical Trading Programme, NRI.


