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Esa Stenberg – Salla Sutinen (eds.)

PERSPECTIVES ON CORPORATE SOCIAL RESPONSIBILITY IN INTERNATIONAL BUSINESS

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PREFACE

The responsibilities of business have been the subject of extensive discussion both among academics and business executives for decades. The emphasis has varied from profit maximisation to philanthropy, and numerous concepts, guidelines and codes of conduct have been put forward. Today, addressing environmental and social challenges are a part of every day business.

The common theme in this publication is corporate social responsibility (CSR) in the international business context. An international or global perspective is needed, because the environmental and social challenges we currently face are global in scope. The articles comprising the publication discuss relevant and challenging issues in international business from different perspectives. The authors have been brought together through shared research interests. Although focusing on different perspectives, they all share a link between corporate social responsibility and international business. The emphasis ranges from the decision-making perspective of an individual firm to issues that concern society at large.

Dialogue between governments, business and civil society is often quoted as a cornerstone of CSR. In the first article, M. Sc. Salla Sutinen takes a critical view on “open stakeholder dialogue”, and in particular dialogue with non-governmental organisations (NGOs). While it is easily taken for granted, relevant potential obstacles stand in the way of making dialogue meaningful. These include the multitude of concepts it touches on, the voluntary actions of business leaders, interpretations of scientific evidence, and political bargaining.

One of the topical issues concerning global social responsibility is the gap between developed and poor countries. The United Nations Millennium Declaration embodied a common vision of UN members to promote a more peaceful, prosperous and just world. The Millennium Development Goals call for a global partnership for improving the living conditions of the poorest countries. In his article, M. Sc. Foster Ofosu emphasises the role of science and technology at the centre of a development strategy, and offers a systems approach to transferring technology more effectively to the poorer countries.

The relocation of a company’s operations is always a critical and sensitive process during which the management of stakeholder relations is especially challenging because of various contradictory expectations. M. Sc. Jussi Hätönen, Ph. D. Birgitta Sandberg and M. Sc. Piia Nurmi introduce a three-dimensional framework for carrying out this demanding task. It comprises the stakeholder group concerned, the different forms of interaction and the timing.

International corporations are required to take social responsibility for their whole supply chain. This issue has assumed more importance given the fact that increasing proportions of company supply chains are internationally organised. However, the question of how far the social responsibility of companies should extend in this context is still not fully answered. Taina Paju's discussion is based on her Master's thesis.

The articles written by M. Sc. Henna Taponen and Ph. D. Esa Stenberg discuss the question of CSR in conflict areas. The role of private companies in post-conflict reconstruction has recently been emphasised, but as Henna Taponen suggests, this issue remains relatively unexplored in business journals. Esa Stenberg discusses the question of how the international community, in co-operation with private companies, could create the conditions for post-conflict reconstruction on a sustainable basis. The concept of global corporate citizenship is used as an approach to resolving this question.

Esa Stenberg and Salla Sutinen

Editors

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1 PRECONDITIONS FOR NGO DIALOGUE – DO THEY EXIST?

Salla Sutinen

Abstract

This article discusses potential obstacles in dialogue with civil society, and more specifically with non-governmental organisations (NGOs). While business and international organisations are keen on declaring that they "engage in open dialogue with civil society", relevant obstacles stand in the way of true dialogue. Focusing on the preconditions is particularly important due to the fact that the accountability of business actions is supposedly guaranteed by this "open dialogue". While there is extensive literature on what meaningful stakeholder dialogue should involve, there is an apparent gap between theory and practice. Even in theory, the significance and prospects of NGOs in facilitating change vary considerably. The emphasis on stakeholder theory, increased voluntary actions by business, the multitude of different concepts, and the dominance of profit making are discussed as obstacles to NGO dialogue. Several questions arise, including whether stakeholder dialogue matters, or whether it is just an image-risk exercise filled with rhetoric. Do the preconditions exist for anything further, in other words is real dialogue possible?

1.1 Introduction

1.1.1 Why focus on dialogue?

Environmental and social responsibility of business has established itself as a current topic in both academic research and business practice. The popularity of corporate social responsibility, environmental management, sustainability, and on the accompanying environmental and social reporting becomes evident simply by visiting almost any large company's web pages[1]. For example, Stora Enso sees sustainability as one of its key success factors (Stora Enso 2005, emphasis added):

> Stora Enso aims at superior performance and image in the area of sustainability. To succeed in this, we need to ensure that we build accountability into the way we actually work, thus creating long-term value on an economically, socially, and environmentally sustainable basis. We will do this by being transparent, and *open to dialogue with our stakeholders.*

As the Stora Enso statement illustrates, Corporate Social Responsibility and greening initiatives of business are often accompanied by stakeholder dialogue, which is supposed to guarantee the accountability of business actions (Grafé-Buckens & Hinton 1998; Jackson & Bungård 2002; Kaptein & van Tulder 2003). Stakeholder dialogue has even been raised as a promising tool in promoting sustainable development (Oxley Green & Hunton-Clarke 2003), and the power of NGOs has even been referred to as civil regulation (Bendell 2000). As Grafé-Buckens and Hinton (1998) state, "The result of engaging stakeholders should be the incorporation of stakeholders' environmental concerns into current business practice and management and the redirection of corporate priorities and objectives". These are strong arguments that place considerable expectations on the dialogue, and behind them lies the assumption that some basic preconditions exist. If the demands of stakeholders define a company's approach to responsibility issues (cf. Kujala & Kuvaja 2002; Näsi 1995, 24), then logically, some form of either direct or indirect transfer of information or opinion has to occur before companies are able to evaluate these demands.

Dialogue can be understood in many ways. Coalitions such as the Marine Stewardship Council could be considered one of the first real stakeholder dialogues, dating back to the 1990s, in which the different actors communicated with each other on a long-term basis (Kaptein & van Tulder 2003). However, does stakeholder dialogue still predominantly refer to participation that remains on an information-providing level (Oxley Green & Hunton-Clarke 2003)? What proportions of the dialogue comprise meetings held behind closed doors, public hearings, debate via the media, letter correspondence on Internet portals, or the long-term combination of these? Is a certain degree of understanding taken for granted in the background? Can inherently conflicting parties take part in dialogue? Dialogue could also be

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[1] See e.g. Shell www.shell.com, Stora Enso www.storaenso.com, Dow Chemicals www.dow.com, Kesko www.kesko.fi, Nordea www.nordea.com, Néstle www.nestle.com.

understood as conversation, which in turn includes differing opinions. According to Webster's Dictionary, this could be conversation between two or more persons, an exchange of ideas and opinions, or discussion between representatives of parties to a conflict that is aimed at resolution. Kaptein and van Tulder's (2003, 210) listing of differences between stakeholder debate and dialogue gives some indication of what they consider dialogue should entail (Figure 1).

Stakeholder Debate		Stakeholder Dialogue
1. Competitition with a single winner or only losers (either-or thinking)	→→→	Cooperation where everyone is a winner (and-and thinking)
2. Egocentric where the other party is a threat or a means to personal profit	→→→	Empathetic where the other party is an opportunity and represents and intrinsic interest
3. Putting yourself in a better light	→→→	Being yourself
4. Speaking, to which others have to listen	→→→	Listening to others before speaking yourself
5. Influencing	→→→	Convincing
6. Confronting, combating and destructive, whereby the weaknesses and wrongs of the other party are sought out and the similarities are negated	→→→	Constructive and, from a point of mutual understanding and respect, looking for similarities from which to consider the differences
7. A closed and defensive attitude because you personally know the truth	→→→	A vulnerable attitude because there are many truths and where parties are open to criticism about their own performance and they can use this to learn from eachother
8. Taking and keeping	→→→	Giving and receiving
9. Divide and rule	→→→	Share and serve
10. Separate / isolated responsibilities	→→→	Shared responsibilities

Figure 1 Stakeholder debate versus stakeholder dialogue (Kaptein & van Tulder 2003, 210)

However, these attributes given to stakeholder dialogue are subject to interpretation, and this classification serves well as a dichotomous illustration[2]. In any case, the definition of dialogue remains open to

[2] Attributes such as "giving and sharing" and "everybody is a winner" entail certain assumptions that are not discussed in detail here.

interpretation[3], and it can indeed be understood in different ways. In this article, dialogue refers to what people have come to mean by the word. It is understood as general societal dialogue that takes place on different levels and between different actors in society. No clear boundaries can be drawn between dialogue in which the parties have an understanding of common goals: it can easily turn into negotiation, debate or conflict. Dialogue in this article includes interaction, negotiation, conversation, and even conflicting debate.

1.1.2 NGOs as a heterogeneous group

Defining NGOs may appear to be unnecessary, mainly due to the widespread use of the concept. However, NGOs are a very heterogeneous group with significantly different goals, and the boundaries and definition are not necessarily clear-cut. At times, these differences are not apparent. Even within the conceptual field of NGOs, the names used to describe them are numerous, and include BINGOs (big international non-governmental organizations), DONGOs (donor non-governmental organizations), GONGOs (government non-governmental organizations) and INGOs (international non-governmental organizations) (Vakil 1997). NGOs can also be classified as operational NGOs or advocacy NGOs, or as hybrid NGOs, which are a combination of the previous two (Parker 2003). However, instead of concentrating on drawing lines, it would be useful to broaden the perspective to incorporate wider environmental and social concerns. NGOs have their basis in civil society[4] (World Bank 2005). Environmental social movements (Buttel 2003), environmental movements (Durbin & Welch 2002), and social movementa are also terms that refer to these societal phenomena. As Lowe and Goyder's (1983, 9) definition of the environmental movement illustrates, sharing certain concerns can take very different forms in terms of action:

> *The environmental movement is the number of environmental groups and their attentive public. The latter share the values of the previous, including the readership of various environmental magazines, students of environmental studies in schools, colleges and universities,*

[3] For example, Stora Enso translates dialogue as "vuorovaikutus" in Finnish, which actually means "interaction" (http://www.storaenso.com/CDAvgn/showDocument/0,,2509,00.pdf, retrieved 25.10.2005).

[4] The World Bank uses the term civil society to refer to the wide array of non-governmental and not-for-profit organisations that have a presence in public life, expressing the interests and values of their members or others, based on ethical, cultural, political, scientific, religious or philanthropic considerations. Civil Society Organisations (CSOs) therefore refer to a wide of array of organisations: community groups, non-governmental organisations (NGOs), labour unions, indigenous groups, charitable organisations, faith-based organisations, professional associations, and foundations.

sympathetic members of the design and land-use professions and the many people who, through their personal convictions, behavior and life-styles, express their concern for the environment. Therefore, environmental groups are only one indicator of a wider social movement.

NGOs are understood as advocates of environmental and social concern in this article, and therefore Bendell's (2000, 16) definition of them and of how their goals are perceived is the most suitable one in this connection: *...groups whose stated purpose is the promotion of environmental and/or social goals rather than the achievement or protection of economic power in the marketplace or political power through the electoral process*.

It is difficult to draw lines between groups for two main reasons. Firstly, international groups have both nationally and locally operating units within the same organisation, and secondly, increased cooperation in the form of joint campaigning and publicising in favour of joint causes makes it difficult to draw specific lines between goals. The goals of NGOs range from wide concerns such as environmental protection[5] and human rights[6] to specific issues such as export credit guarantees[7]. However, as Taylor (2002) argues, it is overlooked in the confusing entity of theorising global civil society that it shares an easily comprehensible common goal: the creation of a better world.

NGOs have responded to the global nature of environmental problems by expanding their activities to the global level as well (Durbin & Welch 2002). Today's Internet and digital communication technology have facilitated their work (Keim 2003), and the organisational structure is expanding geographically in an unprecedented way, forming networks of cooperation that reach the global scope (Doh, Newburry & Teegen 2003). For example, the network of NGOs that monitor projects financed by the World Bank has spread across the globe since 1983 and has expanded into networks that monitor regional development banks. When the World Bank or a regional development bank considers financing a controversial project with serious environmental consequences, these networks can be activated quickly as a joint campaigning force (Durbin & Welch 2002). The significance of the Internet as a tool for NGOs has also been noted (UNEP 1999):

Their ability to shape and influence the perceptions of the local public, potential investors, and government agencies should not be underestimated, particularly given their extensive communication networks – increasingly through the Internet. These groups can

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[5] Greenpeace, www.greenpeace.org.
[6] Amnesty International, www.amnesty.org.
[7] ECA-Reform Campaign, www.eca-watch.org.

> *exacerbate risks through publicity stunts as well as through legal actions against certain developments.*

In addition to actively using the Internet, NGOs also produce reports and studies that contain technical and legal information, and carry out training. These activities could be characterised as so-called insider tactics, meaning that the NGO tries to influence the economic system from the inside (Deslauriers & Kotchwar 2003). NGOs can also *force change* by boycotts, *promote change* by promoting best practices, *facilitate change* by sponsoring certification systems such as the Forest Stewardship Council, and *produce change* by promoting fair-trade products, for example (Bendell 2000).

However, in contrast to outside views that tend to portray NGOs as actors with great power, the organisations themselves often perceive their work as being filled with obstacles (Sonnenfeld & Mol 2002). They are faced with new challenges that come from the inside. The environmental movement has faced the new phenomenon of ideological anti-environmentalism that has targeted it with counterattacks, mainly by trying to convince the world that environmental problems are exaggerated and under control. Secondly, radical environmentalism is losing relevance with respect to modern environmental issues (Buttel 2003). As Eder (1996) describes it, the environmental movement no longer needs to strive to get its voice heard because the issue has become so topical. However, now there are so many voices that theirs is difficult to distinguish. The global nature of environmental problems, globalisation, and issues to do with trade have encouraged environmental groups to form unprecedented alliances with other related movements (Buttel 2003; Durbin & Welch 2002).

1.2 Problematic aspects in NGO dialogue

The existence of NGOs as societal actors has received limited attention in international business research. Traditionally, the focus has been on issues such as internationalisation, foreign direct investment, international joint ventures, mergers and acquisitions, and managing the international company (Buckley 2002), thus placing a clear emphasis on the company or business perspective. For example, the research on factors influencing IJV performance emphasises internal factors such as venture-partner characteristics, control, contractual elements, and other venture-specific aspects (Robson, Loenidou & Katsikeas 2002). The only way of incorporating NGOs into the setting would be indirectly, through external regulation and political risk.

NGOs are now being incorporated into the international business agenda, and are being recognised as legitimate actors in the international business field

(Buckley 2002; Betsill & Corell 2001; Doh & Teegen 2002; Doh & Ramamurti 2003; Teegen, Doh & Vachani 2004; Doh, Newburry & Teegen 2003; Meyer 2004). Their significance originates in the bargaining power that has changed the traditional two-sided government-MNE bargaining relationship into a trilateral phenomenon (Doh 2003). NGOs are increasingly the source of objections directed at planned investment projects, and thereby the significance of their bargaining power in the appraisal of investment projects should be reassessed (Doh & Teegen 2002; Doh & Ramarmuti 2003).

However, the influence of NGOs is nothing new from the stakeholder management perspective. The literature on how stakeholder relations should be managed is extensive, and gives very specific advice in terms of various dos and don'ts (see e.g. Savage, Nix, Whitehead & Blair 1991; Martinez & Norman 2004; Leap & Loughry 2004; Oxley Green & Hunton-Clarke 2003; Kaptein & van Tulder 2003; Kujala & Kuvaja 2002; Grafé-Buckens & Hinton 1998). However, as mentioned above, there are several aspects related to stakeholder dialogue, particularly NGO dialogue, that challenge its realisation.

1.2.1 NGOs as stakeholders

A stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman 1984, 46). Different kinds of tools have been provided for business to evaluate the most relevant stakeholders, because not all of them can be taken into account. In other words, the demands of stakeholders are often conflicting, and these conflicting interests have to be balanced. According to Savage et al. (1991), companies should assess the strategies they pursue with different stakeholders depending on their potential threat and potential for cooperation (Figure 2).

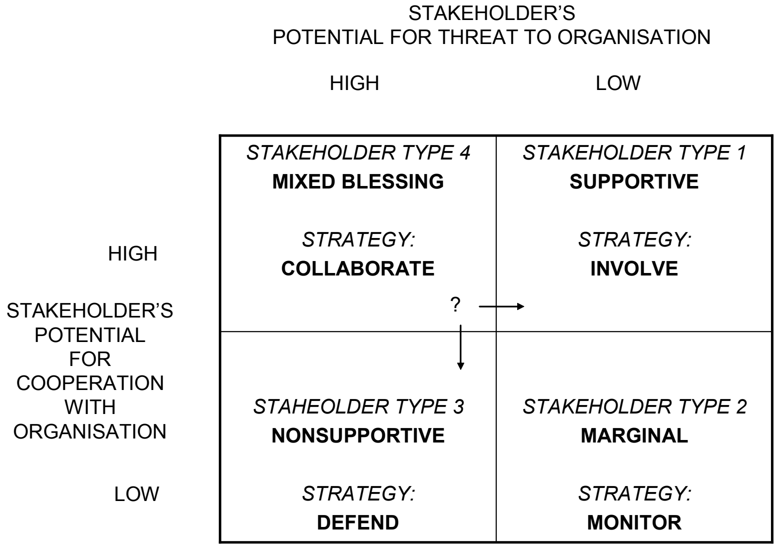

Figure 2 Diagnostic typology of organisational stakeholders (Savage et al. 1999, 65)

Stakeholders are characterised in the above as mixed blessings, supportive, nonsupportive, and marginal. The most troublesome ones are those with power but who do not cooperate, the nonsupportive ones, and a defensive strategy is advised when faced with them. These strategies may differ from many traditional marketing and strategic ways of handling competitors. The goal in a defensive strategy is to reduce the nonsupportive stakeholders' interests in the company[8]. However, as Savage et al. (1999) show, the objective of stakeholder management is to *manage* stakeholder demands (cf. Kallio 2004, 130), and the emphasis is on how to defend against the potential influence of opposing stakeholders. This initial setting conflicts with the supposed "giving and receiving, shared responsibilities, vulnerability, and empathy" in stakeholder dialogue (cf. Figure 1).

Opposing stakeholders therefore constitute a potential image risk for the business. As Doh and Ramarmuti (2003, 349) conclude in a re-evaluation of risk in infrastructure projects, firms should consider more strategic stakeholder identification and management activities, and the development of a proactive approach to *attaining and maintaining social legitimacy* as a way of protecting

[8] According to a case study conducted by Savage et al. (1991), the airline industry voluntarily cut down on peak-hour traffic in order to avoid regulations on the quantity of flights. Thus, the defensive strategy in this case was to offer a compromise in order to avoid permanent regulation.

against risks. Legitimacy could be seen as a “licence to operate”. According to Suchman (1995, 574), “legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. It thus appears that stakeholder management and legitimacy management are largely congruent. Even environmental management could be linked more with political sustainability than with environmental sustainability (Levy 1997). Legitimacy and market pressures are the key motivational factors for greening (Kallio 2004, 264–272). Improved materials efficiency, increased employee commitment, lower insurance premiums, cheaper finance, and reduced image risk are all relevant competitive advantages gained by being responsible (Welford & Gouldson 1993). Without a doubt, environmental and social responsibility has been successfully turned into competitive advantage, and it is the key driver of action.

However, NGOs now threaten this legitimacy. Doh and Teegen (2002) employ Mitchell, Agle and Wood’s (1997) model of stakeholder power, legitimacy and urgency in order to evaluate NGO bargaining power (Figure 3).

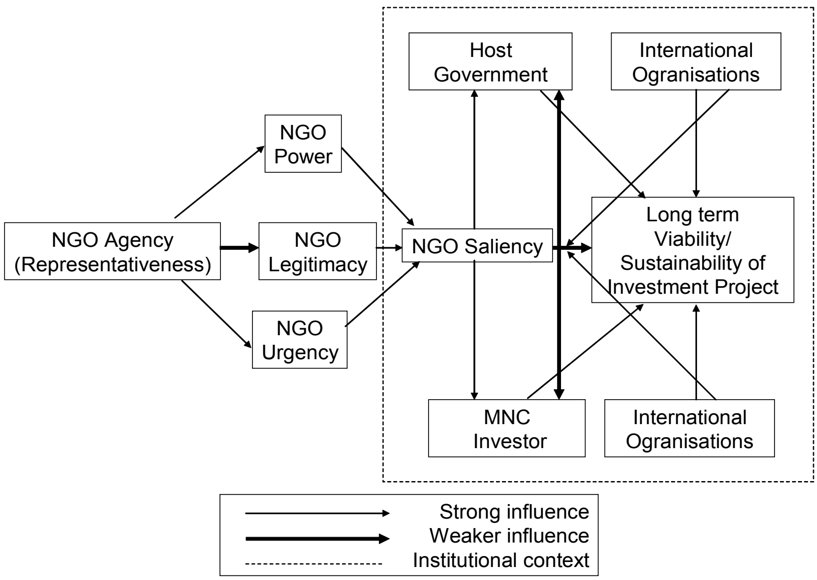

Figure 3 Contributors to Impact of NGOs on Long-Term Viability/ Sustainability of Investment Projects (Doh & Teegen 2002, 672)

NGO influence rests on the notion that NGOs that fully and accurately represent the interests of the civil societal groups they purport to represent are more likely to attain stakeholder attributes, particularly the attribute of legitimacy, and thus are more likely to have a material impact on the long-term viability and sustainability of investment projects: they should therefore be taken into account more by project planners.

However, at the end of the day, environmental and social risks are risks if, and only if, they pose a threat to the financial viability of the company or the corporate image through widespread public opposition (Doane 2005). How the natural environment is taken into account is therefore dependent on stakeholder saliency, i.e. indirect representativeness. In this context, the natural environment does not have a voice of its own as a stakeholder, although attempts to give it one have been made (Starik 1995). However, ten years after Starik's attempt, it could be argued that the natural environment still does not have a voice of its own, not even though currently acknowledged stakeholders such as NGOs have the ability to get their voices heard when faced with demands for profit (cf. Kallio 2004, 107–116). The natural environment continues to have only under-priced, instrumental value to business (Buchholz 2004). While stakeholder management offers business a tool for depicting their relationships with society, it emphasises the central role of the company, and excludes the natural environment. From the stakeholder perspective, NGOs and governments are seen as representatives of demands that should be *managed* in order to balance them with profit, which remains dominant. As Grafé-Buckens and Hinton (1998) predicted, the success of environmental stakeholder initiatives will largely depend on the expected legitimacy guarantee of keeping stakeholders pleased, and the competitive advantage gained from these initiatives.

1.2.2 Voluntary actions – do they matter?

Globalisation, the diminishing role of nation states, and the replacing role of voluntary codes of conduct are controversial issues. The positive and negative effects of globalisation are constantly under debate (see Stiglitz 2002; ICC 2004[9]). The traditional role of the government as a regulatory body is increasingly being replaced by voluntary codes of conduct, guidelines, standards, and certification in order to support business initiatives in taking responsibility for their actions (see e.g., Christmann & Taylor 2002; Doh &

[9] Stiglitz (2002, 21–22) argues thus: "Unfortunately, we have no world government, accountable to the people of every country, to oversee the globalization process in a fashion comparable to the way national governments guided the nationalization process. Instead, we have a system that might be called *global governance without global government*, one in which a few institutions—the World Bank, the IMF, the WTO— and a few players—the finance, commerce, and trade ministers, closely linked to certain financial and commercial interests—dominate the scene."

Guay 2004). Globalisation could be seen as one of the drivers of the diminishing role of nation states, thus being closely linked to the discussion on voluntary actions. Voluntary actions are considered necessary, particularly for MNEs operating globally in countries with varying legal standards (Christmann & Taylor 2002). However, self-regulation has caused numerous arguments among concerned people who see voluntary actions as insufficient guarantees of accountability. The concerns that come from the accounting perspective, the traditional guarantee of accountability, are particularly noteworthy. According to Owen, Swift and Hunt (2001, 277), "Without legislative support, stakeholder dialogue and engagement processes, however well meaning and rigorously conducted, are likely to pose little threat to the economic imperatives of globalization". Buchholz and Rosenthal (2004, 152) agree, and argue that governments matter:

> Stakeholder theory does not provide an alternative view of the firm that is powerful enough to counter standard economic theory. Responses to stakeholder issues are made within the established economic framework and the traditional view of the firm where the bottom line of the corporation is economic in nature. This value system can only be countered by a process such as public policy that represents the wishes of society as a whole, not a fractioned set of stakeholder interests that management can balance off against each other.

These are arguments that fundamentally challenge the stakeholder approach as a guarantee of the licence to operate. There is also a link between the arguments embodied in popular concepts launched to guide social and environmental initiatives and voluntary efforts. At the time of the launch of sustainable development by the World Commission on Environment and Development (1987), business took a dramatic turn in environmental attitudes (see Kallio 2004, 235–262). However, at the turn of the new millennium, it could be said that sustainable development is a very problematic concept that could be interpreted in many ways (see e.g., Davidson 2000). It has suffered from rhetorical abuse, and Corporate Social Responsibility (CSR) has since arisen to fill the concept gap (Doane 2005)[10]. The most significant deficiency in popular concepts such as CSR is described in no uncertain terms by Doane (2005, 216, emphasis added):

> The CSR movement seems poised to repeat the same mistakes again, just 15 years on from the Brundtland commission. Our short-term memory is fading fast, as we refuse to acknowledge the caveat to such a statement: that business can do well and do good… *up to a point*.

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[10] The global relocation of labour, for instance, has brought social issues to the fore again, but the history of Corporate *Social* Responsibility goes back decades (Näsi 1995).

> Business in the end, must be profitable and the aims of social and environmental objectives do not always coincide with the hard-nosed business realities of the competitive marketplace…CSR has proved itself to be often little more than a public-relations offensive to support business-as-usual.

Doane suggests that CSR has become a popular management concept. After all, institutional isomorphic processes tend to make companies increasingly similar (DiMaggio & Powell 1983). Adopting popular management techniques has several advantages for companies (Staw & Epstein 2000). Those that do so are more admired, and are seen as more innovative and higher in management quality regardless of their financial performance. Having the image of promoting environmental and social responsibility also increases legitimacy and competitive advantage. Given the emphasis on reputation risk (Clark 2000; Martinez & Norman 2004), there are numerous reasons for voluntarily engaging in dialogue other than concern for local communities and the environment. Although there is no simple resolution to the regulation-versus-voluntary dilemma, these alternative motives may have an effect on the end result. Civil society has been discussed as a complementary force to the decreasing power of nation states in terms of "civil society regulation". However, just like business representatives, NGO leaders are not selected through democratic election processes, and are in principle subject to the same criticism as companies in terms of accountability (cf. Ebrahim 2003). However, the existence of factually powerful civil-society actors could be questioned. Sonnenfeld and Mol (2002) suggest that putting them forward as relevant actors could, in part, be political, and could also contribute to claims by supporters of global capitalism that a sufficiently powerful counterforce exists to balance its forces. In any case, the notion of NGOs as regulators of codes of conduct should be treated with caution (Doh & Guay 2004).

1.2.3 Perspectives on decision-making

Collaboration between NGOs and Business is not always successful. For instance, even though the intention is that control in the collaborative projects is equally shared, the business party can easily dominate the NGOs (Ashman 2001). From the business perspective, balancing stakeholder needs that are often in conflict emerges as the key issue in dealing with environmental and social issues (see e.g., Johnson & Scholes 2002, 206–215). However, even if managers have ethical principles, they are, at the end of the day, subordinate to company profitability requirements (Catasús, Lundgren & Rynnel 1997).

Adams' (2003) project-manager perspective at AES (power company) can be examined as an illustration of how the demands of environmental NGOs in particular are ultimately defenceless against the focus on efficiency and low-cost gains when decisive profitable projects are at stake. This is despite the "*commitment to act with integrity, to be fair, to have fun, and to be socially responsible*". Corporate social responsibility, socially responsible business, good corporate citizenship, and doing well by doing good, are all set down as company principles. This eloquent set of values is presented in the form of guidelines for the company. However, having said all this, Adams reminds us that the company needs to secure its continuing existence by producing adequate returns for investors – self-evidently – according to the principle of fairness towards *all* stakeholders. The main business objective is growth: "AES has grown from a one facility company to a global corporation. To fuel this growth, AES actively pursues aggressive and creative financing strategies". International Financing Institutions (IFIs) are seen as the answer to these financing strategies, because unlike commercial banks, they also cover political risk and at lower cost. Therefore, lower-cost finance is a considerable incentive to comply with the environmental and social standards of financial institutions.

NGO opposition to projects is seen as an objection to the AES objective of power supply to everyone. "Some NGOs simply disagree with the power supply option AES is pursuing. However, in the desire to fulfill AES's ultimate goal of providing low-cost power in the markets in which it serves and cognizant of the realities it faces, compromises are often made".

NGOs that suggest that AES should focus on the environmentally friendly (options such as windmills and photovoltaic cells) are suggesting the impossible, in fact, because it is not in line with the company goal of "providing least-cost power in a socially responsible manner". In addition, environmentally friendly options are something they "are so *passionate* and *believe* so strongly about". Labelling them as irrational and sentimental can be seen as a tactic used by business representatives to undermine NGO arguments (Eden 1999). After all, the ultimate goal of civil society as defined by Taylor (2002) – making the World a better place – could be argued to be emotional and therefore also irrational. Conversely, Adams argues that the demands of environmentally friendly power options are not socially responsible because they would burden the end-users with higher costs.

Adams' article can be seen as an illustrative example of how important social responsibility is – as long as it does not interfere with profits, growth, and cost-efficiency. In discussing the future of business and NGOs, he states, "Albeit far from perfect, the company's mission is underlined by the strong belief in the ability of markets and market prices to result in the best decision for society”. He reminds us that supplying the World with power is a socially responsible task in itself. In addition, the company has undertaken a variety of charitable actions, including planting trees (in order to offset its own carbon omissions). However, all the examples he gives could be linked with any of the competitive advantages outlined by Welford and Gouldson (1993). What began as an eloquent array of principles committed to responsibility turns out to be subordinate to business-as-usual and one-and-a-half-way thinking, in which environmental (and social aspects) are taken into consideration within the limits of profitability (cf. Kallio 2001, 22–23; Doane 2005; Davidson 2000).

1.2.4 Scientific “facts” behind the dialogue

The “facts” behind the dialogue are self-evidently an important dimension of it, in particular when it comes to environmental aspects. Scientists provide us with knowledge of the natural environment. However, research results in the natural sciences have to be transformed so that they contribute to the societal dialogue. As Jamison (1995) puts it, scientists have constructed the global environmental problems of today. However, scientific information is seldom unambiguous. Global warming and the state of the environment, for example, have been subject to many interpretations (see Lomborg 2001).

Scientific research is used to legitimise political decisions and corporate actions just as individual citizens base their conceptions on those “scientific facts”. Therefore, what is relevant concerning the dialogue is that scientific evidence is no longer seen as absolute “proof” of the state of the environment. Scientific evidence is political, and could be used as an instrument of social interest or as a source of conflict (Sonnenfeld & Mol 2002). If two completely conflicting theories are declared as scientific evidence, each actor can justify its actions based on whichever theory serves its interest best (cf. Peuhkuri 2002).

In their NGO case study on the pulp mill Veracel, Andersson and Bartholdson (2004) address the difficulty of obtaining objective scientific evidence. They remind us that research requires finance, and research results should always be viewed through the sponsor’s eyes. In the Veracel case, the cause for concern is the environmental impact of eucalyptus plantations. Objective research specifically on the impact at the Veracel location is difficult to conduct because sceptical researchers are not welcomed to the site. Environmental Impact Assessment (EIA) is another common cause of dispute in investment projects. EIAs that have been conducted by the project sponsor are not uncommon, and this has also been the case with Veracel (Andersson &

Bartholdson 2004). Nevertheless, the “truth” is not automatically uncovered with the help of scientific evidence, although research results are often used as a basis for decisions.

1.3 Evidence of NGO dialogue

The dialogue that leads to cooperation and common goals is the part of dialogue that can be expected to occur behind closed doors. After having discussed some factors that may have a negative impact on the success of the supposed dialogue, it is reasonable to look at what is currently taking place in terms of dialogue. It is, however, often that publicly visible “dialogue” can actually mean that the situation has already developed into conflicting debate, for example via newspapers. The cases in which NGOs have had a significant impact on business actions include Shell’s Brent Spar, Nike, Nestle’s breast milk formula, MAI Negotiations (Multilateral Agreement on Investment) and Greenpeace’ Greenfreeze (see Hartman & Stafford 1997; Baron 2000, 106–113). On the other hand, there are scandals like Enron, which are living evidence of corporations *not* living up to their corporate responsibility statements.

The influence of NGOs has been evaluated through the outcomes of international environmental agreements (Humphreys 2004; Doh & Guay 2004). The measurement of influence is a very intricate process in which the different phases and underlying politics have to be taken into account on behalf of all of the actors involved (Bonardi & Keim 2005; Betsill & Corell 2001; Keim 2003; Hillman & Hitt 1999). Apart from influencing international agreements, NGOs can also have an effect on individual investment projects. Veracel Celulose S.A., a eucalyptus pulp mill located in Brazil, is an example of such a project. The intensified debate on the joint venture of Stora Enso and Aracruz Celulose S.A. attracted the interest of the media, and caused Stora Enso to invite a third-party evaluator (UNDP) to assess the project.

The Forest Stewardship Council (FSC) certificate, which is sponsored by NGOs, is often taken as an example of successful partnership between them, international organisations, governments and business (Doh & Guay 2004). However, some internal turbulence has surfaced within the FSC. The World Rainforest Movement (2003, 8–9), a well-known NGO, raises some concerns about FSC certification, one of which relates to the involvement of local communities:

> Is the Forest Stewardship Council (FSC) contributing to this end or not? Is it strengthening community forest management or playing into the hands of logging corporations? Is it paving the way for the equitable use of forest

> resources or helping the North maintain and increase its over consumption? First, FSC certification of plantations is undermining efforts for environmental and social improvement and closing the door to community-based forest management. Second, the certification process is characterized by inadequate information, participation, consultation, transparency and basic social, political, cultural, economic and environmental research. Both case studies reveal major, well-documented failures in complying with FSC principles and criteria – failures which, disturbingly, have not prevented the plantation operations from receiving and maintaining FSC certification.

Thus, some questions concerning FSC certification principles have been asked, but the reliability of standardisation in general has been relatively weak in the NGOs in that they best function as a guarantee of supplier compliance (Heiskanen & Lovio 2003).

Humphreys (2004) studied the relevance of NGOs in the formulation of international forest negotiations, the focus being on how significant an impact they have in the outcome of the negotiation. Certain features emerged from the study. First, the earlier NGOs become involved in an international process, the more likely they are to be able to influence it. Secondly, NGOs are likely to be successful in campaigning for a concept or an idea that has already been accepted in another forum as a result of a kind of "spill-over effect". Thirdly, in the short term NGOs are likely to influence the textual outcomes of international forest negotiations if they phrase their recommendations in language that is harmonious with mainstream neo-liberal discourse, and that does not threaten the powerful political and economic interests that have found representation in state delegations. At best, strong opposing comments will be modified, and at worst eliminated, from the forum.

Doh and Guay (2004) focus on voluntary international agreements such as the UN Global Compact and OECD Guidelines for multinationals. The NGO role in agreement compliance and formulation is either low or moderate in codes of conduct sponsored by international governments, intergovernmental organisations, and industrial associations. Therefore, the current significance of NGOs in terms of substituting decreasing regulation is very limited (Doh & Guay 2004). However, the two examples above show that the negotiation process is characterised by political features, thus defining the concept in a politically beneficial way is one of the key issues. The different discourses on CSR, for example, could be characterised as a battle for definition between different actors – business representatives eagerly attempt to participate in the dialogue in order to ensure minimum harm and maximum benefit for the business (Vehkaperä 2003, 101). Therefore, one of the most relevant questions concerning the dialogue covers the terms according to which it is conducted, and whether the process is credible. Humphreys' (2004, 70–71) reflections on international forest negotiations raise numerous concerns in this respect:

> Have some NGO concepts been accepted precisely because they can be manipulated and used by core political interests for their own ends? For example, it is not entirely clear that concepts such as participation and multistakeholder dialogue have been adopted solely because NGOs have successfully engineered a value shift in favor of more inclusive and democratic governance… NGOs will use concepts such as multistakeholder governance and participation to pry open political processes for civil society. Business and private sector actors will use these same concepts to gain a louder decision making voice for themselves, while governments will be content to see other actors stepping forward to assume functions that were previously the domain of the state. The question then becomes: who has more power in such "open" and "transparent" dialogues?

These concerns have gained support from other sources. Unerman and Bennett (2004, 20) conclude from their case study on stakeholder dialogue that the stakeholders with economic power, i.e. shareholders, suppliers and customers, are dominant:

> If future empirical research in this area demonstrates that managers fail to systematically enact the standards of behavior resulting from more democratic stakeholder dialogue, it would then be necessary to develop enforcement mechanisms to ensure companies meet the moral responsibilities a wide range of their stakeholders (rather than just those with the greatest economic power) have, on balance, accepted that the company should fulfill. In the meantime, corporate claims both to have identified their social, environmental, economic and ethical responsibilities through democratic stakeholder dialogue, and to have met these responsibilities, should be treated with some skepticism.

1.4 Discussion

It is safe to say that NGOs have the ability to influence business, but can this be characterized by dialogue? As Unerman and Bennett (2003) conclude in their study on Shell's Internet dialogue, the web forum was mostly used for stating opinions rather than as a tool for mutual understanding. If the dialogue is supposed to safeguard the transparency and legitimacy of business conduct, how can the credibility of the process be secured? The aspects discussed in this article could be considered relevant questions concerning the currently prevailing emphasis on dialogue with NGOs or civil society as a way of ensuring the accountability and legitimacy of business conduct. Despite the apparent increased activity in engaging stakeholders and welcoming open dialogue, and the undeniable success stories concerning cases of collaborative action, the large-scale significance of NGO dialogue remains uncertain. With company profit as a guiding principle, how could NGO dialogue actually work – or indeed, can it work? Do the preconditions exist for NGOs to act as the "voice" of otherwise silent stakeholders such as the developing countries, let alone the natural environment? Considerable challenges stand in the path of NGO dialogue in which the growth and profit objectives of business do not fundamentally overrule other dimensions of society at large. The implication that ethical motives overrule profits is unconvincing.

Even though the advice available to managers on how appropriate stakeholder dialogue should be conducted is extensive, there seems to be a gap between theory and practice (Unerman & Bennett 2004; Open Letter 2004). If the goal of NGOs is a better World, and the goal of business is profits, then the actors do not share common goals. To put it simply, if dialogue means that the actors have an understanding of their common goals, then it could be argued that the preconditions are non-existent. A more correct term in that case would be negotiation. NGOs may pose a threat to the corporate image and legitimacy, and companies are forced to respond to the informal institutional pressures they impose (cf. DiMaggio & Powell 1983; Suchman 1995; Staw & Epstein 2000). Current stakeholder dialogue, especially concerning the environmental and social aspects, is about reduced image risk and increased legitimacy. In any case, Meyer's (2004) question on MNEs in emerging countries remains relevant: broad evaluation of the social and environmental impact of MNEs on emerging economies entails addressing the question of *the extent to which business should care about local stakeholders*.

The purpose of this article was to raise some questions about stakeholder dialogue and the role and significance of NGOs. The interaction between business, government and civil-society actors is a very complex phenomenon that should not be simplified into automatically functioning dialogue. Furthermore, while stakeholder management offers business a tool for depicting its relationship with society, it also emphasises the major role of the company. From the stakeholder perspective, NGOs and governments are representatives of demands that should be managed in order to balance them with profit, with the latter remaining dominant. Legitimacy is the main issue, and the process could be seen as a battle of political influence in terms of definition and the creation of widely salient issues. Thus the "dialogue" begins very early in the government-business-NGO interaction phase, and takes the form of political influence.

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2 TOWARDS A GLOBAL AGENDA FOR TECHNOLOGICAL INNOVATIONS IN AFRICA: A SYSTEMS APPROACH

Foster Ofosu

Abstract

The Millennium Development Goals set by the United Nations' Millennium Declaration establish a broad framework to tackle poverty in developing countries through sustainable development. Technology is recognised as a vital engine for the achievement of these goals. Africa occupies a position at the bottom end of the global technology ladder. Africa's drive towards technological growth has followed a path of acquiring technologies developed elsewhere, usually from technology transferred from developed countries. The paper suggests that it is possible for technology to be developed in Africa and proposes a Global System of Innovation (GSI) framework for sustainable development. For Africa to achieve a reasonable level of technological advancement there is a need for innovative processes not only to create the necessary technology but also to enhance its diffusion so that it will eventually find social and economic application throughout the system. The proposed framework is richly informed by insights from literature Innovation and Technology Management, Social Entrepreneurship, and International Development cooperation. GIS is a conceptual and analytical framework that allows for national and supranational efforts of governmental, non-governmental, as well as private stakeholders to work together in developing new technologies that target poverty alleviation and hence work towards the achievement of the Millennium Development Goals.

2.1 Introduction

Towards the end of the last century, The United Nations established a declaration, the Millennium Declaration, which embodied the common vision of its members for a more peaceful, prosperous and just world in which all human beings could live better and safer lives. Included in the declaration is development and poverty eradication through Millennium Development Goals (MDG). Laudably embedded in the MDG is a call for a global partnership for development, which is charged with using new science and technology to address the specific conditions facing the poorest of the poor.

Many developing countries (most of them in Africa) are unlikely to meet the millennium development goals unless they put science and technology at the centre of their development strategy. Achieving those goals will require reorienting national science, technology and innovation policies to serve the needs of development effectively and coherently. This will also depend on the building of a solid national science and technology base to enable the generation, utilisation and diffusion of this knowledge. Rich and poor countries will need to work together to find new solutions to health, education and environmental problems that keep so many hundreds of millions in the poverty trap. In some cases, this will mean transferring existing technologies more effectively. There are cases in which current technologies provide no adequate solution, however, and hence technologies derived from current scientific advances will be needed. Thus it is not only a question of the international transfer of existing technologies, and there is also a need for investment in innovation in these countries.

In the same vein, several bilateral development-cooperation efforts between advanced countries and Africa also focus on the “soft” side of the equation. The same could be said of the Non Governmental Organisations (NGOs) and International Non Governmental Organisations (INGOs), which are actively promoting socio-economic development in Africa. Most of these are involved in social justice, human rights and environmental issues.

Interestingly enough, neither technology, nor economic development generally, feature in the future engagement of Europe with Africa. Some of the major causes of instability and insecurity have their roots in the social and economic imbalances in African societies, mainly caused by poverty. Poverty is an economic concept and needs to be tackled at its root.

There is a common understanding that if Africa is to develop, the continent should get its act together by building an environment for peace, security and good governance. This is very much like treating the symptoms of the poverty disease without tackling the root causes. These three issues are important and need to be addressed, but given the hopes that Africa is investing in the MDG, a strategy that gets to the root of the problem would be more welcome. Unfortunately, the standard diagnosis is that Africa is suffering from a governance crisis. Given the highly visible examples of profoundly poor governance in Zimbabwe, and widespread war and violence in Angola, the Democratic Republic of the Congo, Liberia, Sierra Leone and Sudan, the impression of a continent-wide governance crisis is understandable.

International Development Partners, governmental and non-governmental bodies alike, seem to agree that these issues of governance, security and peace should be tackled first before the focus shifts to innovation and economic development. This is true of the recently published document on the EU Strategy for Africa, which supports Africa's efforts to attain UN Millennium Development Goals. The strategy, which will serve as a basis for future EU-Africa relations, focuses on peace, security and good governance.

Recent evidence, however, points to the fact that this argument does not necessarily hold. According to the 2005 issue of the World Investment Report published by the United Nations Conference on Trade and Development (UNCTAD 2005), many parts of Africa are well governed, especially considering the extremely low income in these countries, and yet even relatively well-governed countries remain stuck in poverty traps. Governance is an issue, but Africa's development challenges go much deeper. Indeed, there is no evidence in World Bank indicators that Africa's governance is any worse, on average, than any other, allowing for the very low income levels. Controlling for income is necessary in evaluating governance since good governance requires resources for wages, training and information systems, for example, and thus improves systematically with a rise in income levels (UNCTAD 2005).

For any society to reach a reasonable level of technological advancement there is a need for innovative processes not only to create the necessary technology but also to enhance its diffusion so that it will eventually find social and economic application throughout the system. Innovative activity and capabilities are essential for economic growth and development. For example, Sachs and McArthur (2005) argue that science, technology and innovation are essential if the Millennium Development Goals are to be achieved. These activities and capabilities are not limited to advanced countries, or to the cutting edge of technology frontiers, and they also apply to developing countries that need to catch up with technological developments. The principle objective is social, economic and environmentally sustainable development for all.

Advanced countries have been able to achieve this quite successfully by feeding resources directly into innovation through R&D, and indirectly through building the requisite infrastructure and developing the necessary skills. Developing countries, on the other hand, lag behind in the race for technological innovation. Very little, if any, resources feed directly into innovation through R&D. Moreover, these countries are saddled with economic, social and political problems that hinder developments in the basic infrastructure and in the necessary skills. Africa's path to industrialisation, according to conventional wisdom, lies in importing technology from wherever it is available. Whereas developed countries exploit the innovation milieu to develop new technologies and improve upon old ones, Africa's path to technological development is one of acquisition, utilisation, adoption and (it is hoped) diffusion. This calls for an environment that would be conducive to the transfer of such technology. However, innovation and learning are interactive processes that work best in dense networks of efficient enterprises, institutions and markets. Enterprises thus innovate and learn as parts of a collective larger, interconnected group.

Attempts on various levels have been made in the past (and are still ongoing) to bridge the technological divide between advanced and poor nations. They come in various forms, the most obvious and common of which is through the transfer of existing technologies from advanced countries to developing markets. Common wisdom, just as in the argument for foreign direct investment, assumes that the influx of technology developed elsewhere would automatically bridge the gap and enhance development.

The purpose of this paper is to take a look at innovation for development in Africa, and to propose a model that will bring all stakeholders together to work towards the achievement of the millennium development goals and sustainable development for Africa. One thing that is generally agreed on in many research disciplines is that technological advancements form the bedrock of socio-economic development. A more focused aim of this paper is thus to put innovation at the heart of technological development (yes, even for poor countries).

What I intend to do here is to isolate technological development as one pertinent issue in sustainable development, and to explore new avenues through which to enhance technological innovations in developing countries. In departing from established assumptions that Africa should create an environment that will facilitate effective technology transfer I argue that, at the same time, there is a need for a framework that will support local and international initiatives to develop new technologies for tackling some of the numerous socio-economic problems. I argue further that some of the problems in Africa are so unique to that environment that new technologies will have to be developed through local efforts.

Theoretical wisdom in this is sought from Innovation and Technology Management, Social Entrepreneurship, and International Development cooperation.

2.2 Systemic orientations towards innovation

In this section I will review the literature on systemic orientations towards innovation. Three concepts that belong to the theoretical family of territorial innovation (Moulaert & Sekia 2003) have shown particular resonance in academic and policy circles: innovation, systems and clusters (Cooke, Heidenreich & Braczyk 2004; Porter 2000).

Innovation as a system is an approach to the study of innovation as an endogenous part of the economy that has emerged in the last decade. It is designed to account for the interactive nature of most of the necessary learning. The systems approach has been applied to the study of how national and regional innovation influences such activity in companies (Nelson & Winter 1982; Lundvall 1992; Edquist 1997). The main focus is on the organisation in the environment, interactive learning, knowledge creation, and the practical use and distribution of knowledge. In particular, there is an emphasis on the knowledge infrastructure and the organisation of networks between companies and knowledge institutions, suppliers, customers and other entities. All of these constitute a complex set of innovation systems distributed across sectors, jointly involving public and private activity and open to international exchange and the development of new technology (Nelson 1993). The result is a system of institutions and organisations that connects the economy both internally and with the wider world of technology. Edquist (1997) provides the most comprehensive view on applying a generalised systems theory to innovation. He defines an innovation system as "all important economic, social political, organizational, institutional and all other factors that influence the development, diffusion and use of innovations" (Edquist 1997, 14). These factors include resources and activities interacting between elements in the system on national, regional and sectoral levels.

This approach has been applied on the national (Freeman 1987; Lundvall 1992; Nelson 1993), regional (Cooke, Uranga & Extebarria 1998; Cooke 2004) and sectoral levels (Nelson & Mowery 1999). On the national level, for instance, Nelson (1993) developed a pioneering analysis of systems of innovation. The basic premise is that innovation and technical change are not simply matters for individual entrepreneurs, but also involve cultural and institutional factors. Competences are established and developed within an appropriate institutional and cultural framework. The metaphors of evolutionary selection and mutation can be deployed to describe the general process of development of competencies within an economic system.

Most of the NIS literature focuses on frontier invention in industrialised countries, rather than on the technological mastery and adaptation that take place in developing countries. However, the concept of the innovation system is just as relevant to the latter (UNIDO 2003, Edquist & McKelvey 2000). Given the large gap between developed and developing countries in terms of technological advancement, the latter continue to rely heavily on technology transfer from the former in their development process. However, sustainable economic development requires that they do more than simply “open up” and passively wait for new technologies to flow in. It demands active, continuous technological effort by enterprises, along with government policies that help firms to attract technologies, to use them effectively, and to innovate.

Within the specific context of developing countries, Edquist (2001) extended the SI approach to include developmental aspects. His Systems of Innovation for Development (SID) concept has the same characteristics as the original SI approach, but the ‘Innovation Bias’ lies in the fact that product innovations are more important than process innovation in developing countries because of the effect on the production structure. This leads to the further argument that incremental innovations are more important and attainable in these countries than radical innovations. Further, absorption and diffusion are more important than the development of innovations that are new to the world. Finally, innovations in low and medium technology are more attainable than those in high-technology sectors (Edquist 2001, 17). These assumptions are referred to as innovation biases, which can be explained by factors such as the stage of economic development, the infrastructure, and general technological capability: the conditions in developing countries differ greatly from those in developed countries, for which the systems of innovation were originally developed.

The problem with regional and national systems of innovation, particularly for poorer countries, lies in the fact that these countries lack the resources, infrastructure and linkage capabilities to make such systems workable. For them it is a question of developing the technological capabilities to acquire and utilise foreign innovations rather than creating them. There is also a lack of organisational engines to catalyse the commercialisation of such innovations. For example, the establishment of specialised R&D institutes in Africa aimed at supporting firms in agriculture or manufacturing has produced meagre results (Adeboye 1997, Oyelaran-Oyeyinka 2004). This failure has been explained by the lack of an institutional base for innovation, a shortage of appropriate human capital, and an inability to tailor the activities of the institutes to the local context (Oyelaran-Oyeyinka 2004).

Although the terms Innovation Systems and Clusters have been applied interchangeably in some literature, the two should not be confused. A cluster represents a concentration on inter-dependent firms within the same or adjacent industrial sectors in a small geographical area (Isaksen & Hauge 2002, 14), whereas a system has been defined as “interacting knowledge-generation and exploitation subsystems linked to global, national and other regional systems" (Cooke 2004, 3). The clustering of inputs such as industrial and university R&D, agglomerations of manufacturing firms in related industries, and networks of business-service providers may create economies of scale, facilitating knowledge acquisition and the cross-fertilization of ideas for face-to-face interaction and technology transfer. In his most recent work on competition, Porter (1998) defines clusters as the "geographical concentration of interconnected companies and institutions in a particular field" (Porter 1998). Accordingly, a cluster includes all areas of linked industries and entities vital to its competitiveness. Existing linkages and complementarities that encompass the industry and institutions that are vital to the competitiveness of the cluster define its boundaries (Porter 1998).

According to Porter (1998), the birth and development of a cluster are determined by certain conditional factors such as:

- Historical factors; the research competence of a research institute or organisation, the existence of one or two innovative companies that stimulate the birth of businesses, or the existence of a cluster that provides the seeds for the birth of a new cluster
- The nature of local demand
- The chance factor; this is directly related to a major government or company decision to locate a specific aspect of its operations in a certain region to help spur cluster development.

For clusters to bring in the advantages Porter suggests there have to be firms that have the capacity to take advantage of the resources provided by the external support system. This is a setback as far as Africa is concerned, as most of the few firms involved in technological development do not possess these capacities. It is true that such clusters provide limitless opportunities in terms of interaction, but that alone will not be enough to attract the related competitive advantages. Secondly, the nature of the demand for technology in Africa would not augur well for such cluster development. There are not enough industry actors to warrant the demand levels that would support the costs and efforts of generating technology (product) output. In fact, Africa lacks a core of sophisticated and demanding local customers.

These systemic approaches to the macro (location) perspective on innovation focus on the transfer of technology from science-based R&D to commercialisation. In essence, they enhance the role of innovation in knowledge-based societies, and do not focus on the dynamics of international technology transfer, especially from developed to developing countries. Nevertheless, these concepts can be applied to the development of innovation systems that will promote their acquisition, adoption and utilisation in developing countries.

2.3 A global innovation network for sustainable development

2.3.1 Building blocks

The literature review identified the advantages of a systems approach to innovation. However, in terms of bridging the gap for Africa and working towards the realisation of the millennium development goal of eradicating poverty through innovation and the development of appropriate technologies, these approaches need to be extended and modified.

Given the numerous factors that could be said to be necessary for this to happen, I propose a Global System of Innovation for specific sectors, countries or regions. This follows the recommendation of Freeman (1999) that international and supranational levels of innovation should be considered alongside national-level systems. Globalisation and technological advances, especially in information and communication, have enabled the integration of disparate national systems of innovation that are geographically dispersed and locally specialised (Cantwell 1999). The Global System of Innovation approach advocates the adoption of systems and practices long established by private business, and the participation of both commercial and non-commercial stakeholders in different countries and regions. In essence, I am proposing a multi-stakeholder approach to technological innovation in Africa. This would ensure the involvement of government, the private sector, academics and scientists, and inter-and nongovernmental organisations. These stakeholders are, in a sense, already involved in shaping technological developments in Africa. The main message in this framework is that, instead of making individual efforts, they should work in tandem according to an institutionalised and networked system focused on specific technologies, countries and sectors of African societies.

2.3.2 A description of the global system of innovation

The proposed global innovation network for sustainable development will comprise governments, international and multilateral agencies, and representatives of national governments, business and international non-governmental organisations that are concerned with innovations. The crux of the model is that innovation should be recognised by all stakeholders in sustainable development, and that this could only be achieved by forging international linkages in producing breakthrough innovations. The model is based on existing models, but introduces three new elements:

- International cooperation for innovation focusing on particular technologies, countries and sectors
- National policies that promote linkages between and among the various stakeholders
- Encouraging and supporting social entrepreneurship in the development and commercialisation of these technologies

In essence, the model proposes international public-private partnerships focused on particular technological issues. For sustainable development to be achievable there is a need for collaborative and cooperation networks to develop the necessary technologies. Sustainable technology in this context means technology that is not only environmentally sound but also economically viable and socially acceptable. Such technologies contribute to the three pillars of sustainable development.

In order to avoid creating dependence in the recipient and to contribute to sustained and equitable development, the end result of technology transfer should be the ability of the recipient to use, replicate, improve and possibly resell the technology. This, in turn, implies the need for the involvement of the recipients on both the supply and demand sides of the technology-transfer path.

2.3.3 International cooperation

The need for resolute and coordinated action has been recognised at the highest levels internationally. For example, the Rio Declaration on Environment and Development, a key output of the UN Conference on Environment and Development, includes the following:

> *States should cooperate ... by enhancing the development, adaptation, diffusion and transfer of technologies, including new and innovative technologies* (UN 1992).

While the private sector is the major source of technological innovation and the main agent of technology transfer, member countries of the Development Assistance Committee (DAC) of the OECD recognise that they can play a significant role in influencing how technology transfer and cooperation take place. This is done mainly through national policies and programmes that facilitate private-sector action, bilateral assistance programmes, and active participation in international organisations dealing with technology transfer and capacity-development issues. This process may take several forms:

- Technical assistance and support through multilateral agencies, e.g., UNIDO
- Assistance through Regional Funding Agencies (e.g., the Nordic Development Fund
- Bilateral Official Development Assistance (ODA)
- Bilateral Development Funding for private-sector initiatives

The international perspective on systems of technological development is not a new phenomenon. In the area of environmental technologies, the United Nations (UN agenda 21, adopted in 1992) gave some of the earliest recommendations for the drawing up of public policies to promote technology transfer that would incorporate environmental benefits (UN 1993). These recommendations reflect the need not only for hardware, but also for building up associated local capacities and providing market intermediation. The strategies outlined in Agenda 21 include: (a) the use of information networks and clearing houses that disseminate information and provide advice and training; (b) the development of government policies that create favourable conditions for both public-sector and private-sector transfers; (c) the provision of institutional support and training for assessing, developing, and managing new technologies; (d) the formation of collaborative networks of technology research and demonstration centres; (e) drawing up international programmes for cooperation and assistance in R&D and capacity building; (f) building up technology-assessment capabilities in international organisations; and (g) agreeing on long-term collaborative arrangements between private businesses for foreign direct investment and joint ventures.

Furthermore, Chapter 6 of the United Nations Draft International Code of Conduct on the Transfer of Technology charged developed nations "to co-operate in the development of scientific and technological resources in developing countries, including the creation and growth of innovative capacities". This referred to co-operation in the establishment or strengthening of national, regional and/or international institutions, including transfer centres, to help these countries to develop and acquire the technology and skills required for the establishment, development and enhancement of their technological capabilities, including the design, construction and operation of plants (UNCTAD 2001).

Thus the will for international action to promote the building of innovation capacity has long been identified. However, international *cooperation among governments* is not the only essential element in the development and transfer of technologies to Africa. In fact, this form of cooperation already exists through the mechanisms listed above, and governments are but one of the key stakeholders. The role of inter-governmental cooperation in this model should be to create institutions that will encourage linkages with other stakeholders, and also to provide some form of financial incentive or support for such innovation projects.

The framework suggests that such institutions should also support international cooperation with and among *universities and other research bodies*, focusing on specially defined areas of science and technology. There is already some form of cooperation between European universities and universities in Africa, for example, which facilitates knowledge sharing in various areas of science. The suggestion here is that these efforts could be directed at developing specific technologies that would provide sustainable solutions to selected social, economic and environmental problems in Africa.

> *"Much of the science and technology that will be needed is already known somewhere in Africa and the world, but there is a great urgency in sharing this knowledge so that it can be applied much more effectively. At the same time, because of our new communications abilities, we also have a great opportunity to connect the scientists and engineers throughout the world to specific African problems—so as to stimulate the creation of new knowledge and technologies of special applicability to Africa.*" Alberts, Bruce (2001) President, US National Academy of Sciences.

Several new organisations have been formed to represent the world's scientists. One of these is the Inter Academy Panel on International Issues (IAP), with its headquarters at the Third World Academy of Sciences in Trieste. This five-year-old organisation of science academies (or their equivalent) from more than 70 nations is currently focused on promoting sustainability science, and on building up science institutions in Africa. (UN 2001)

Governmental and institutional efforts would come to no avail unless there was active private participation in the innovation process. Institutions for cooperation should therefore include representatives of *private business* with the relevant expertise and experience. While governments may create the environment within which innovation takes place, it is the private sector that provides the cogs that drive the wheel. In the words of the former United States Secretary of Commerce:

> *"Governments and others in the public sector may set the rules but it is the private sector that plays the game and makes the system work"* Evans (2003).

There is already a lot of effort by international firms in advanced countries to face up to their corporate social responsibility by either directly offering training in Africa to local employees, supplying technologies that are moving African industrialisation efforts forward, and donating to other social causes. There are other possibilities, too, that will help the development and commercialisation of investments and create avenues for future business cooperation with local firms through joint ventures or strategic alliances: one such opportunity is venture philanthropy.

For companies seeking to increase or streamline their philanthropy, the goals provide a framework for undertaking specific activities aligned to countries' actual investment needs. Corporate philanthropic efforts can only supplement, not replace, government-led efforts, but they may often provide the initial funds that pave the way for increased investments. In pursuing philanthropy, multinational corporations operating in several countries have the ability to leverage their tremendous voice and resources to advocate and support specific development objectives. They can adopt specific goals on which they can base their philanthropic endeavours.

Multinational firms could contribute to developing local capacity by undertaking extensive training programmes and contributing to the development of the local private sector. There is also potential in non-commercial technology transfer, as effected through international cooperation agreements between developed and developing countries, for example. These agreements may relate to infrastructure or agricultural development, or to international cooperation in the areas of research, education, employment or transport (Blakeney 1989, 3).

The final component of the Global System of Innovation is the role of *civil society*. Civil society is used in this context to refer to the efforts of individual change agents and non-governmental organisations, both local and international. In recent years there has been a proliferation of activities by NGOs in the social sector in areas such as environmental issues, human rights and governance. These organisations, being not-for-profit, act in the interests of a common social good. What, then, can a non-profit-oriented organisation or individual contribute to the innovation-development process? The answer is simple. The very fact that innovations for sustainable development may not bring in immediate economic benefits could make it unattractive to private investors or venture capitalists.

Within this framework, I now turn to social entrepreneurship as a piston driving the engines of innovation. It is a truism that, just as entrepreneurial skills do not automatically enable entrepreneurs to become scientists, scientific skills do not automatically produce dynamic entrepreneurs. There has to be effective linkage between scientists and entrepreneurs to commercialise research findings and inventions (Vinanchiarachi 2005).

Social entrepreneurial organisations are committed to "changing their environments" and not "just to producing a product or service sufficiently acceptable to ensure their financial viability" (Brown & Covey 1987, 65). Although some economic entrepreneurial leaders have contributed to social change, it is often a secondary mission. Social entrepreneurship is already evident in the many profit-seeking businesses. Large corporations, in the spirit of venture philanthropy, donate money and other resources, including time, to social initiatives. This is the core of Corporate Social Responsibility. However, social entrepreneurship in this context is used more to refer to the activities of non-profit and nongovernmental organisations in contributing to technological innovation, and to the opportunities they have in this respect. Fortunately, there is evidence that this is beginning to happen.

There are numerous roles open to social entrepreneurs in the Global System of Innovation, including:

- Providing seed funding to science for research into technologies to fight social problems. For example, the Bill & Melinda Gates Foundation recently announced a donation of $258.3 million in new grants to accelerate the development of new drugs, a vaccine, and better mosquito-control methods.
- Developing skills and providing support for the commercialisation of breakthrough inventions in Africa
- Introducing new business solutions to solve social problems
- Facilitating technological innovation by modifying the form or operation of technology networks, including finance, marketing, organisation, training, and relationships between customers and suppliers

Most African countries have had long experience of social entrepreneurship in the areas of education and health. Churches have also been active in the establishment of educational institutions. In Ghana, for example, churches, in cooperation with government, have contributed to establishing schools and colleges, some of which are run as “commercial” ventures. In fact, five universities and colleges have recently been established in the country through social entrepreneurship: Valley View University (Seventh Day Adventist Church), the Catholic University, Presbyterian University College, the Methodist University, and the Central University (Central Gospel Church). There is therefore room for both individual and nongovernmental organisations not only to fund but also to commercialise innovations.

In light of the discussions any model of innovation that will feed into sustainable development should be within a systems framework that allows for the interconnectedness of the various stakeholders. As Figure 1 portrays the Global systems approach will connect stakeholders at different levels in a common focus of building the enabling environment for creating linkages and to promote the development, acquisition and utilisation of technologies for the specific socio-economic needs of poorer regions of the world.

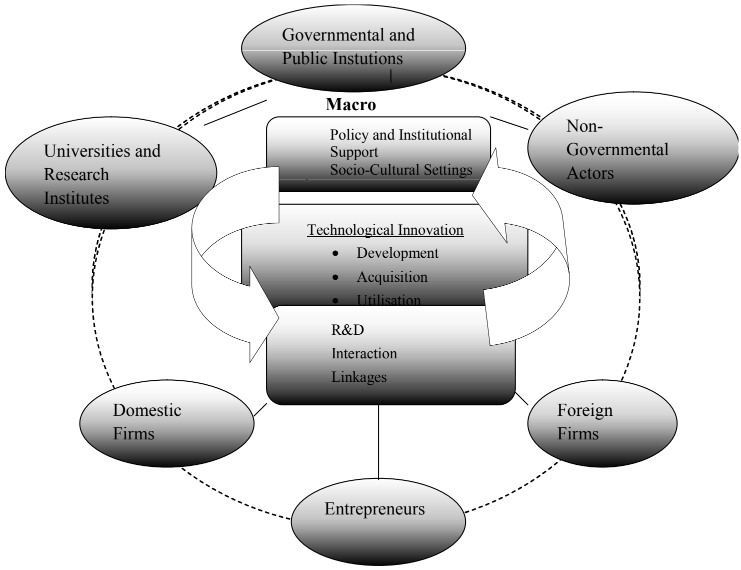

Figure 4 A Global System of Innovation for Development

At the core of the global System of Innovation is not only the acquisition of new technologies where ever they can found, but also creating the policy and institutional support with the global cooperation of governments, universities and research institutions, non-governmental organisations, private actors and entrepreneurs. The involvement of such a private-public partnership will give incentives to private sector organisations that are the real engines of technological innovation.

2.4 Discussion and implications

In the 1960s and 1970s the International Development Assistance Committee put a lot of emphasis on extending Africa’s science and technology capacity. On the National level, the 1979 Vienna Global Conference on Science and Technology for Development, organised by the United Nations, sensitised African countries to establishing research and development institutions in the decade following independence. Examples include the Center for Scientific and Industrial Research (CSIR) in Ghana, the National Council for Science and Technology in Kenya, and the National Council for Scientific Research in Zambia (Siamwiza 2004). Universities were made the centres of scientific research, but unfortunately they pursued scientific knowledge without entrepreneurial enthusiasm. The link between science and technology was not well established.

The political will was not supported by links with the private sector, however. As Adubifa (2004) explains, these initiatives did not involve the private sector. The same can be said of regional science and technology institutes, including the African Academy of Science and the African Regional Center for Technology, which concentrated mostly on institution building. These initiatives were not as sustainable as expected because donor support waned just when it was needed to consolidate the emerging gains.

Two phenomena in the global economy gives credence to initiatives that support innovation for sustainable development. The first is the emerging globalisation, which has opened the door for interdependencies among various stakeholders. There are plenty of opportunities (as well as the technological possibility) for cross-border collaboration in developing and commercialising technologies to meet specific needs in Africa. The second phenomenon is the increasing global awareness by the various stakeholders (commercial and non-commercial) of the need to work towards the eradication of poverty in Africa, supported by ongoing international public and private initiatives to support sustainable development.

A Global System of Innovation will allow for institutions and frameworks that will enable these stakeholders (if they are willing and able) to focus their attention on specific issues militating against sustainable development in Africa, and on meeting the Millennium Development Goals.

The reader should nevertheless bear in mind that the framework merely provides a conceptual system within which specific innovation-related issues can be operationalised. As such, it does not provide specific guidelines for forging links within the system. It rather offers a set of interacting conceptual elements that are intended to perform a coherent function.

Existing national and regional innovation systems are operational systems that have the primary objective of creating national or regional competitiveness with direct linkages between actors. For instance, Lundvall (1992) defines a system of innovation as constituting a number of elements, and *the relationships between them*. The elements could be individuals, organisations or governments, as well as the associated functions and activities.

The Global System of Innovation is rather intended to help in the establishment of a “virtual” network of stakeholders that will support both capacity building and the development of specific technological innovations in Africa. It is a conceptual system and a methodological approach that does not strictly represent the totality of an operational system. This is due to the fact that there are different levels of elements whose functions do not directly affect the other elements, but which are necessary to keep the system running. The scientific approach is rather to look for the constituent elements and their specific relationships, the boundaries of the system, and its interaction with the environment.

Another major distinction between national and regional systems of innovation and the GIS is that, whereas the former is geared towards competitiveness and linkages in a geographically localised area for specific industries, the latter is rather intended to focus on specific "projects" for the development of particular technologies that have both social and economic implications, and to commercialise and diffuse such innovations through the socio-economic system.

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3 MANAGING STAKEHOLDER RELATIONS DURING THE INTERNATIONAL RELOCATION OF OPERATIONS

Jussi Hätönen, Piia Nurmi and Birgitta Sandberg[11]

Abstract

Stakeholder management in an international context is a demanding task. A firm has to be able to deal quickly with various contradictory expectations. The purpose of this paper is to present a framework for analysing how a corporation could manage stakeholder relations during the international relocation of operations. The proposed framework has the following three dimensions: the different stakeholder groups, also taking into account their home countries, the various levels of interaction with the stakeholders, and the timing of the actions. It will help researchers to take account of the diversity of issues involved in stakeholder management. Furthermore, the company context cannot be separated or excluded from the analysis, and therefore the motives for relocating and the spatial dimension of relocation have been incorporated into the three-dimensional framework.

3.1 Introduction

A plenitude of interesting changes are taking place in today's globalising world. Stakeholders' influence and power are increasing for various reasons. For example, there is declining trust in companies. Many corporate scandals, the most recent being those involving Enron and Parmalat, have diminished trust even further. There has also been a rise in the number of well-organized stakeholder representatives: there are more advocates representing consumers, individual shareholders and the environment, for example. (See e.g. Wheeler & Sillanpää 1997.) Consequently, discussion about Corporate Social Responsibility (CSR) is assuming more and more importance (see e.g.,

[11] The authors' names are listed in alphabetical order

European Commission 2001). Multinational enterprises (MNEs) are increasingly focusing on CSR, and often apply stakeholder management as a framework for acting more responsibly.

At the same time, MNEs face increased pressure to produce profits constantly due to the quarterly economy[12]. The financial community seems increasingly to focus on the short-term horizon as portfolio managers compete for the best 90-day returns by moving in and out of individual stocks. (Barsky, Hussein & Jablonsky 1999.)

In the search for high and quick returns firms are often forced to relocate business operations on a global scale, and relocation decisions are playing an increasingly important role in their business strategies. The need for international relocation has further increased as a result of globalisation, which has forced firms to face worldwide competition, increased the importance of scale advantages, and created greater spatial flexibility. (See e.g., Nordström & Ridderstråle 2004.)

Firms are increasingly thinking in terms of multinational networks that integrate activities across various countries. Hence, production is also more often organised on an international scale. Labour-intensive MNEs are particularly keen to take advantage of this development and to relocate their production activities. These relocations are often related to the downsizing of activities in order to save money by reducing the number of companies that have the same kind of production in different countries. MNEs in particular tend to proceed to collective layoffs with relocation. In other words, their network of outlets gives them both strategic and spatial flexibility for realising scale advantages by integrating their networks. (Relocation, an element... 2000.)

Production activities have traditionally been transferred to countries with lower wage costs, coinciding with the standardisation of the production (Vernon 1966). However, nowadays relocation is increasingly becoming a two-way exchange between developed countries. This is particularly evident in Europe, where EU integration is pushing the regional rationalisation of production, i.e. the elimination of production duplication across several countries. Consequently, the competition between EU countries has become harder in the form of subsidies and fiscal incentives. (Relocation, an element... 2000.)

Many MNEs are active in CSR and they try to operate in a responsible way, as CSR issues are becoming more important. But what are they responsible for and to whom? Marrewijk (2003) studied the contemporary debate on the

[12] The quarterly economy refers to the present situation in which large corporations in particular inform their shareholders about their financial performance four times a year, after every quarter.

concepts and definitions of CSR and related terms[13]. He reports that an intensive debate has been taking place among academics, consultants and corporation executives, producing a wide range of definitions but no single definition for corporate social responsibility (CSR) or related terms. (Marrewijk 2003; Panapanaan, Linnanen, Karvonen & Phan 2003.)

To sum up, there seem to be some paradoxes in what is expected of corporations and their stakeholder management. The purpose of this paper is to present a framework that is suitable for analysing how a corporation manages its stakeholder relations during the international relocation of operations.

3.2 Stakeholders and the international relocation of business operations

In this section we will first describe relocation as a business strategy, then briefly discuss the stakeholder concept and define the stakeholders we will look at in more detail in our own analysis. We will then consider what kind of effect the international relocation of business operations might have on stakeholders.

3.2.1 Relocation as a business strategy

A prerequisite for understanding the issue of stakeholder management during the relocation of operations is an understanding of the concept of relocation. Although it seems like a straightforward task, defining this concept has proved to be somewhat problematic. The relocating of operations is most commonly confused with offshore outsourcing (Hagel & Brown 2005, 32). Although both concepts entail moving operations across boarders, the latter also includes the transfer of ownership. What is basic to relocation is that ownership is not transferred, and the relocation more often occurs through acquisition or green-field investment. However, due to regulations, especially in developing countries, maintaining full ownership is impossible. For instance, foreign companies in China cannot own more than 50% of their transferred operations, and it is in such cases that the ownership-based examination of relocation is more complicated. A broad distinction should be

[13] Related terms for CSR include corporate responsibility (CR), corporate sustainability (CS), sustainable development, corporate citizenship, sustainable entrepreneurship, Triple Bottom Line, and business ethics (Marrewijk 2003, 95-96; Finnish Business & Society 2003).

made in the analysis between the receiving and losing countries. Figure 1 illustrates how the relocation of operations could be divided into four categories.

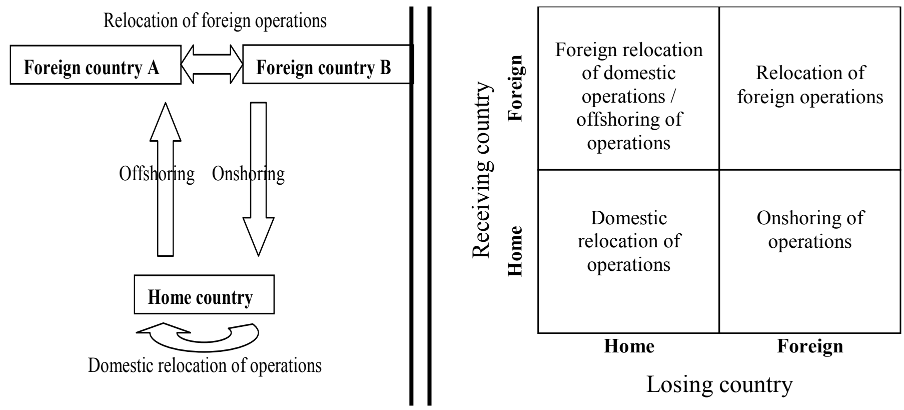

Figure 1 Different relocation possibilities

The most common analytical perspective of the stakeholder management of possible relocation is that of offshoring operations. However, even offshoring as a concept is considered too broad. For instance, moving operations from Finland to Sweden is an entirely different enterprise from moving them to India, for instance. Thus terms such as near-shoring and far-shoring have emerged (e.g., Swoyer 2004).

However, and irrespective of the definition, the offshoring of operations creates the most headaches among those illustrated in Figure 1 in managing stakeholder relations. This could be due to the fact that offshoring receives the most publicity. Furthermore, too often this publicity is put in a negative light. Moving operations away from domestic markets creates the most friction among certain stakeholders, although some studies suggest that, in the long term, a well followed-through offshoring operation creates more value for the losing country's society as a whole (Farrell & Agrawal 2003a; 2003b). Even without addressing the question of whether or not offshoring creates value, and if so to whom, it is essential to recognize the context of the relocation before addressing issues to do with stakeholder management.

3.2.2 Stakeholders

The concept of a stakeholder highlights the fact that corporate activity is not solely a set of market transactions, and also incorporates a cooperative and competitive endeavour that involves a large number of people organised in various ways. The corporation is an entity through which many individuals or groups of people try to achieve their ends. (Boatright 2003.) Stakeholder theory provides a good framework for understanding what people in corporations do, or what they ought to do.

Various researchers have presented their own stakeholder typologies. Rhenman (1964, 28) listed the stakeholders of an enterprise as employees, management, owners, customers, suppliers, county and community, and the state. A year later, Rhenman and Stymne (1965, 24) conjoined the last two categories under the term ‘society’, and later on, Ahlstedt and Jahnukainen (1971, 10) included ‘financiers’.

Freeman and Reed (1983) distinguish two senses of the word stakeholder. The “narrow definition” includes groups that are vital to the survival and success of the corporation, while the “wide definition” includes any group or individual that it can affect, or be affected by (according to Beauchamp & Norman 2001, 59). Freeman (1984) presented a stakeholder map of a large organisation (Figure 2).

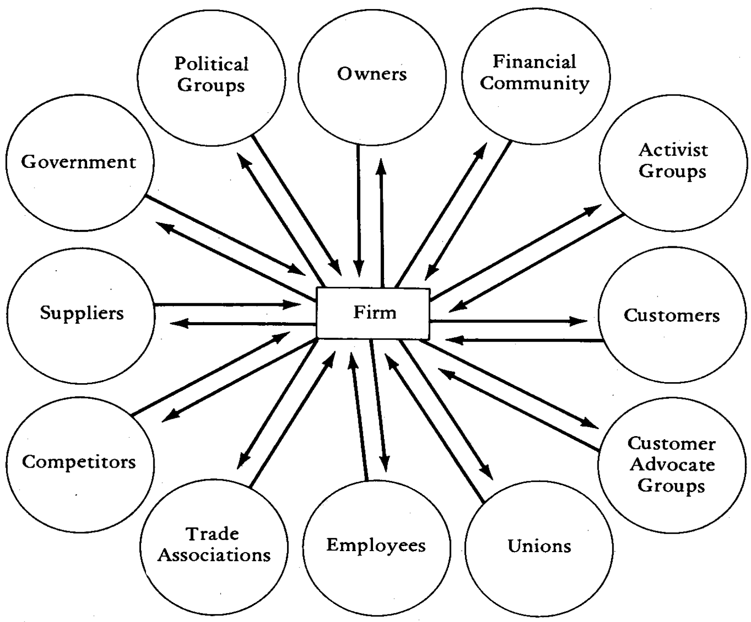

Figure 2 The stakeholder map of a very large organization (Freeman 1984, 55)

Freeman (1984) included twelve stakeholders in his stakeholder map (see Figure 2). He added to the lists mentioned earlier unions, customer advocate groups, activist groups, political groups, competitors and trade associations. However, it is difficult to define which of all of these groups could be categorised in the group 'society': it could include political groups for example.

Stakeholder typologies are naturally dependent on the purpose of the particular research. They can be grouped and regrouped in different ways around different issues, and some stakeholders may belong to several groups. (Vaara 1995, 217–218.) There may be a need in big firms to distinguish between top management and the management of the local unit. Furthermore, the stakeholder categorisation may be further complicated in an international company by the need to distinguish between stakeholders in different countries (c.f. Vaara 1995). Therefore, in terms of international relocation, there seems to be a need to consider the employees and society in the receiving and losing countries separately, at the very least. Depending on the nature of the firm, the relocation issue may also influence other stakeholders differently in different countries. Thus, the number of stakeholder groups to be considered may multiply.

On the evidence of the above-mentioned previous studies, in this paper the stakeholders of a firm are seen to consist of eight main groups: employees, local management, owners, competitors, customers, suppliers, society and financiers. Since relocation decisions are made and managed by top management, they are not included. The stakeholder categories are dual in scope: referring to the receiving country and to the losing country. Whether these need to be considered separately or not depends on the particular case.

3.2.3 The firm as a prioritised focus in relocation

Milton Friedman (1970) stated some 35 years ago that the only social responsibility of a company was to increase its profits. Today, from the CSR perspective, this phrase might seem obsolete, but, in fact, in so doing the company manages the majority of its main stakeholder relations, directly and indirectly, with its owners, financiers and, more often, its employees, for example. Furthermore, as long as the increase in profits occurs domestically, the interests of the majority of the other stakeholders, such as government, union or political groups, stay aligned. However, it more often happens that companies are forced to contemplate relocating their activities abroad, which in turn further complicates the management of the CSR portfolio.

As the decision to relocate operations often creates friction among several stakeholder groups, the question of why companies relocate arises. To put it simply, it is to increase their profitability. The ever-increasing competition in the integrated global marketplace has led to a situation in which only the most efficient organisations will survive. With fewer and fewer national barriers, regardless of whether a company operates solely on domestic markets or in multinational markets, it still has to face the pressures of global competition (Cateora & Ghauri 2000, 15). Location is becoming more important as global competition is putting increasing pressure on firms to keep production and operating costs to a minimum (Labib & Appelbaum 1994). In order to survive in this turbulent environment, companies are looking more and more towards relocating activities abroad.

From the location perspective (Dunning 1998), companies seek advantages in relocating their activities from several different perspectives. Thus, various factors influence the locational decisions of an MNE (see e.g., Dunning 1998; Wilska 2002). The simplistic argument for relocation lies in the fact that it is more profitable to carry out the activities in another place. These advantages derive from a number of factors, but there are three major strategies behind relocating business activities in other countries: exploiting the cost and skill differentials, and moving operations closer to major markets (Hagel & Brown 2005, 32).

The interest of researchers has long focused on the cost-saving perspective of relocating activities (e.g., Dunning 1988; Vernon 1966), and in the climate of increased competition this focus has merely intensified. As mentioned above, MNEs engaged in labour-intensive activities in particular often look abroad to cut their operating costs. The competitive pressures to trim costs have driven companies to seek savings in developing countries or nearly-industrialised countries (NICs), which can provide low-cost labour. However, when the idea is to cut production costs, the main point lies not in utilising low-cost labour, but in utilising the low-cost-labour infrastructure in the target country. For instance, an Indian worker costs much less in India than the same worker would cost in the US (Farrell 2004, 88). Falling interaction costs through improved information technologies and communication links have made it possible to restructure businesses by relocating activities with minimal location-related costs (Doig, Ritter, Speckhals & Woolson 2001). However, when relocating or offshoring activities to developing or NI countries, CSR issues inevitability become more critical. Moreover, the need for minimising costs is also apparent in the fact that relocation often includes downsizing (Relocation, an element... 2000), which in turn further complicates the management of some stakeholders.

Companies might also relocate their operations based on the fact that the target country can provide the preconditions and settings mainly in the form of skills for carrying out activities. Dunning (1988) suggests that, in addition to looking for quality in inputs, especially in the form of labour, the company might also be seeking other location-specific endowments, such as specific natural resources. However, as the competition today is based more on skills, knowledge and competences, the significance of natural resources in relocation decisions is limited. Natural resources, labour, and even capital are rapidly diminishing in importance (Nordström & Ridderstråle 1999). Future competition lies in the capabilities embedded in people's minds, and companies need to utilize it wherever it is geographically located. Because know-how more often originates in industrially advanced countries, the whole context of relocation thus changes. In cases in which the relocation is based on acquiring resources rather than seeking lower costs, the target country is generally highly developed. This arguably simplifies, to some extent, stakeholder management and CSR issues.

The final major reason for offshoring is to relocate operations closer to major markets. According to the network perspective (see e.g., Johanson & Mattsson 1988; Johanson & Vahlne 1992), suppliers often relocate their operations to where the customer moves, i.e., along with the network. However, in general, MNEs do not face this problem - on the contrary, they often pull suppliers to the new location in their wake. In fact, MNEs more often possess a global customer base and hence analysis based on market-related factors is not essential. Especially in MNEs selling to business customers, market-related factors may often be of less importance since the customers often tend to be dispersed across several countries. However, these factors are more important when it is a question of analysing the relocation of MNEs with a differentiated product strategy. For instance, it is common in the automotive industry to have differentiated models for different continents. From the market perspective it would be profitable to locate at least the customising phases of the production near the target markets.

Although there are contradictory views concerning whether it is the importance of market or cost-related location factors that is increasing (Tüselmann 1999), it has been stated that the right of a private company to decide on its location, or on the location of its activities, is one of the cornerstones of an economic market system (Relocation, an element... 2000, 2). From the CSR perspective, it is important to answer the questions "where" and "why": in other words, when the focus is on the effect of relocation on different stakeholder relations, it is important to analyse the reasons behind the relocation. However, the fact remains that companies relocate their operations to compete in the ever-changing global environment. Because focusing on one interest group often limits the possibility of fully concentrating on another one (Pfeffer & Salancik 1978), firms should evaluate and put the most vital interest groups first. Thus at the end of the day the prioritised focus in CSR analysis should be on the company itself and its future prosperity.

3.2.4 The impact of relocation on stakeholders

Corporate location decisions could have a major impact on the future costs and revenues a firm will generate, and may result in both direct and indirect cost savings. Direct cost savings include reducing expenses such as taxes, wages, other overheads and transportation costs, whereas indirect cost benefits may result from improved educational levels, a stronger work ethic in the employees, and improved communication within the organisation, for instance. However, when proximity to customers or agglomeration economics are important contributors to the profitability of the firm, location may be more likely to influence revenues. (Manning, Rodruiquez & Ghosh 1999) Thus, location choice may influence the owners' wealth, the financiers' fortunes, and the prices that the customers have to pay in terms of both costs and revenues.

Although downsizing is often used as a strategy in making a firm more efficient than its competitors, it has been argued that such gains are often short-term and result in only a temporary positive reaction of the stock market. In any case, the actual gains might be much less extensive than originally expected. (Kets de Vries & Balazs 1997.)

Furthermore, downsizing could be criticised as a strategy for shifting the burden of economic risk from the shareholders to the employees. Of all the stakeholder groups, employees seem to be the most vulnerable in the case of relocation because of their lack of mobility (Barsky et al. 1999). In fact, for the employees who lose their job, the management of the termination seems to have more of an impact than the job loss itself (Labib & Appelbaum 1994, 72). Downsizing is also likely to create insecurity among the remaining employees. This could decrease their motivation and work performance, and consequently have a negative effect on the firm and thus also on its owners (cf. Kieselbach & Mader 2002, 14; Kets de Vries & Balazs 1997). Eventually, owners may be affected because there is a risk of losing goodwill in the community or society in the losing country (Labib & Appelbaum 1994).

As far as the local managers are concerned, relocation, especially when it is connected to downsizing, is an unpleasant task (Kets de Vries & Balazs 1997), even though they may be rewarded later for making the tough decisions needed to make the firm more competitive and for raising the shareholder value (Barsky et al. 1999). To conclude, both the remaining and the leaving employees, as well as the managers, seem to experience a great deal of stress (Kets de Vries & Balazs 1997).

The relocation of an MNE may force its suppliers to find new customers or to relocate along with it. This is more difficult in business-to-business operations, where there are not many customers and the products may have to be tailored to each one, although relations with suppliers may survive irrespective of the new location. (c.f. Michel, Naudé, Salle & Valla 2003, 72–86.)

In conclusion, it could be said that the relocation of business operations from one country to another is a comprehensive change that may affect all stakeholders. It may influence the organisation as a whole, as well as its long-term survival, thus the impact may extend to the government and to society as a whole. (Labib & Appelbaum 1994.)

When the relocation takes place across borders the social responsibility of a MNE becomes even more complicated. The practices adopted in a home country may easily travel abroad. For example, past studies indicate that the country of origin influences the way MNEs handle labour relations in host countries (Tüselmann, McDonald & Heise 2002; Ferner 1997). Furthermore, there may be different views concerning the geographic scope of social responsibility. Does the MNE carry more responsibility for the home country than for its host countries? For instance, if production is moved from Finland to Italy, the decision makers know that the unemployment benefits in Italy are considerably more limited than in Finland (c.f. Kieselbach & Mader 2002). Therefore, if the MNE is equally responsible for its stakeholders in both home and host countries, it could be suggested that it might be more ethical to implement the layoffs in a country in which the unemployed have better benefits, i.e. in this case Finland.

Furthermore, stakeholders belonging to the same stakeholder group may experience the action in different ways (c.f. McLarney 2002). This is likely to cause conflict within the group and, consequently, to decrease its bargaining power. For instance, employees in the receiving country may have difficulties in finding a common ground for operating with the employees in the losing country, and vice versa. This makes the international management of stakeholder relations particularly challenging.

3.3 Managing stakeholder relations during relocation

In this section we will firstly briefly discuss the concept of stakeholder management, and then look into the different ways of interacting with stakeholders. Thirdly, we will discuss the timing of the interaction, and finally we will present a model consisting of three aspects: the different stakeholder groups, the forms of interaction, and the timing of the actions.

3.3.1 Stakeholder management

The measurement of a company's success has traditionally been limited to satisfying and creating wealth for only one stakeholder, the shareholder (Friedman 1970). Stakeholder theory suggests that corporations operate, or ought to operate, for the benefit of all those who have a stake in it, including its employees, customers and suppliers, the local community, and non-governmental organisations (NGOs) (Boatright 2003).

Stakeholder theory has many supporters (Andriof, Waddock, Husted & Sutherland Rahman 2002), but it has been also criticised (Jensen 2001). For example, Jensen (2001) argues that corporations need a single valued objective function because it is logically impossible for them to maximise more than one aspect of their performance. He suggests that as, according to the theory, managers have to take into account the interests of all stakeholders they are unaccountable for their decisions.

Stakeholder management is a rather broad and imprecise term. It could be seen to encompass nearly everything a company does, because each activity or decision has direct or indirect effects on a range of relevant constituencies. It is not easy to determine which aspects of these activities and decisions should be incorporated into the concept. The central tenet of stakeholder theorists is that companies with good stakeholder management achieve better financial performance. They offer three different perspectives from which to view the phenomenon. According to the first, it involves a bundle of activities through which the firm manages a stakeholder group and its relationship with that group. Secondly, it is not a set of activities, but rather a general orientation: which stakeholders does the company pay attention to or give priority to? Thirdly, it could be considered in ethical terms, i.e. the essence of a company's stakeholder management is the moral quality of its operations. (Johnson-Cramer, Berman & Post 2003.) This paper concentrates on the firm's activities and its orientation towards different stakeholders. The third perspective, ethics, is not considered because before the ethicality of the actions could be assessed it would first be necessary to analyse what the firm actually does and for whom.

3.3.2 Interaction with stakeholders

Arnstein (1969) developed a model that aims to capture the different levels of interaction with stakeholders (Arnstein 1969; Niskala & Tarna 2003, 74). She studied citizen involvement in the planning processes in the United States, and formed a “ladder of participation” in which she identified eight categories of participation: manipulation, therapy, informing, consultation, placation, partnership, delegated power, and citizen control. Many other categorisations have been based on this one. It is possible, for example, to group interaction with stakeholders in five categories or levels (Octeau 1999):

- Information
- Persuasion
- Consultation
- Cooperation
- Control

Information means that the decision is made and the public is informed. Persuasion suggests that the decision is made and that an effort is being made to convince the public. Consultation implies that the problem is submitted, opinions are collected and the decision is made. Cooperation indicates that the limits are defined, and that the decision is shared with and made together with the public. Finally, control means that the decision is made by the public. We use these five categories in this paper to look into the level of interaction with stakeholders.

3.3.3 Timing

The timing of actions affecting stakeholders could be analysed via the reactiveness-proactiveness continuum (c.f. Chakravarthy 1982; Miles & Snow 1978; Vesalainen 1995). One of the best-known studies on firm reactiveness-proactiveness is the one conducted by Miles and Snow (1978), in which they presented a strategy typology and divided firms in four strategic archetypes: prospectors, analysers, defenders and reactors. The basic assumption on which the typology is based is that firms act either to respond to the changing environmental context or to shape their environments. In this typology, prospectors (innovators) and defenders (firms that react slowly) hold extreme positions. Furthermore, Hamel and Prahalad (1994, 28–29) divided firms on the road to the future into three classes: drivers (proactive firms), passengers (reactive firms), and road kills (very slow reactors or firms that do not react at all). Harper (2000, 80), in turn, identified four types of firms: laggard firms, reactive firms, proactive firms and vanguard firms. The separating factor in this categorisation is the time that it takes for firms to adjust to changes: whereas laggard firms need a major crisis in order to recognise the need to change, those at the other extreme, i.e. vanguard firms, prepare themselves early for coming changes.

Corresponding typologies have also been developed for the firm's behaviour towards its stakeholders. Wartick and Cochran (1985), following Carroll (1979), used the terms reactive, defensive, accommodative and proactive to characterise corporate strategy and posturing towards social responsiveness. (Clarkson 1995.) Clarkson (1995) presented a classification of management strategies or postures towards a certain stakeholder group. This classification, called the RDAP Scale, includes four strategies: reactive (denying responsibility and doing less than required), defensive (admitting responsibility but fighting it and doing the least that is required), accommodative (accepting responsibility and doing all that is required), and proactive (anticipating responsibility and doing more than is required). Thus, responses on the RDAP Scale vary from the reactive and the denial of responsibility to the proactive, when managers anticipate developments. In between these two extremes are the defensive and accommodative positions that are characterised by the reluctant admission and acceptance of responsibility. (ibid.)

Nevertheless, Clarkson's typology raises some questions. First, is it possible to link denial, admittance acceptance and anticipation directly with doing less/more than is required? For example, could a firm not anticipate its responsibility but at the same time decide to do the least that is required? Secondly, as Clarkson (1995, 109) also suggested, there is the question of who requires what, in that the requirements are often stipulated by legislation. The company could state that it undertakes specific responsibilities by signing a code of conduct or agreeing on a set of principles, for example. Furthermore, there is a general requirement for a company to keep its stakeholder groups reasonably satisfied.

Larson, Bussom & Vicars (1986) questioned the usefulness of the reactiveness-proactiveness dichotomy for describing managerial behaviour. According to their study, this dichotomy, while useful in general terms for describing ideal managerial styles, proved to be not as useful when the focus was on the behaviour of a particular manager. In fact, the degree of proactiveness also seemed to be related to various task and environmental factors (see also Luo 1999). Consequently, it could be argued that the mere position along the continuum may not adequately describe the complex and multifaceted behaviour of a particular firm, even though it may be useful in a general way for comparing the behaviour of many. Thus, instead of describing a firm's orientation towards its stakeholders under one inclusive term such as ‘proactive’ or ‘defensive’, it may be necessary to analyse its actions towards particular stakeholder groups, and to classify each of these actions separately. They could be divided into four classes: inaction, reaction, anticipation and influence.

Inaction, i.e. doing nothing, is often unintentional. A firm may simply fail to pay attention to the emerging problem, or it may notice the problem but not consider it sufficiently serious to warrant immediate attention. Furthermore, it may try to respond but not succeed in mobilising the resources required for an effective response. Nevertheless, inaction may also be conscious and the firm may prioritise other issues. One has to bear in mind the fact that action always requires resources, at least time, and takes attention away from other issues. (C.f. Watkins & Bazerman 2003.)

Reaction means responding to changes when they arise (Bennett 1996, 14). Reactive behaviour has also been called ‘emerged’ behaviour (Vesalainen 1995, 43), and is considered an essential way of coping with fast-changing environmental circumstances (Handy 1997, 22). The problem is that it usually demands rapid action, in other words there is a lack of time and few options to choose from (see de Geus 1991, 130). Thus, when reactive behaviour becomes the principal tool in the firm’s crisis management, there may be trouble ahead (see Bohn 2000).

Anticipation means detecting signals of change, following these signals and forecasting the coming changes, and acting accordingly (Ashley & Morrison 1997, 48). Thus, it is a kind of reaction - not to environmental change, but rather to the symptoms of that coming change. This kind of behaviour could be called anticipatory regulation, which aims to offset the undesirable effects of the disturbance on the outcome (see Stacey 1993, 122–123).

Influencing means taking an active approach with a view to initiating changes rather than reacting to events (Aragon-Correa 1998, 557; Bennett 1996, 8; Handy 1997). When a firm purposefully creates tensions in the environment, i.e. shakes up its current fitness, it may be able to achieve even better fitness with the future environment (Beinhocker 1999; Pascale 1999). This kind of behaviour, when a firm absorbs the turbulence around it as an essential part of its strategic planning, instead of trying to tame it, has also been called “riding the turbulence” (Boisot 1994, 46–47). Creating or precipitating environmental change may stem from a desire to either surprise competitors or to change the course of action within a business, such as by setting new standards (c.f. Evans 1991, 78–80).

3.3.4 The three-dimensional framework

To conclude, in order to be able to analyse such a multifaceted issue as stakeholder management during the international relocation of business operations, several dimensions seem to deserve consideration. Hence, we propose a three-dimensional framework (see Figure 3).

The first dimension includes eight different stakeholder groups: employees, local management, owners, competitors, customers, suppliers, society and financiers. Furthermore, since the relocation of the business operations is likely to create contradictory reactions depending on whether the stakeholder is from the receiving or the losing country, this dimension also takes into account the home countries of the stakeholders.

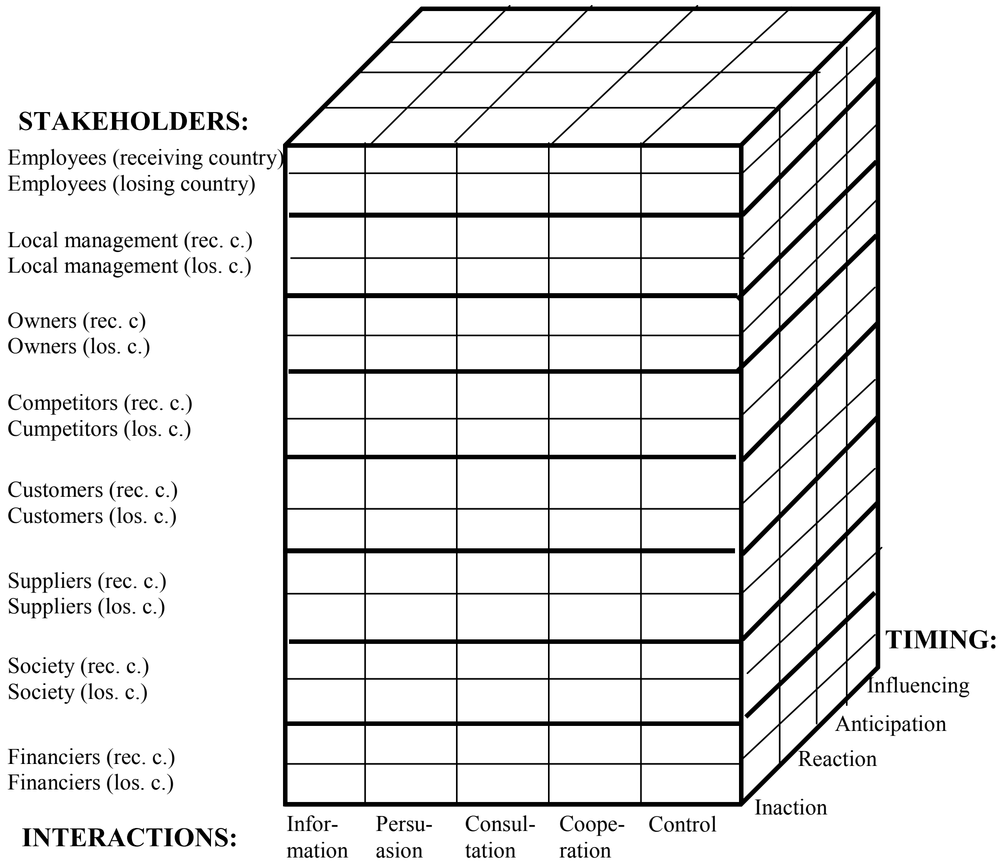

Figure 3 A three-dimensional framework for analysing stakeholder management

The second dimension includes five categories, namely information, persuasion, consultation, cooperation and control. These present the different levels of interaction with the stakeholders, in other words how the interaction process is handled.

The third dimension focuses on the timing of the actions, which appears to fall into four categories: inaction, reaction, anticipation and influence. Although one could argue that inaction does not belong under stakeholder management, we wanted to include it in our framework because we believe that it may often reveal a lot about the firm's behaviour towards its stakeholders.

3.4 Discussion and conclusions

In this paper we have described a three-dimensional framework that was developed to facilitate the analysis of how a corporation manages its stakeholder relations during the international relocation of operations. The first dimension comprises eight different stakeholder groups: employees, local management, owners, competitors, customers, suppliers, society, and financiers. It also takes into account the home countries of the stakeholders: those in the receiving country and those in the losing country.

The second dimension incorporates different levels of interaction with the different stakeholders. It is impossible to cover every single form of interaction the company has (e.g., press releases, telephone conversations, letters, face-to-face conversations), which makes this kind of grouping necessary. The third dimension includes the timing of four classes of action: inaction, reaction, anticipation and influencing.

All of these three dimensions seem to be relevant in the context of stakeholder management. The first focuses on who are being managed, the second on what the interaction process is like, i.e. what is done, and the third on when things are done.

However, the framework only covers the content of stakeholder management. In order to fully understand the phenomenon, the context should also to be taken into account. We have therefore added motives for relocation and the spatial dimension into our three-dimensional framework (see Figure 4).

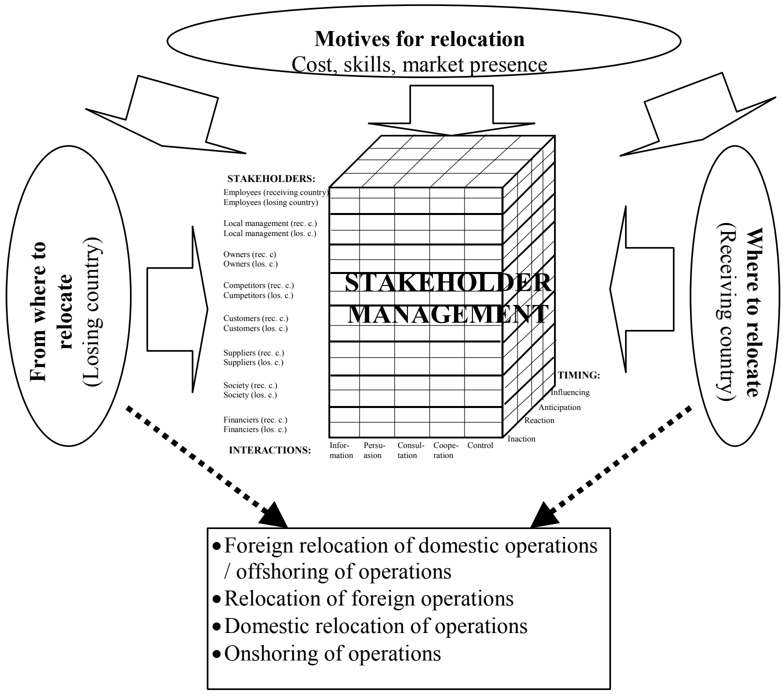

Figure 4 A framework for analysing stakeholder management during the relocation of business operations

It seems that the motives for relocation, together with the decisions concerning from where and to where it takes place, make some boxes in the three-dimensional framework more important than others. It is unrealistic to expect that any firm could or should take all stakeholder management issues into consideration at once. However, it is likely that the importance of a particular issue will change, depending on the contextual facts. In any case, it was acknowledged that, because motives drive the decision-making in the relocation process, they cannot be extracted from the analysis. Motives are, to a great extent, the driving force behind what is relocated and to where, which in turn further emphasises the greater significance of some of the stakeholder-management dimensions.

The theoretical contribution of this paper stems from the combination of theories of stakeholder analysis and strategic decision-making. While previous research has mainly concentrated on some of the boxes in the three-dimensional framework, this paper connects them to each other and to the company context, thereby offering a more holistic perspective.

Even though this paper is purely conceptual, it has a contribution to make in the context of managerial decision-making. We believe that our framework could help managers making international relocation decisions to better select the stakeholder-management issues on which to concentrate in each relocation situation. The main idea behind and benefit of stakeholder management is a key issue here: when one has a good understanding of who the most important stakeholders are, one knows more about how they respond to a certain situation, and this facilitates the management of these extremely challenging situations. At the same time, the stakeholders also benefit as the firm listens to and communicates with them more.

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4 THE CORPORATE SOCIAL RESPONSIBILITY OF INTERNATIONAL SUPPLIERS

Taina Paju

Abstract

During the last twenty years there have been demands on international corporations to start taking social responsibility for their supply chains. These demands have been explained with the power and influence these internationally operating companies have in today's world: they are able to require their suppliers to operate according to certain criteria concerning product quality, for example, and also according to environmental and ethical criteria. To be able to take responsibility for their suppliers, companies must, first of all, manage their supplier base. In addition, they must commit themselves to socially responsible purchasing by designing, implementing and pursuing an ethical supply-chain policy. Defining how wide social responsibility companies should take in their international supply chains is very problematic because there are as yet few established practices in this field, and there are many conflicting views on what can reasonably be expected from companies. This article is based on the author's Master's thesis (Paju 2005), which focused on defining how wide social responsibility Finnish companies take in their international supply chains, and what actions they have taken towards accepting such responsibility. The results revealed that even the most advanced Finnish companies have not progressed very far in their socially responsible purchasing. There is a serious lack of resources in most of them, which prevents them from taking the actions they think are necessary. Many respondents seemed to think that their company had some responsibility for their suppliers, however, and that, in principle, companies were responsible for the conditions in which the products they sold were being manufactured.

4.1 Introduction

Requiring internationally operating corporations to take social responsibility in their supply chains is a rather new phenomenon, even though people were already aware of ethical ties between corporations and their international suppliers in the 1980s. These issues came to the public's attention in 1984, when there was a disastrous chemical leak in Bhopal, India, in which thousands of people were killed or disabled. The same year also saw the catastrophic Exxon Valdez oil spill in Alaska. These incidents provoked frustration and anger towards large corporations, and people started to demand that they take more responsibility. The demands have only grown and become more specific in recent years, and nowadays various stakeholders expect corporations to take social responsibility in their supply chains just as they take responsibility for their own actions. (Neef 2004, 2)
Most corporations have outsourced many of their non-core operations, such as production, and concentrate on designing and marketing the products. The production is often taken to a less developed country in order to utilise the cheaper labour force and other resources. (De George 1999, 515) Having suppliers in less developed countries may well be problematic for a corporation because there are differences in business practice and legislation, and deciding what is ethically right can thus be challenging. However, the increasing demands to take social responsibility in supply chains can no longer be ignored.

The idea of asking corporations to take social responsibility for their international suppliers is a rather confusing aspect of corporate social responsibility (CSR) because it is fairly new, and thus there are few established practices as yet. The purchasing literature from the late 1970s and the beginning of the 1980s commonly put forward the view that cooperation with suppliers was important, and that suppliers needed to be evaluated. However, it was quite rare for these works to include any reference to corporate social responsibility, or to suggest that the criteria for supplier evaluation incorporated social or even environmental issues (see e.g. Sakki 1979; Sakki 1982).

The concept of corporate social responsibility often refers to *a corporation's voluntary responsibilities that reach beyond its purely economic and legal responsibilities*.[14] This definition is also used in this paper. For corporations this means including non-economic criteria in the decision-

[14] Original sources: McGuire, Joseph W. (1963) *Business and society.* McGraw-Hill: New York; Manne, Henry – Wallich, Henry C. (1972) *The modern corporation and social responsibility.* American Enterprise Institute for Public Policy Research: Washington, DC.

making. Thus, exercising corporate social responsibility may sometimes mean choosing a less profitable (at least in the short term) but ethically better alternative. (Boatright 2000, 340)

The initiative for extending CSR to the supply chain may come from inside the corporation, or from outside stakeholders (Ketola 2005, 44). Companies may begin to accept social responsibility for their suppliers because they are compelled to do so by some stakeholder group, or because they want to avoid negative publicity. It is also possible to utilise CSR in marketing to improve the image of the corporation and its brands. (Hillebrand, Maignan & McAlister 2002, 648) Furthermore, some corporations may seek legitimisation by minimising the negative effects of their operations, whereas others may try to create strategic advantages and to reduce costs through CSR (Ketola 2005, 47). Whatever the motivation for a company to take social responsibility for its suppliers, it is evident that it must manage its supplier base in order to be able to accept this responsibility.

The focus in this paper is on how different Finnish companies have dealt with these issues, and how much social responsibility they have decided to take in their supply chains. *The purpose of this study is to find out what actions socially responsible Finnish companies have taken to promote socially responsible importing, and how far down the international supply chains the responsibility reaches.*

There are some companies that have made serious efforts to take social responsibility for their suppliers and to practise socially responsible importing. The Social Responsibility in Importing Network in Finland is one effort by companies to establish some practices of responsible importing. The network was founded by a group of corporations and is coordinated by The Central Chamber of Commerce of Finland. The member companies are listed in Table 1 below. The member companies are committed to the network's principles that guide them towards more socially-responsible purchasing, and which they should promote in their suppliers' operations. These eight principles are:

- Working must be voluntary,
- The right of association and collective bargaining shall be ensured,
- Safe and hygienic working conditions,
- Child labour shall not be used,
- Wages shall be sufficient to meet basic needs,
- Working hours shall be reasonable,
- Working shall be based on fixed employment,
- Employees shall not be discriminated against.

(Vastuullinen tuontikauppa 2005)

Table 1 The list of member companies (Voitto + enterprise database 2005)

Company	Turnover (€ m)	Employees	Major line of Business
Amo Oy	25	50	Wholesale trade
Berner Oy	176	509	Wholesale trade
Inex Partners Oy	1679	2110	Wholesale trade
Intrade Partners Oy	425	241	Wholesale trade
Kesko Oyj	7509	17528	Services for trading
Kir-Fix Oy	1.7	7	Wholesale trade in health-care equipment
Montra Oy	0.4	5	Wholesale trade in clothing and footwear
Nanso Oy	47	500	Textile industry
Pierre Cavallo Oy	9	75	Wholesale trade in clothing and footwear
RB Foods Oy	4.4	10	Importing and marketing special foods
Scanman Oy	2.7	4	Wholesale trade in clothing and footwear
Sidoste Oy	5.3	71	Manufacturing socks and tights
Stockmann Oyj Abp	1445	7812	Retail trade
Thomart Oy	5.8	10	Wholesale trade
Tradeka Oy	1300	6900	Retail trade
Tuko Logistics Oy	655	573	Wholesale trade in foods
Virke Oy	28	415	Manufacture of outdoor clothing
Vogue Group Oy	28	377	Textile industry

This study is limited to the eighteen member companies of the network (in March 2005), due to the limitedness of the research resources. The companies involved are very different from each other, at least in terms of size and line of business, as is shown in the table. However, by joining the network they have all shown interest in taking action in the field of corporate social responsibility, and they have also shown a willingness to take at least some responsibility for their international suppliers. Thus, they may be interesting examples in terms of what Finnish companies can do towards accepting social responsibility for their international suppliers.

4.2 Supply-chain management

There are many differences between the regions in which international companies do business or acquire their supplies. It is necessary to take these differences into consideration in designing and managing international supply chains. (Simchi-Levi, Kaminsky & Simchi-Levi 2003, 204) Being aware of the risks created by these differences and acting to avoid them could be considered part of corporate social responsibility, which is why management and CSR are closely linked.

The term supply chain came into existence in the late 1970s (Lamming 1999, 36). The chain consists of the different parties involved in fulfilling a customer's needs. It is a dynamic construction, which involves the constant flow of information, products, services and funds between its different stages. A typical chain includes suppliers of raw materials or components, manufacturers, wholesalers or distributors, retailers and customers. There may be more links before the retailer, such as sales agents or purchasing offices. As the complexity increases, it may be more appropriate to talk about supply networks. (Chopra & Meindl 2004, 4−6) Thus, a modern supply chain could also be characterised *as a network of interconnected businesses that are involved in providing a product or a service to customers* (Harland 1996, 64).

One of the major changes globalisation has brought with it is the constantly increasing uncertainty in customer demand and on the supply side. In this world of uncertainty companies need to have effective tools and techniques for managing their supply chains in order to maintain and improve their competitive positions. In striving for this, many of them respond to the challenges of globalisation by becoming more global themselves. This, in turn, may cause their global supply chains to become even more complex. (Nix 2001, 30–31) Supply chains nowadays are often very long and complicated, and in many cases they cross national boundaries (Håkansson & Snehota, 1995, 18).The situation is further complicated in international business by differences in government regulation, legislation, customer demands and ethical standards, for example. Globalisation has driven companies to internationalise their operations, and thus they are forced to deal with organisations from countries that are dramatically different from their home country. (Nix 2001, 32–33) This creates challenges for the corporation because it must learn to operate as part of an international supply chain. In many cases it is actually more appropriate to call a modern supply chain a supply network due to its complexity, as illustrated in Figure 1 below. The tier-one, i.e. the closest, suppliers are shaded grey to make them stand out more. It should also be noted that the figure is a simplification of an even more complex reality.

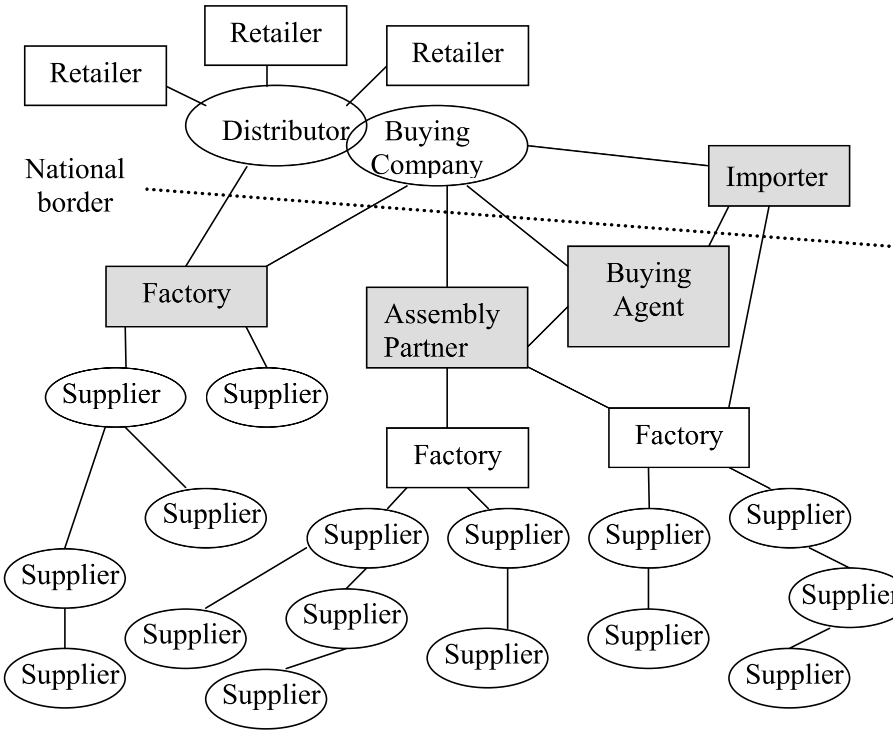

Figure 5 An example of a modern international supply chain (adapted from Neef 2004, 46)

Companies have different reasons for internationalising their operations, in other words their drivers of globalisation are different. One company might go abroad to exploit economies of scale, whereas another might internationalise to gain better access to raw materials or to reduce costs. (Nix 2001, 33) Western companies usually move the production of the goods they sell to their business partners in countries in which there is a lower price level, and especially lower labour costs, and thus they can cut the costs of production. However, there are certain risks related to sourcing from less developed countries. These include lower levels of quality, uncertainty of delivery and logistic difficulties (Nix 2001, 46). In addition, it is important nowadays also to pay attention to the ethical issues involved in the production. These are discussed in more detail in the third section of this paper.

Given the importance of being part of a supply chain in enhancing competitiveness and flexibility, it is crucial that companies manage these chains successfully. The following definition of supply chain management (SCM) is used in this paper: *the management of upstream and downstream relationships with suppliers and customers to deliver superior customer value at less cost to the supply chain as a whole* (Christopher 1992, 18). According to Lamming (1999, 36), companies undertake SCM in order to gain competitive advantages. They expect to gain these advantages through cultivating more effective relationships with their suppliers of raw materials, products and services. An important objective of supply chain management is to be cost-efficient throughout the whole system, and thus, by taking a system-wide approach, to reduce company costs (Simchi-Levi et al. 2003, 1−2). It has also been claimed that the objective of SCM is to maximise the total profitability of the supply chain (Chopra & Meindl 2004, 4–6). It thus operates somewhere between fully vertically integrated systems and systems in which all members perform their own tasks and the companies operate totally independently (Cooper & Ellram 1993, 13). In a fully vertically integrated system, all the tasks are performed within one company, whereas in managed supply chains different companies specialise in different tasks, and they work in cooperation to meet the demands of the final customer.

It could be concluded from the SCM literature (see Cooper, Lambert & Pagh 1997) that planning and control, product flow, and information flow are probably the most essential elements in managing a supply chain. Planning and control and management methods refer to issues that are dealt with by the management. Effective management of a supply chain requires an adequate integration plan, and it is also important to control its implementation. Management methods are an essential element in this: if management does not have sufficient tools, it is not reasonable to expect any results. Furthermore, management on all levels has to be committed to integrating the supply chain, because only then can SCM result in any real integration. Information flow and product flow are crucial to the operation of any supply chain. The flow of products from the beginning to the end, i.e. to the final customer, must work and be efficient so that the chain can survive. In addition, information must flow from one organization to another, as well as internally. The effective flow of information enhances the speed of transactions in the chain, and it contributes to its competitiveness. It cannot be emphasised enough that both the flow of products and the flow of information need to cover the whole supply chain. (Cooper & Ellram 1993 17; Cooper et al. 1997, 8)

4.3 Corporate social responsibility in supply chains

Media coverage increased public awareness of so-called sweatshops in the 1990s,[15] thus bringing to light many practices that had been going on for a long time. This was just one of the many issues that caused stakeholders to start demanding that international corporations accept social responsibility in their supply chains, which has also been called supply chain responsibility. (Kline 2005, 86, 93)

Corporations need to consider their ethical responsibilities more broadly nowadays because relations with other businesses, such as suppliers and customers, are conducted in an international context. This means that the interactions are no longer subject to national laws and regulations, which earlier guaranteed that the game was fair to all. (Crane & Matten 2004, 328) In addition, there is not yet any legally binding CSR agreement or instrument that would hold in the international context. There are only voluntary codes, which could form the basis of legally binding obligations in the future. (Muchlinski 2003, 50)

Many corporations have transferred the production of the products they sell to their business partners, but they have not freed themselves of all the responsibilities related to the production process (Neef 2004, 35). The production is still strongly connected with their operations, and as a consequence there have been strong demands from the public for corporations to include responsibility for their suppliers in their corporate social responsibilities, in other words they have been urged to engage in socially responsible purchasing[16] (Hillebrand et al. 2002, 641). These demands have come primarily from consumers and various pressure groups. In order to treat these stakeholders in an ethically correct way, as parties with their own objectives, corporations should allow them some degree of influence (Crane & Matten 2004, 88). This could mean listening to the demands of the different stakeholders, such as employees and customers, and taking measures to respond to them.

In the international business of today, control is not necessarily connected with ownership. Internationally operating corporations can, and do, influence their suppliers' operational and production processes, even though they do not have ownership stakes in the companies. (Kline 2005, 93) Thus, it is not necessary for a company to own the production process in order to be able to influence, and even control it. In addition, international purchasing is a major

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[15] Sweatshops are factories with poor working conditions, paying extremely low wages to employees who work very long hours, i.e. the workers are being exploited.

[16] The term socially responsible purchasing is used in this paper to refer to importing.

socioeconomic force in modern societies. It has an influence on the natural environment and on employment, as well as on the balance of payments in nation states. For example, purchasing can play a socially responsible role in the exploitation of natural resources by promoting the efficient use of by-products. (Zenz 1981, 13) Because internationally operating corporations have global influence and power, they must accept responsibility for the effects of their actions and decisions (Human Development Report 2000, 80).

Takala (2004, 226) argues that corporate social responsibility means taking an ethical perspective, in some degree, on corporate decision-making. Thus, it is also reasonable to expect corporations to take ethical aspects into consideration when managing their supply chains. This argument, combined with the demand to allow stakeholder groups some degree of influence over the corporation, leads to the conclusion that corporations should accept some degree of responsibility in their supply chains if they aim to be socially responsible. In other words, *corporations should include non-economic criteria in their purchasing decisions and practices, thereby taking social responsibility, which could also be called socially responsible purchasing* (Hillebrand et al. 2002, 642). However, incorporating non-economic criteria into purchasing requires effort. The phenomenon is rather new and many corporations have not yet found the best practices. (ibid., 641) It should also be remembered that the number of corporations taking social criteria into account in their purchasing decisions is still very small, and thus the effects of these actions are also rather small at the moment (Crane & Matten 2004, 329).

The above gives the most important reasons why corporations need to take social responsibility in their international supply chains. However, there is still the unanswered question of what actions this responsibility requires from them. This question is discussed in the following.

4.4 Actions the responsibility requires

Taking responsibility in a supply chain requires, first of all, the formation of an *ethical supply-chain policy* (which could also be called a supplier programme or code of conduct), and identifying the person or persons in the corporation in charge of socially responsible purchasing (Neef 2004, 102; Hillebrand et. al. 2002, 643; Boyd, Spekman & Werhane 2004, 19). The policy should, at least, state the goals that the organisation sets for its responsible purchasing, and define the means by which these goals are to be achieved (cf.Hillebrand et. al. 2002, 643). This must be done in order to make sure that the initiative will be followed up in the corporation, and that someone will be held accountable for its progress (Hillebrand et al. 2002, 644). In addition to this, the corporation should, at the beginning of the process, *assess its suppliers and rank them* to find out which ones are critical, i.e. are more important, present a bigger potential risk and are more difficult to replace. It could then prioritise the measures it takes to incorporate socially responsible purchasing. (Neef 2004, 183)

As mentioned in the second section, taking social responsibility in a supply chain means that the corporation also needs to include *non-economic criteria* in its purchasing decisions (Hillebrand et al. 2002, 641). These include ethical criteria related to the use of child or forced labour, the working conditions and working hours of the supplier's employees, and the effects of the supplier's operations on the local community, for example. In addition, the corporation should also apply environmental criteria to its supplier selection by considering recycling efforts, how much pollution is produced, and how the products are packed, for example. (Neef 2004, 102) It should then use these social criteria as a basis for deciding which of its current suppliers fit its strategy, and thus which relationships it will continue and which ones it would like to develop (Boyd et al. 2004, 20–21). The same criteria must naturally also be applied in the selection of new suppliers. There is no need for every corporation to develop its own supplier criteria, however, because many ready-made criteria and guidelines exist. Most of these are based on International Labour Organisation and United Nations conventions, and thus generally include the same principles (Mamic 2004, 59; see e.g., Social Accountability International's SA8000 standard; the principles of socially responsible importing introduced earlier). Utilising these existing guidelines is advisable in terms of saving time and money, and of avoiding possible stumbling blocks in setting the standards.

Education is another important aspect of socially responsible purchasing: the corporation needs to educate its own and its supplier's employees and management. Education and training should include, first of all, telling the employees about the corporation's ethical supply-chain policy. Secondly, the employees should be informed about the corporation's supplier-selection and assessment processes and the criteria associated with them, and finally they should be trained to report on these issues. (Neef 2004, 102; Hillebrand et al., 2002 644) It is also important for the suppliers to understand what the corporation expects from them and why they need to comply with the corporate criteria. Supplier education and training could be crucial in achieving this understanding. The corporation should, therefore, provide its suppliers with information, guidance and assistance, and thus encourage them to cooperate. (Neef 2004, 186; Mamic 2004, 72) The corporation must further inform its suppliers of the consequences of non-compliance (Boyd et al. 2004, 22).

Taking social responsibility in supply chains also involves *monitoring* the suppliers in order to find out how well they comply with the corporate codes and criteria. Monitoring practices vary greatly because there are many different ways of getting this information. They usually include conducting surveys among the suppliers, doing research in the home country, visiting the production site, and carrying out comprehensive audits or inspections. At best, monitoring entails giving guidance to the suppliers, cooperating with them and helping and encouraging them to improve their operations. (Neef 2004, 193, 195) Two of the most common monitoring methods nowadays seem to be requiring written confirmation from the suppliers and auditing them.

Demanding *written confirmation* means that the corporation requires its suppliers to commit themselves to the corporation's principles of socially responsible purchasing in a signed document. The supplier verifies that it operates according to the corporation's ethical norms, and confirmation should be based on an internal audit conducted by the supplier itself. (Mamic 2004, 58) This approach is open to criticism because suppliers can give whatever information they like about their operations: in other words, the reliability of the confirmation can be questioned. This is particularly problematic because, in the end, the supplier's only goal is to make the deal and sell its products Thus, the promises may be worthless. (Haltsonen 2004, 122) On the other hand, if a corporation does not have the means or resources to confirm the information given to them, they simply have to trust it.

An *audit* entails inspection of the manufacturer's facilities and operations in order to find out how well they meet the corporate criteria (Neef 2004, 195). There are three alternative ways of carrying out in-person audits: the corporation either undertakes the audits by itself or uses third-party auditors, or uses a combination of the two (cf. Hillebrand et al. 2002, 644). It is recommended that the individual, or organisation, that carries out the audit is independent of both parties involved. This is important, because any party that is dependent on either one could well hesitate to publish damaging information. (Mamic 2004, 59) However, there are some potential problems with audits as well, and those carried out by foreign people may be particularly problematic. If only the best parts of the production facilities are shown to the auditor, the audit cannot be very comprehensive. It has been claimed that only by getting to know the local people and the manufacturing staff is an auditor able to get a truthful picture of the supplier's operations. (Haltsonen 2004, 123; Neef 2004, 199) This is one more reason why corporations should use third-party auditors. Professionals with knowledge of the local language and culture are in a much better position to find out the truth about he supplier's operations than foreigners who do not even know the local legislation thoroughly.

There is no consensus among corporations and other parties on which is the best and most reliable way to monitor suppliers (OECD 2002, 71). Combining different elements (surveys, document analysis, visits and comprehensive audits) would appear to be a rather effective way of carrying out the monitoring task (Neef 2004, 193) in that it enables corporations to obtain reliable information about the operations of their suppliers. Different corporations have different resources, however, and not all can put as much effort into monitoring suppliers as the leading companies can. Thus there are also many companies that do not monitor their suppliers in any way.

The approach a corporation adopts does not have to follow any one of the alternatives introduced above in all respects, and could be placed on the continuum illustrated below.

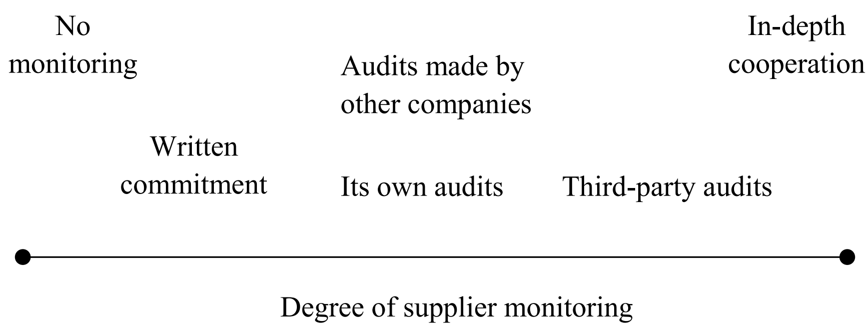

Figure 6 Continuum of supplier monitoring.

Thus, a corporation could rely on written commitment from some of its suppliers, audit some others, and utilise audits carried out by other companies in the case of others.

In cases in which a supplier does not meet the corporate criteria the corporation must decide *on the consequences of non-compliance*. There should be some consequences related to failure to comply if the corporation's responsible purchasing is to be credible (Hillebrand et al. 2002, 644), and these should be mentioned in the corporation's ethical supply-chain policy (Neef 2004, 213–215). However, it must be remembered that corporations also have other very important criteria that their suppliers have to meet, including product price and quality. Thus, the ability to comply with the social criteria is not necessarily, or even likely to be, the most important factor when they are deciding on how to deal with their suppliers, and on which supplier relations they wish to continue. (cf. Boyd et al. 2004, 21)

In a situation in which a supplier does not meet the corporate criteria, simply ending cooperation with it is rarely the best solution. A supplier that has been abandoned by an important customer will often have to further lower its prices to attract new customers. It must therefore find new ways of saving in terms of production costs, which most probably means even worse working conditions for the employees. (Sweating for fashion 2004, 15) Thus, other ways must be found to resolve this kind of difficult situation. One approach to mild non-compliance is to cooperate with the supplier in question in developing its operations (Neef 2004, 215; Mamic 2004, 59). The goal would be to improve its performance so as to meet the corporate criteria. This may often be achieved simply by explaining the corporate criteria to the supplier, but when there are serious shortcomings, the corporation would need to undertake more thorough measures. Socially responsible corporations are assumed to establish an action plan focusing on any problems in their supplier's performance, and according to which their operations could be tailored to meet the corporate criteria. (Neef 2004, 216; Mamic 2004, 60)

4.5 The extent of the responsibility in supply chains

As stated in section 3.1, one could argue that corporations are socially responsible for their suppliers. The problem that then arises is how far along the supply chain the responsibility extends. In other words, is it enough for a corporation to be responsible for its own suppliers on tier one of the chain, or should the responsibility extend along its whole length all the way to the production of raw materials? Does the answer lie somewhere in between?

Here it must be remembered that, usually, the further along the supply chain the responsibility extends, the more it will cost the corporation, which may thus try to find a balance between the costs and the benefits (Mamic 2004, 71).

4.5.1 Accepting social responsibility for tier-one suppliers

The relationship between a corporation and its supplier could, in many cases, be best described as a partnership, and corporations share the responsibilities related to the production process with their suppliers (Neef 2004, 40). Given this kind of cooperation it should be possible for a firm to demand that its suppliers comply with the corporate ethical standards. Indeed, many corporations already demand a certain level of environmental performance from their suppliers in the form of quite specific standards that they must meet (BIAC discussion paper on supply chain management, 2002, 2).

Many business representatives object strongly to extending corporate responsibility to their supply chains. Some of them have argued that it is impossible, and would mean taking on the problems of other companies, i.e. their suppliers' legal, regulatory and other responsibilities. (OECD 2002, 68) The result of all this is that many corporations are willing to push the final responsibility onto consumers by arguing that no company will sell products that consumers do not buy (Haltsonen 2004, 123). However, it has been observed that stakeholders, consumers especially, do not always make a distinction between a company and its suppliers, in other words they hold companies responsible for the social performance of their suppliers (Supply chain management: Introduction 2005). Thus, it is important for companies wishing to be profiled as socially responsible corporations to accept social responsibility at least for their tier-one suppliers.

3.1.1 Extending social responsibility beyond the closest suppliers

There no widely accepted rule on where to draw the line of corporate social responsibility. In general, firms are assumed to be less responsible when they are not directly dealing with the suppliers, and thus have less control over them. This is also the case when there is no continuous relationship. (Neef 2004 184)

According to Kline (2005 14), there are certain criteria that could be used in determining the extent to which a corporation can be held socially responsible. The criteria that are applicable in the context of corporate social responsibility for suppliers are introduced in the following. The first one relates to the corporation's *capability* to act, the implication being that responsibility can only be placed on the shoulders of a corporation that is able to exercise it. It could also be argued that with increased capability comes increased responsibility. The second criterion that is applicable here is *awareness*, meaning that a corporation can be held responsible only if it is aware of the need for action. It has been argued in other contexts that not being aware of a problem usually eliminates the responsibility. This could be compared to a situation in which one gives thirsty person water, not realising that it is contaminated. Thus, even though the aim was to help the thirsty person, one ends up harming him or her, but because of a lack of awareness one is not usually held morally responsible for this action. (Bowie & Werhane 2005, 81) Another, related, criterion is *knowledge*. The difference between the two is that awareness can be measured in a bipolar manner - one is either aware of something or one is not - whereas there may be different degrees of knowledge. Similarly, as with capability, increased knowledge brings increased responsibility. However, a corporation is not allowed to shut its eyes to a situation in order to avoid responsibility due to unawareness. (Kline 2005, 14) Thus, if one should have known or have been aware of the issue, one could be held responsible for it (Bowie & Werhane 2005, 81). *The subsidiarity principle*, which is related to all of the criteria introduced above, means that the ones closest to a situation are the best equipped to respond to the circumstances. Thus, the closest companies have the primary moral responsibility. However, if the closest company fails to take it, the responsibility moves to the second-closest. In other words, there is a chain along which the responsibility moves until some actor is capable of accepting it. According to this thinking, it is feasible to demand that a corporation should take social responsibility for actions that take place even far away in the international supply chain. (Kline 2005, 14)

In addition to the criteria discussed above, the extent of the responsibilities of a corporation also depends very much on the industry. There are different kinds of social risks in different industries, and in some industries these risks are bigger than in others. It is recognised in a BIAC (OECD Business and Industry Advisory Committee) discussion paper on supply chain management (2002, 1) that the ability of a corporation to accept social responsibility for its suppliers depends very much on the sector and the products or services it produces. Its location and the contract terms it has with its customers also have a strong effect.

Accepting social responsibility for suppliers beyond tier one could pose some practical problems, however. Nowadays, many corporations have such complex supply chains that it may be extremely difficult to trace the path of certain components or raw materials (Neef 2004, 35–38). Because of this complexity, responsibility for the whole supply chain, despite the corporation's efforts, may be practically impossible. Nevertheless, even if it is not possible to accept social responsibility for the whole range of supply chains, it may be possible to extend it to some extent. It must nevertheless be remembered that not all corporations have such complex supply chains. In some industries the typical chains are considerably shorter and less complicated than in others, and thus the possibility of accepting social responsibility is greater.

It could be concluded from the above arguments that all corporations ought to take responsibility for their tier-one suppliers, but extending responsibility from there on is more problematic. The bigger the risk of immoral operations in the supply chains and the more complicated the chains are, the more cautious the corporation should be, and the more it should put effort into improving the social performance of its suppliers.

3.1.2 Taking social responsibility for the whole supply chain

Extending corporate social responsibility to cover the whole supply chain is a very challenging issue. It poses problems to corporations in terms of both practices and principles. First of all, in many industries it would be very complex and expensive to monitor social performance in the whole supply chain. Including this in the corporate responsibilities would mean stretching them beyond what might be considered reasonable. (Kolk & van Tulder 2002, 268)

Some corporations taking part in a study conducted in the garment industry pointed out the role of the local government in the area of social responsibility, arguing that it was unreasonable to expect a corporation to take responsibility for its whole supply chain (Kolk & van Tulder 2002, 268). It is important to remember that government implementation and enforcement of national laws is vital for protecting the natural environment and securing individuals' rights. Even though the law merely sets the minimum level of acceptable performance, it needs to be enforced to promote effective governance of these issues. (BIAC discussion paper on supply chain management, 2002, 1) Many countries have these laws and regulations, but they are neither enforced nor followed. Thus, expecting corporations to demand similar performance from their suppliers in every country is problematic.

According to Kline (2005 16), in cases in which the local government fails to enforce the laws, the second-closest actor capable of influencing the situation may be some other government or intergovernmental body. However, such bodies are rarely any more effective than the local government, and thus it may be left to powerful international corporations to take care of matters (Kline 2005, 16). In this sense, it may sometimes be necessary for corporations to assume the role of the government to some extent.

In addition to the problems mentioned above, the production structures used in many developing countries make extending CSR to cover the complete supply chain even more difficult. Home-based employment is common in China, for example, in other words people work at home and produce goods for companies that do business with international customers. There is no way for the international customer to find out whether children have been involved in the production of the goods their suppliers purchase from people working at home. (Kazmi & Macfarlane 2003, 184–185)

There are many different views on the extent to which corporations should apply the same ethical standards in different countries. At one extreme are the supporters of universalism, who argue that the same ethical standards must apply everywhere, and at the other are the cultural relativists who argue that corporations should operate in foreign countries according to the local ethical standards (Chryssides & Kaler 1996, 26–29). The arguments put forward in the following paragraph follow the lines of cultural relativism.

A further reason for not including the whole supply chain in the responsibility of a corporation is that companies assuming wide social responsibility could face accusations of interfering with national approaches. If a corporation poses stricter standards on the operation than the local legislation demands, it could further be accused of lacking respect for the cultural traditions of the host country. (Kolk & van Tulder 2002, 269) It must be remembered that not all countries have ratified the UN and the ILO conventions on which most corporate standards are based (List of member states 2004; Database of international labour standards 2004).

Expecting a corporation to extend its responsibility to cover the complete supply chain could be argued to be justified, however, because the decision to outsource production internationally in the first place was in many cases justified primarily on the grounds of cost. A corporation aware of the situation prevailing in most less developed countries might well suspect that the exceptionally low levels of costs result from questionable practices among the suppliers and/or their subcontractors. (Kolk & van Tulder 2002, 269) Furthermore, even though a corporation with international subcontractors has shifted part of its operations to outsiders, it is still identified with these operations, and should take responsibility for them no matter how distant the suppliers are (Neef 2004, 35). However, as mentioned above, in practice it is next to impossible for many corporations to accept responsibility for their whole supply chains given their length and complexity.

3.2 Responsible purchasing and supply chain management

In summary of the issues discussed in sections 2 and 3, it could be said that if it is to truly accept social responsibility for its suppliers, a company must effectively manage its supply chains. This means considering issues that affect the whole of the chain. Furthermore, it needs to take certain actions. Accepting responsibility begins with the creation of an ethical supply-chain policy. Thereafter, the company needs to focus on selecting suppliers that fit its strategy, and on educating its own employees. These are internal functions, although education must also be given to the suppliers. Monitoring suppliers, on the other hand, involves not only the corporation itself, but also the supplier in question, and preferably also an external party carrying out the audit. These are the actions a corporation assuming social responsibility for its suppliers needs to take. As the suppliers are being monitored, the corporation gains information about their compliance with the corporate criteria. In cases of non-compliance, the corporation and the supplier need to develop an action plan to improve the situation and bring the supplier's operations up to the required standard. It is through these kinds of measures that corporations can take social responsibility for their suppliers and establish socially responsible supply chains. In accepting this responsibility, companies should also concentrate on the effective management of their supply chains.

On the question of how far along the chain corporations might be expected to extend their social responsibility, it could be said that they should all accept it for their tier-one suppliers. There are certain criteria that may be helpful in defining how far, if at all, beyond tier-one suppliers a company should extend its responsibility.

4.6 Methodology

The members of the Social Responsibility in Importing Network are very different from each other, at least in terms of industry and company size, thus studying them makes it possible to gather information on a very diverse set of firms. It is interesting to see how different kinds of companies perform with regard to socially responsible purchasing. It is probable that these companies do not provide a comprehensive picture of Finnish companies in general, but by studying them it is possible to establish an understanding of how widely progressive Finnish enterprises take social responsibility for their international suppliers.

It was considered necessary to utilise both qualitative and quantitative methods in this study in order to achieve a better understanding of the phenomenon in question. The purpose of the quantitative part of the research was to get to know the situation in the companies, to find ideas and insights for the qualitative part that comprised the second part of the research, and to find similarities and differences between the member companies (Hirsjärvi, Remes & Sajavaara 2004, 182–183).

An Internet survey, which was sent to the respondents via e-mail, was the most convenient method for the data collection in the first phase of the research: there was a list of all the member companies of the network, and thus it was easy to reach them all. It was also easy to follow which respondents had answered and which had not because the sample was relatively small (cf. Tashakkori & Teddlie 1998, 103). Follow-up was especially important in this research because there were only 18 companies in the sample, and therefore it was conducted carefully. The questionnaire was sent to the respondents for the first time on May 5th 2005, and they were given a week to answer. Only three answers were received during the first week. Those who did not respond after the first e-mail were asked a second time to fill in the questionnaire, on May 16th 2005, and again they were given a week to answer. Five more answers were received during the second week. After this the ten respondents who had still not answered were sent another reminder on May 23rd 2005, and this time they were given only five days. The total number of completed questionnaires after three e-mails was 12. After this, those who had still not answered were contacted by telephone and were again asked to respond. Only two declined on the grounds of being too busy, and thus 16 completed questionnaires were received. It was on the basis of these that a semi-structured interview was designed to deepen understanding of the phenomenon in five selected companies.

The aim in this research was to study purchasing social responsibility in detail, and to gain a comprehensive understanding of the phenomenon in certain Finnish companies. Thus, it was decided to conduct a qualitative study in the second stage of the process. (Hirsjärvi et al. 2004, 152) The interview method was chosen because it was considered to be the most appropriate for gathering the necessary information, and because the intention was to delve deeply into the matter under study. An interview is a good way of finding out the views in a corporation on a particular issue (Marshall & Rossman 1995, 81), and thus it suited this study well. The type of interview utilised was the semi-structured interview, in which the researcher prepares the themes or the questions in advance, but if necessary modifies them in the course of the interview (Kvale 1996, 124). A rather structured interview format was chosen, which meant that the questions and their sequence were prepared in advance. This was done because it was important to collect the same information in all the interviews in order to enhance comparability.

A total of six interviews were conducted in the second data-collection phase. The companies in which the interviews were conducted were chosen by means of clustering the survey answers so that one company from each cluster was represented. The interviewees were the company contact persons in the Working Group of Socially Responsible Importing. One interviewee did not have detailed knowledge of the company purchasing function, however, and the data collected was supplemented by interviewing one of the senior mangers. Thus, each interviewee was an expert on socially responsible importing in his or her company.

The data gathered in the survey was analysed with the help of the SPSS for Windows computer program. After entering the data into the program, and revising it to detect possible typing errors, cluster analysis was performed in order to gain insights for the interviews. The questionnaire contained items covering the situations of the companies, and setting out claims that charted the prevailing attitudes and actions taken. The data was coded according to the themes that came up in the course of the interviews. There were some themes that came up in all of the interviews, even many times during one interview, but there were also some that were brought up by only some of the interviewees: after all, the companies were quite different from one another and this was quite natural.

4.7 Results

According to the answers to the survey, the importance of importing was expected to increase or to stay the same in the future in all of the companies participating in the research.[17] This means that it will be important to promote socially responsible importing in the future, because the volume of imports is not likely to diminish.

The companies participating in the survey were clustered into groups based on the similarity of their answers, as mentioned in section 4. Five clusters were formed, as shown in Table 2 below. The names of the companies that were chosen to represent the cluster in the interviews are highlighted in bold type in the table.

Table 2 Company clusters formed in the cluster analysis.

A	B	C	D	E
Kif-Fix Oy	**Stockmann Oyj**	RB Foods Oy	Berner Oy	**Tuko Logistics Oy**
Scanmann Oy	Sidoste Oy	**Montra Oy**	Vogue Group Oy	
Virke Oy	Intrade Partners Oy	Thomart Oy	**Tradeka Oy**	
Nanso Oy			Kesko Oyj	
Pierre Cavallo Oy				

[17] This section is based on information gathered in the survey and in the interviews.

The responses from the companies in cluster A indicated that those companies aimed at taking social responsibility for as many tier-one suppliers as possible. The most positive answers were to claims suggesting that the company assumed social responsibility in all of its tier-one supplier relationships, and that it only bought from suppliers that followed the principles of socially responsible importing. These companies also agreed that they did not purchase from suppliers that did not respect principles of socially responsible importing. This cluster could be labelled “responsibility for tier-one suppliers.”

The companies in cluster B seemed to be strongly committed to promoting socially responsible importing. They agreed with most of the claims, which indicates that they regarded socially responsible purchasing as a very positive issue. In particular, they were committed to socially responsible importing in terms of both principles and practices. They also seemed to agree that their responsibility should extend beyond tier-one suppliers. A descriptive label for this cluster could be “strong commitment to responsible importing.”

The responses from the companies in cluster C suggested that these companies had some principles concerning their social responsibility for their suppliers, but they had not yet put them into practice. They admitted that they had not, at least so far, taken action to accept responsibility for their suppliers, however, they indicated that they were, in principle, responsible to some extent. This cluster could be labelled “commitment only on the level of principles.”

The D-cluster answers suggested that these companies had made a good start with taking social responsibility in their supply chains, but they considered it particularly difficult to extend the responsibility beyond their tier-one suppliers. There were clear differences in how committed to socially responsible importing they seemed to be. Some indicated that they were very committed, whereas the answers of others suggested quite weak commitment. There were also differences in the responses to claims suggesting the assumption of social responsibility in all tier-one supplier relationships. Some companies answered that they did take the responsibility, while others indicated that they took social responsibility for only some of their tier-one suppliers. What was common to these companies was that they all considered it very difficult to extend their social responsibility beyond tier-one suppliers. A label for this cluster might be “past the initial stages.”

The one company in cluster E seemed to have made the most progress with socially responsible importing. The most frequent response to the claims was “completely agree,” and the mean of the answers was as low as 1.29 (1 =

completely agree). This one-company cluster could be labelled “progressive in promoting socially responsible importing.”

The dominant mode of purchasing products that were manufactured abroad did not vary much between the companies. For nine out of the sixteen, purchasing directly from the manufacturer was the most important, and for four it was having their own brands manufactured on a contract basis, which possibly also meant direct contact with the manufacturer. For two companies the dominant mode was buying from a Finnish importer, and for one it was buying through an international purchasing cooperation. Moreover, the dominant mode accounted for 90% or more of all of their imports for eight of the companies, and for another five the proportion was 50–90%. Only one company reported a little less than 50%, and two companies did not give this information. Table 3 below shows the dominant mode of purchasing products manufactured abroad for each company, together with the primary method by which the companies monitored their suppliers.

Table 3 How the companies monitored their suppliers, and the dominant modes of purchasing imported goods.

Company	Written document	Its own audit	External audit	In-depth cooperation	1st mode of purchasing
Berner Oy				x	From manufacturer
Intrade Partners Oy			x		Finnish importer
Kesko Oyj			x		From manufacturer
Ketjuetu Oy T&E	An account from the purchasing office				International cooperative purchasing
Kir-Fix Oy				x	From manufacturer
Montra Oy	Company's own information				From manufacturer
Nanso Oy				x	Has its own brands manufactured
Pierre Cavallo Oy				x	Has its own brands manufactured
RB Foods Oy				x	From manufacturer
Scanman Oy	x				From manufacturer
Sidoste Oy	x				Has its own brands manufactured
Stockmann Oyj	x				From manufacturer
Thomart Oy	Discussion				From manufacturer
Tuko Logistics Oy		x			Finnish importer
Virke Oy	x				From manufacturer
Vogue Group Oy		x			Has its own brands manufactured

When a company has direct contact with the manufacturer, it is in a much better position to influence its operations, and has better chances of successfully demanding that they follow the principles of socially responsible importing. This was emphasised by some of the interviewees. Thus, most of the companies participating in the survey should be in a relatively good position to accept social responsibility for their suppliers in this regard because such a large proportion of their imports were purchased directly from the manufacturer. However, it must also be taken into consideration that this is not the only thing that affects the possibility of assuming social responsibility. By choosing a mode of purchasing involving direct contact with the manufacturer, a company can enhance such possibilities, but the resources it has at its disposal, and how important a customer it is to the supplier, also affect the extent to which it can demand socially responsible behaviour.

Some of the differences discussed above may be partially due to the fact that the companies operate in different branches. The cluster-E company, for example, operates in the food business, where the typical supply chain appears to be shorter and more transparent than, for example, in the textile industry, not to mention the department-store business in which there is also wide variation in the selection of goods and in acquisition practices.

The lack of resources is a theme that came up in almost all of the interviews. The smaller and the larger companies all seemed to have insufficient resources to take all the actions they considered necessary to ensure responsible purchasing. As a result, many actions that could have been taken had to be postponed because the people concerned had so many other, more urgent problems to take care of. There did not seem to be any one who specialised in these matters in many of the companies, thus they were left to the purchasing people to deal with, even though they already had enough to do. This kind of solution is, of course, natural in some organisations because of their structure and size. However, true commitment to socially responsible purchasing should also mean assigning sufficient resources to the operations that are necessary in carrying it out. Thus, a lack of resources indicates, on some level, a lack of commitment to socially responsible importing. This is why management commitment and support are essential ingredients of any initiative in a company.

There were 25 claims included in the questionnaire, all of which were recoded into a positive form, as in "we are socially responsible for our tier-one suppliers," before the analysis in order to facilitate comparison. After this, they were placed in the following four clusters:

- I: promoting socially responsible importing is now, and will be in the future, part of our operations in practice
- II: we would like to take social responsibility for all of our tier-one suppliers
- III: we have taken steps to accept social responsibility for our suppliers

- IV: our social responsibility reaches beyond our tier-one suppliers.

The companies generally agreed with the claims in cluster I. This indicates that they are committed to promoting socially responsible importing, and many of them are willing to increase this commitment in the future. However, it also suggests that some of the companies have not really progressed any further than acceptance in principle. The respondents in the B and E company clusters expressed the highest level of agreement with these claims.

The attitudes were a little less positive in cluster II: only the E-cluster company clearly agreed with the claims, whereas the D-cluster companies neither agreed nor disagreed. This suggests that it is not that straightforward to accept social responsibility for all tier-one suppliers. In particular, in situations in which a company buys from a foreign supply office or a Finnish importer, in other words when it does not have any contact with the manufacturer, it is not clear who should bear the responsibility. One could apply Kline's criteria here (see section 3.3.2), according to which there is a responsibility chain. Thus, if whoever is dealing with the manufacturer is not capable of taking the responsibility, it is the task of the Finnish company to do so. However, it was mentioned in many of the interviews that it was not always possible to obtain information on the supply chain, much less to impose demands on the manufacturers, and thus not all of the companies were able to accept social responsibility for all of their tier-one suppliers. Nonetheless, companies choose the purchasing modes they use. By minimising the amount of imports purchased from operators on which they have no influence, they could enhance their chances of taking social responsibility for as many tier-one suppliers as possible.

The majority of the companies mildly disagreed with the claims forming cluster III. Only the cluster-E company clearly agreed that it had taken actions to promote socially responsible importing, and some companies in cluster A, and one in cluster D, agreed to some extent. This reveals that most of the companies were still at the very beginning of the path towards socially responsible importing. It also suggests a lack of established practices, which would make it especially difficult for small and medium-sized companies to get started, or a lack of resources, as discussed earlier. Whatever the reason, the fact is that many of these companies have not progressed very far in taking social responsibility in their supply chains. The importance of routine was emphasised by one of the interviewees. She works in a company that has been concerned with these questions for a long time, and which has found the procedures that best suit it. She said that the essence of taking responsibility for suppliers was to make it a natural part of the operations of the company, a routine: only then could it truly engage in socially responsible purchasing.

Almost all of the companies strongly disagreed with the claims forming cluster IV. Many of the respondents agreed that, in principle, their responsibility should reach beyond tier-one suppliers, but in practice it was next to impossible for almost all of the companies to take responsibility for the whole chains, and it became apparent in the interviews that some of them had no desire to do so. This at least partly, reflects the reasons discussed in section 3.3.3, such as being accused of interfering with national approaches, and feeling that it was not reasonable to expect a company to assume such wide responsibility . It also substantiates the arguments put forward concerning the problems with extending corporate social responsibility to cover the whole supply chain.

The responses to the questionnaire revealed that the companies often did not have information on how many operators there were in the supply chain beyond their tier-one suppliers. This means that they did not know how long their supply chains were, nor, in all probability, where their raw materials came from. This also came up in the interviews. Some of the interviewees admitted that they knew little about the origins of their products, whereas others said that they were well aware of the origins of the raw materials. This was the case especially with food supplies.

Thus, there is much that companies can do to take social responsibility in their international supply chains, and in some cases there is a willingness to do all that is possible with the resources they have. However, there were also signs that some companies were not, at least so far, willing to move very far in this direction.

4.8 Summary

Putting demands on internationally operating corporations to take social responsibility in their supply chains is a rather new phenomenon. Consequently, there are not many established practices as yet, which makes it confusing for companies. The focus in this paper was on defining what actions such responsibility requires from companies, and how far it should extend. The aim was to explore what actions socially responsible Finnish companies have taken to promote socially responsible importing, and how far along their international supply chains it extended.

Managing supply chains, which means managing both upstream and downstream relationships in order to deliver superior value to the customers at less cost to the whole chain, is essential for the success of any company, but it is also important in taking social responsibility. In terms of suppliers, this means that corporations should include non-economic criteria in their purchasing decisions and practices, but it also requires other actions. Companies must define how far along the supply chain their responsibility should extend, and how wide responsibility they are able to accept.

Among the member companies of the Social Responsibility in Importing Network in Finland, five different clusters were identified in terms of how they promoted socially responsible importing. They were given the following labels: “responsibility for tier-one suppliers”, “strong commitment to responsible importing”, “commitment only on the level of principles”, “past the initial stages” and “progressive in promoting socially responsible importing.”

It seemed to be important that taking social responsibility for suppliers became a routine in the company, so that the issues were dealt with on a regular basis. Many respondents agreed that, in principle, their responsibility should extend beyond tier-one suppliers, but there were many practical problems involved, and they prevented most of the companies from taking it further.

There is much that companies can do to take social responsibility in their international supply chains, and in some of the respondent companies there was a willingness to do everything possible with the resources they have.

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5 MINDING THE CONFLICT – CONDUCTING SOCIALLY RESPONSIBLE BUSINESS IN CONFLICT AREAS

Henna Taponen

Abstract

Discussion on corporate social responsibility has traditionally covered themes ranging from human rights to labour issues and environmental questions. Recently, however, more and more attention has been paid also to corporations' role and responsibilities in conflict areas. Conventionally, the business perspective in conflict situations has concentrated on evaluating the risks that the conflict imposes on the corporation. However, the multiple stakeholders have started to demand corporations to adopt a new perspective that considers also the reverse-dynamics of the issue – the corporations' influence on conflicts. The aim of this article is to provide an overview of the current discussion on CSR in conflict areas, to define the relevant concepts related to the topic and finally, to encourage further scientific research on corporate-conflict dynamics by posing some new questions. In practice, the article will define the concept of conflict and will contemplate on issues such as corporate engagement in conflict prevention and resolution as well as the challenges that the conflict situations contain. Also the significance of collaboration between different actors in this context will be discussed. The reason for why the writer wishes to open discussion and encourage scientific research on the topic is that even though some NGOs have already established guidelines for corporations operating in conflict areas, the issue is still infrequently addressed in scientific publications, especially in business journals. It could be expected that further scientific research on the topic from the business perspective, specifically, could provide the field with new insights on the issue. Although, scientific should not be understood as equal to theoretical but instead, the research should aim at finding practical solutions to the problems that are related to corporate-conflict dynamics.

5.1 Introduction and background

Companies aiming for sustainability nowadays need to perform not against a single, financial bottom line but against the so-called triple bottom line. In other words, instead of focusing solely on the financial result they also need to perform to social and environmental standards (Clarke 2001, 18). Thus, ethical issues have lately attracted a lot of attention – from many perspectives – in international business. Managers are frequently subjected to demands from multiple stakeholder groups to devote resources to corporate social responsibility, and it has been recognised that the international business community cannot ignore these issues (Bennett 2002; Campbell 2002; McWilliams & Siegel 2001; Pearce II & Doh 2005), otherwise it could even be blamed for contributing to conditions that might lead to violent conflicts[18] (Bennett 2002, 393).

The ethical issues in international business have mainly concerned human rights, labour standards and environmental sustainability, which have commonly been referred to as CSR issues (CSR = corporate social responsibility). However, due to their extensive reach and resources, transnational corporations (TNCs)[19] and multinational corporations (MNCs) [20] in particular have become involved also in issues of peace and security. Their impact is so powerful in many areas that they could affect conflict prevention and resolution to a considerable extent. (Banfield, Haufler & Lilly 2003, 17; Berman 2000; Nelson 2000) Yet, business analyses conventionally calculate the potential risk that the conflict poses to the company, but not vice versa. In other words, the impact of *companies on conflicts* has been largely understudied and often completely ignored. (Banfield et al. 2003; Campbell 2002, 4) On the other hand, this reverse impact has recently been recognised and advocacy for the so-called CSR-plus concept, which focuses on the important role of business in conflict areas, is not uncommon (Ballentine & Nitzschke 2004). International non-governmental organisations (NGOs) in particular have come to realise that their advocacy and assistance schemes need to include peace building in addition to environmental and labour issues

[18] Conflict as a concept can be understood in various ways. The definitions of the concepts ‘conflict’ and ‘conflict prone’ in this article are given in Chapter 5.2.

[19] The transnational corporation **(TNC)** is defined as comprising parent entreprises and their foreign affiliates. A parent enterprise controls the assets of another entity in other country/countries, usually via ownership of an equity stake. UNCTAD (The United Nations Conference on Trade and Development) assumes a minimum equity stake of 10 per cent as the threshold for control. (Woods 2001, 41)

[20] The multinational corporation **(MNC)** is defined as a very large, multidivisional company (Morrison 2002, 34) with operations in several countries.

(Berman 2000). Then again, Switzer and Ward (2004, 6) comment that the positive potential of business corporations to contribute to peace building has so far received the least attention among all the voluntary initiatives that have been undertaken. According to them (ibid.), few examples of operational guidelines directly addressing 'peace building' are to be found within the private sector.

Whether peace building from the corporation's perspective should be regarded as CSR or CSR-plus activity is not the main point here. The focus of the discussion should not be too strictly tied to the terminology. After all, a multitude of definitions ultimately appear to refer to the same issues. For instance, McWilliams and Siegel (2001, 117) describe CSR as: *"actions that appear to further some social good, beyond the interests of the firm and that which is required by law"*. This wider perspective could, by definition, also cover issues related to corporate responsibility in conflict areas.

One of the essential points in the above definition of CSR is that, in order to conduct socially responsible business, a corporation should go beyond obeying the law. Quite interestingly, in practice this interpretation would mean that the criteria for CSR could vary depending on the country and the legislation. This interpretation runs parallel to Robertson and Crittenden's (2003, 389) remarks suggesting that moral philosophies vary according to the culture and the economic ideology. They present culture on a continuum from Western to Eastern, and economic ideology on a continuum from capitalism to socialism. Thus it could be a demanding process for a corporation to find out what kind of measures it should take in order to act in a socially responsible way – especially if it has operations in several different kinds of conflict areas.

In order to shift the discussion from terminological considerations more towards the practical side of the issue, it would appear convenient to introduce the corporation's perspective and the way in which it could operate according to the demands and wishes of multiple stakeholders. It is not merely a question of making the TNCs or MNCs understand the importance of corporate responsibility, and getting them to realise their potential influence on the conflict formation. An even a more complex task is to define what are the means by which corporations can enhance the conditions and prevent conflicts in their areas of operation that are conflict-prone, or already suffer from violent conflicts. (Pearce II & Doh 2005, 31; Stenberg 2005) It is, in fact, the main purpose of the CSR-plus approach to find ways in which companies can contribute to conflict prevention or post-conflict reconstruction through conflict-sensitive means (Stenberg 2005, 1).

Bennett (2002, 396) and Nelson (2000, 12) argue that multinational corporations should not replace governments as the primary actors in international peacekeeping, but by collaborating with governments, NGOs and civil society they could use their business skills and financial leverage to promote regional stability. Also Banfield et al. (2003, 65) refer to so-called ‘multi-track diplomacy’ as a means of resolving a conflict - meaning that actors on different levels of society engage in peace-building work. More importantly, they (ibid.), as well as Nelson (2000), point out that the private sector has only recently begun to be regarded as one of these actors. Pearce II and Doh (2005, 34), in turn, suggest some concrete issues that companies should consider when undertaking collaborative social initiatives (CSIs). These are presented in more detail in the subsequent sections of this article.

As this introductory statement probably indicates, the variety of CSR terms and definitions may be rather confusing in their multidimensionality. Hopkins (2004) goes as far as stating that he finds the variety of terms irritatingly vast. Paton and Siegel (2005) point out that, unfortunately, CSR analysis is still in a somewhat embryonic stage and critical issues regarding frameworks, measurement, and empirical methods have not been resolved. It is no wonder that, since no distinctive framework for CSR actions on a general level exists as yet, research and discussion on the more specific area of the private sector’s role in conflict-prone areas has also remained a somewhat unformulated and infrequently discussed subject, especially in business journals. Consequently, the main purpose of this article is to give an introduction to the theme and thereby provide an initiative for further discussion.

5.2 What is conflict?

Since the word ‘conflict’ can refer to many different kinds of situations it seems to make sense to give a brief overview of how it could be defined in general, and then to determine what is meant by conflict in this article. Conflict could be defined from a wide perspective as follows: *“Conflict occurs when two or more parties believe their interests are incompatible, express hostile attitudes or take actions that damage the other’s ability to pursue its interests. Violence is often used interchangeably with ‘conflict’, but violence is only one means among many that parties choose to address a given conflict. Non-violent conflict is essential to social change and development, and a necessary component of human interaction. When violence erupts, however, a profound breakdown in social relationships occurs that will have destructive effects.”* International Alert (2005, 3)

In this article the concept of *conflict* refers to a situation in which a state or an area suffers from violent conflicts, and *conflict prone*, in turn, refers to a state or an area that is under threat of violent conflict. The *causes of conflict* can be divided into three different categories that cover the more detailed variables that may ignite conflicts. (International Alert 2005, 4) This categorisation is presented below, in Table 4.

Table 4 Causes of conflict (International Alert 2005, 4)

Structural/Root Causes	Pervasive factors that are built into the policies, structures or fabric of society and may create the preconditions for violent conflict (e.g., illegitimate government, lack of equal economic and social opportunity, lack of political participation)
Proximate (=Aggravating) Causes	Factors that are symptomatic of the root causes of conflicts or may lead to further escalation (e.g., light-weapons proliferation, human-rights abuse, objectives of political actors, the role of diasporas)
Triggers	Single acts, events or the anticipation thereof that set off violent conflict or its escalation (e.g., elections, the behaviour of political actors, sudden collapse of the currency, increased food scarcity)

Also the various *types of conflict* can be distinguished and defined. Barron and Sharpe (2005) define five primary conflict types, and argue that this classification would assist in explaining the varying characteristics of violence in the different districts. Their categorisation is presented in Table 5.

Table 5 Primary types of violent conflict (Barron & Sharpe 2005, 4)

Physical resource	Disputes over ownership, access and use of resources (natural or man-made; private, public or communal)
Administrative	Disputes over management/procedure/service provision from government or donor-funded programs and public or private enterprises
Political Position and Influence	Competition over political power in state/non-state, village/district level positions (usually relating to elections and political appointments)
Vigilantism and Retribution	'Mob justice' or lynchings; violence motivated by revenge
Other	Residual conflicts not described by other categories (primarily domestic violence and other intra-family disputes)

As Table 4 and Table 5 show, the cause of the conflict is not isolated from the type of conflict, and indeed it seems that the underlying cause often determines the type of conflict, at least to some extent. For instance, structural/root causes often appear to lead to administrative or political conflict.

It is not only the cause and type that characterise conflicts, but also the different phases. According to Nelson (2000, 45), three broad stages and types of intervention strategy could be defined as follows:

- *Pre-conflict or conflict-free* (focus on conflict prevention)
- *Conflict zone* (focus on crisis management and humanitarian relief)
- *Post-conflict* (focus on reconstruction and reconciliation)

A somewhat corresponding, simplified classification of the stages of conflict is presented in Sida's publication (How to Conduct… 2004, 34):

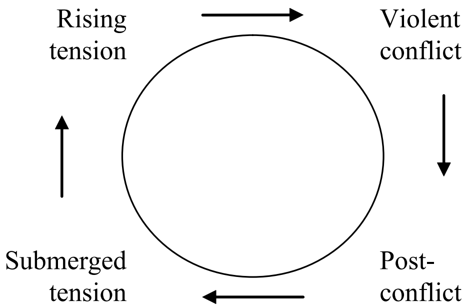

Figure 7 Phases of violent conflict (modified from How to Conduct… 2004, 34)

There are four different stages depicted in Figure 7, and they are illustrated in the form of a circle because the conflict formation may, in fact, be cyclical, so to speak. In other words, the post-conflict phase is not necessarily the end of the conflict, as there may be some submerged tension and therefore the threat of new violence.

Yet another entity to be defined concerns the different actors involved in conflicts. In order to comprehend the variety of perspectives in conflict situations, the actors should be recognised and taken into consideration. Nelson (2000, 49–54) defines ten primary actors that influence conflicts, illustrated below in Figure 8.

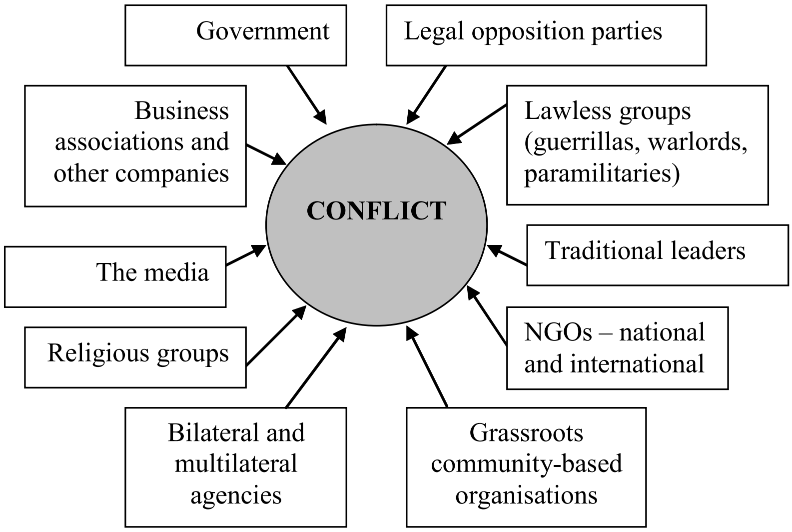

Figure 8 Actors in the conflict context (compiled from Nelson 2000, 49–54)

The existence of various causes, types and stages of conflict, as well as of the actors that are usually involved, is acknowledged in this paper. However, as the following discussion is meant to serve primarily as an initiator of further discussion, corporate social responsibility is not thoroughly described and analysed in the light of all these variables. The purpose is to introduce them, but conducting a deeper analysis would require limiting the research to smaller entities such as a certain state or a certain company. Since the idea is to give an overview of the situation, limiting the scope of the discussion would not seem to be expedient at this point.

5.3 Corporate engagement and CSR in conflict prevention and resolution

Before deciding on the appropriate way to approach a conflict area, decision makers should recognise in which conflict phase the state is engaged, and in which direction the situation is developing. The stage of the conflict could be expected to determine the conditions under which business is to be conducted and, above all, the extent and severity of the risks involved in entering/staying in the area and operating in it. (Nelson 2000, 45) On the other hand, the phase of the conflict will presumably also affect the degree and channels of corporate influence on it – in a positive as well as in a negative sense.

In practice, the stage of the conflict is usually one of the most significant determinants in defining to what extent the company needs to engage in conflict-related issues when planning operations in certain areas. In other words, depending on the stage of the conflict, the conflict-sensitive approach of the firm can vary considerably. The severity and scope of the conflict determines what kind of action is relevant in order to meet the requirements of socially responsible business, and thereby the kind of strategy that should be adopted for conducting business operations in a conflict area. Basically, companies have the option to engage in either conflict-*preventive* or conflict-*resolving* actions (Nelson 2000).

It could also be argued that the stage and quality of the conflict and the company's own resources and capabilities determine how intensively it should engage in the conflict. Banfield et al. (2003, 5) suggest that the strategies for managing corporate-conflict dynamics have three different levels, ranging from *compliance* to a *"do no harm"* strategy, and further to *peace building*, which is the most active one in terms of conflict-sensitive action. Nelson (2000) has compiled a figure (see Figure 9) presenting the different strategic options that corporations could follow when conducting business in conflict or conflict-prone areas. It could be assumed, on the basis of the figure, that it is essential to take into account the current stage of the conflict and to establish the business strategies accordingly.

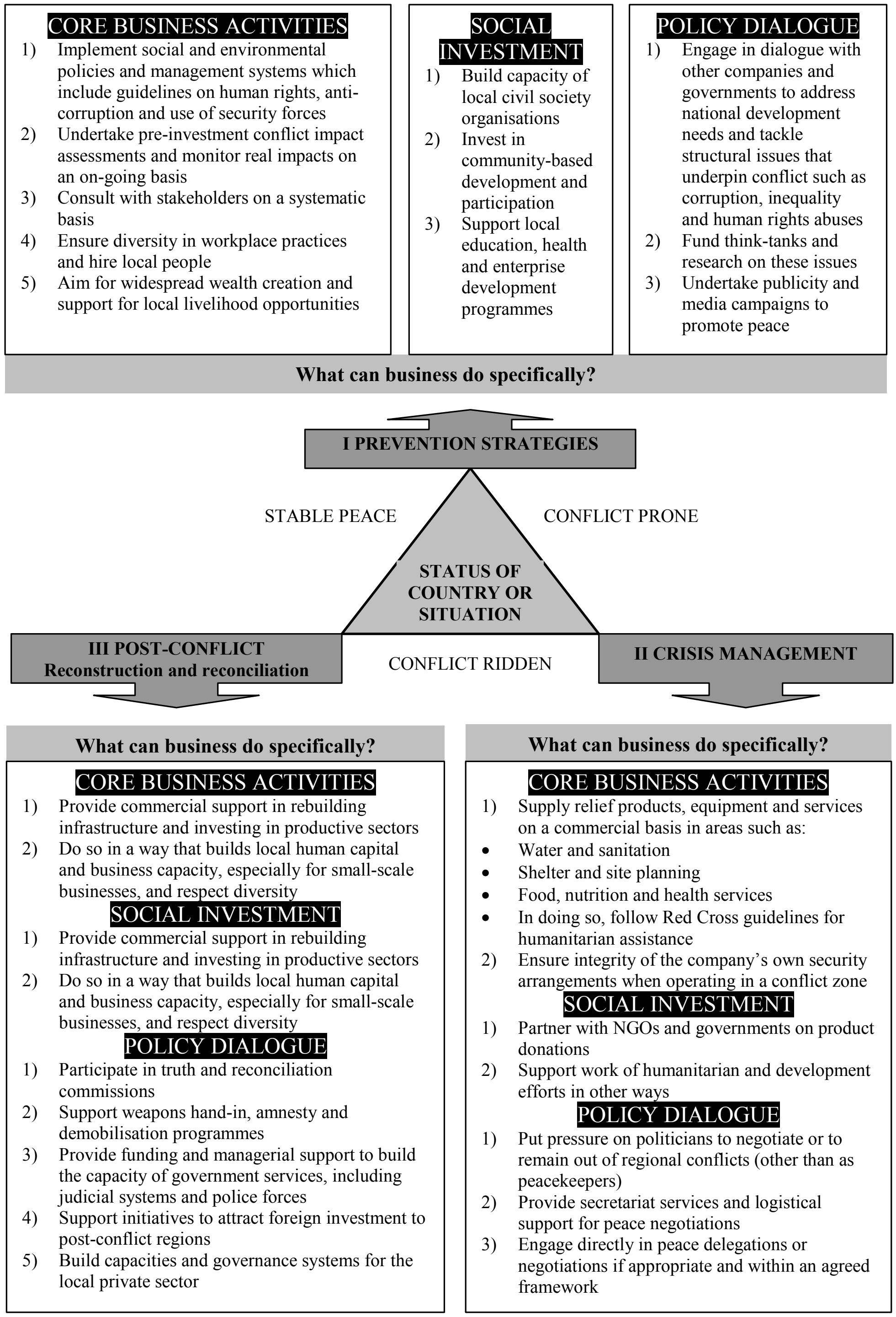

Figure 9 The ways in which business can make a positive contribution to conflict prevention and resolution (Nelson 2000, 64)

Switzer and Ward (2004, 5-6) argue that, regardless of the overall level of engagement, a corporate policy and management framework should include three distinct sets of issues regarding the connections between business and violent conflict. They introduce these issues as the "*three pillars of business action to address business and violent conflict*":

- Central management challenges
- Channels of change
- Overall management tools, skills and approaches

The *central management challenges* are presented in detail in the next section (Chapter 5.4) while the other two entities are briefly discussed below. *Channels of change* refer to *management practices* addressing links between core-business practices, violent conflict and peace building, to *social investment* – i.e. activities that may reduce conflict-related risks and contribute to peace building – and *public policy engagement*, which means building a peace-enabling environment. (Switzer and Ward 2004, 6) These management challenges resemble Nelson's (2000) main categorisations of what business can specifically do in conflict prevention and resolution - issues related to core business activities, social investment and policy dialogue (see Figure 9 above) - and thereby also the challenges that arise in conflict situations. In any case, it is essential in the socially responsible management of violent conflict that the business carefully defines its own relationship to the conflict and actively aims to find ways - or channels of change - by which it can contribute to conflict resolution and peace building.

Overall management tools, skills and approaches, in turn, include issues such as *top-level management commitment*, the *development of appropriate statements of commitment*, *working in partnership* with other stakeholders, *external reporting* on strategies and policies and on their impact over time, and *revising policies and strategies* in pursuit of continual improvement (Switzer & Ward 2004, 6). Unfortunately, not all of the above-mentioned issues can be addressed thoroughly in this context, but the importance of partnership with other stakeholders is considered in more detail in Chapter 5.5.

When discussing the possible ways in which corporations can engage in conflict prevention and resolution, it would seem appropriate to introduce also the notion of conflict-sensitive business practices (CSBP) since they have been established exactly for this purpose - in other words for suggesting appropriate practices in areas in which the corporations' operations have some connection with a conflict. As Ballentine and Haufler (2005, 22) explain, *"CSBP refers to proactive and responsive efforts to ensure that routine company investments and operations in weak states (including those at war and those emerging from conflict), do not contribute to ongoing violence, corruption, criminality or human rights violations*". They also refer to positive efforts to contribute actively to peace building, human security and sustainable development. In other words, the purpose of conflict-sensitive business practices (CSBP) is to exceed the mere “do-no-harm” level of engagement in conflict situations and give corporations suggestions on how they can actively contribute to conflict resolution. These practices are described in Table 6 below.

Table 6 Selected Conflict-sensitive Business Practices (Ballentine & Haufler 2005, 23)

Practice	***Purpose***	***Benefits***
Conflict Impact Assessments	To identify potential negative impacts of core business operations on host country political, social and economic stability	• Helps companies to anticipate and design remedies for potential problem areas, identify opportunities for peace building and decide on "no-go" areas
Multi-stakeholder Engagement (local and international)	To bring together relevant civil society, host and home government actors, and business in partnerships to identify problems, establish common norms and standards, and achieve mutually beneficial outcomes from business operations	• Enhances companies' social licence to operate • Clarifies roles and responsibilities between host government authorities and companies • Engages international community in identifying areas of agreement that clarify appropriate business behaviour • Allows local community voice in company operations that affect it • Adds to overall transparency and credibility of company commitments
Community Development Projects	To bring company skills and resources to bear on the development and welfare of the community most affected by its operations	• Supplements delivery of needed public goods in weak states, which enhances social licence to operate • Provides welfare benefits to affected communities that enhance their relationship with company, either as workers or as neighbours
Revenue Transparency	To decrease the potential for revenue capture and rent-seeking by elites, to prevent the financing of armed conflict, and to empower local communities	• Gives affected societies essential information for holding government authorities accountable • Enhances the social licence to operate, and decreases company exposure to charges of corruption • Limits the ability of combatants to use ill-gotten gains to finance war • Enhances social and economic stability for business
Commodity Certification	To ensure that the production and trade of lucrative commodities does not benefit warring groups or criminal actors	• Establishes clear criteria for legally produced and traded commodities • Reduces company exposure to charges of complicity in illegal trade
Responsible Security Arrangements	To undertake due diligence in hiring private or public security services and establish standards to reduce likelihood of human rights violations while protecting personnel/facilities	• Promotes security sector reform and civilian safety in surrounding communities • Protects companies from unwitting association with human rights abuse and criminal behaviour

In sum, it could be concluded that engaging in conflict prevention and resolution requires strong, holistic commitment on the part of the corporation, active information-seeking concerning the area and the conflict, as well as patient, long-term involvement in peace building. One of the greatest challenges is most likely to be to establish a process for defining the CSR criteria regarding a specific area and a specific conflict. As mentioned in the introduction, the appropriate criteria may vary depending on the country of operation and, more specifically, on its culture, legislation and economic ideology. This, naturally, makes it somewhat difficult to establish generalised CSR guidelines according to which corporations should operate globally.

Another relevant issue to be considered is, of course, the realisation of these guidelines and practices. As Ballentine and Haufler (2005, 22) state, while conflict-sensitive business practices make a welcome contribution to conflict-prevention efforts, micro-level tools may not be sufficient to address the sources of conflict that have their roots in structural factors on the macro-level. Therefore, they argue that in order to create and maintain conflict-sensitive business in practice, business-led initiatives need the support of complementary public policies. Gaining this support and agreeing on mutual goals among actors in business, politics and the local community could be argued to presume considerable co-operation between these different actors. The significance of collaboration is therefore discussed later in this article, in Chapter 5.5.

5.4 Challenges in conducting socially responsible business in conflict areas

It might appear contradictory to discuss the challenges and risks that corporations encounter in conflict areas in an article that focuses on CSR, and especially on companies' influence on conflicts. The justification for why it is, nevertheless, expedient to discuss the challenges also from the corporate perspective is to be found in Berman's (2000, 32) statement suggesting that understanding how corporations perceive war is a precondition for engaging them in nurturing peace. He suggests that diplomats could achieve negotiated solutions to conflict with the assistance of the corporate sector, but the corporate potential can be utilised only if the motivations behind the actions are understood.

Having interviewed managers of MNC operations around the globe, and a group of experts on the subject, Berman (2000) concludes that the following variables largely determine whether a corporation will operate in a country affected by a conflict:

- Geographic impact (scope) of conflict
- Severity of conflict
  - Territorial conflict (effective control over the region is in the hands of the opposition)
  - Incursional conflict (control remains with the government, but the opposition engages in frequent armed incursions and withdrawals)
  - Terrorist conflict (government control is firm, but isolated opposition can engage in isolated incidents of violence)
- Government and opposition
  - The quality of the business environment established by the government
  - The frequency and transparency of information and communication
  - Possible hostility towards foreigners or to the private ownership of property from the opposition
- Industrial sector (essential vs. discretionary products)
- Investment structure

It is obvious that corporations need to evaluate the challenges and risks that entering a conflict area or staying in it imposes on their business. It is interesting, however, that a high level of risk does not necessarily remove or reduce the willingness to conduct business in the area. For instance, the *industrial sector* may have an effect in the sense that if a firm produces services that are essential to the economy it usually feels less at risk from armed conflict than firms producing discretionary products. Furthermore, in cases in which the host country has high potential in terms of supplying something valuable to the industry, such as oil, the risk of armed conflict is frequently tolerated to a greater extent than in some other industries. (Berman 2000, 31)

In addition to this, the *investment structure* may be a strong determinant in business-entry decisions. MNCs often seek an investment structure that will reduce the risk from armed conflict to acceptable levels. As the assets at risk grow, many corporations turn to political-risk insurance (PRI) to limit the risks related to investment in countries experiencing armed conflicts. PRI policies insure against damage caused by civil war, insurrection or other politically motivated violence, and most of them offer global coverage. Corporations may also seek supplemental insurance from the host government. (Berman 2000, 32) In addition to these options, export credits can be used to assist and support exporting to certain areas. An export credit is a financing arrangement that allows a foreign buyer of exported goods and/or services to defer payment over a period of time. It may enjoy official support, which means that government-backed support is involved. Even though export credits facilitate exporting to areas in which companies might not otherwise operate, they have recently attracted quite a lot of attention and faced criticism since there have been concerns that they might have a detrimental effect on free and fair competition. (Export credits 2005)

Following this introduction of some of the underlying variables in the decision-making concerning operations in conflict areas and in the evaluation of challenges, an essential question remains. Do some entry motivations tend to result in less-socially-responsible activities than others? For example, if a corporation receives an export credit supported by the government and the credit appears to be its primary motive for entering a country or a market that is suffering a conflict situation, is the corporation likely to take social responsibility into account, and does it have a big enough urge to carefully study what the requirements for conducting socially responsible business in that particular area are? This example might be a little exaggerated, but the idea is to suggest that this side of the decision-making should also be considered in the design of guidelines for corporations, and especially when monitoring them - provided that monitoring is possible. In other words, it would be important to evaluate how much the availability of different risk insurances and export-credit systems affects a corporation's decision to make an entry into a certain country that is conflict-prone, or to stay in a conflict-ridden area. What kind of correlations do these arrangements have with entrepreneurial responsibility and commitment to CSR issues within the corporation, or can this kind of correlation be detected?

As the above indicates, there are several factors resulting from the conflict-sensitive nature of an area that may significantly change the basic conditions for conducting business there. In fact, in many conflict cases there are few things that would not be challenging from the business perspective. Pleuger (2004), on the other hand, points out that the conflict situation is, in fact, a mix of challenges and opportunities: there is the whole complex of entrepreneurial responsibility - or corporate global citizenship – but also great potential for private sector in any development or reconstruction strategy. This potential related to reconstruction projects should be regarded as an additional reason for carefully considering the role and power of business actors in these projects. Namely, the challenge in the reconstruction phase is that it may have a considerable effect on the future of the conflict-ridden state.

Moreover, Pleuger (2004) states that the private sector can make a remarkable contribution to the conflict transformation via its activities during the reconstruction. According to him, economic recovery is essential in order to lastingly resolve conflicts, to project political stability and thereby, simultaneously help to avoid possible new conflicts in the future. It could be argued that, since corporations have such an important role in these reconstruction projects, their motives should be sincere. Profit is, of course, the goal of making business, but since the future of a country recovering from a conflict is at stake, irresponsible corporations that are only attempting to take advantage of the weak stage of the economy can cause a lot of damage.

However, assuming in this context that a corporation is willing to carry its social responsibilities, it is necessary to recognise the challenges that underlie its business activities in these areas from two different perspectives – the corporate and the conflict perspectives. The risks and challenges affecting the decision-making concerning a company's entry into a conflict area, or its staying there, were discussed at the beginning of this section, but the reverse dynamics – the *corporation's effect on conflicts,* also needs to be analysed in order to enable successful engagement in reconstruction or other activities in conflict areas. Table 7 presents the *central management challenges* (one of the 'three pillars of business action to address business and violent conflict', see Chapter 5.3) that are relevant for business in conflict areas. The table succeeds quite well in presenting corporate-conflict dynamics: the 'challenges that a conflict can impose on the economic success of a corporation' as well as those 'issues that a corporation can consider challenging as they attempt to conduct business according to socially responsible methods'.

Table 7 Central Management Challenges for Business in Conflict Zones (Switzer & Ward 2004, 9)

1) TACKLING GOVERNANCE FAILURES THAT CONTRIBUTE TO CONFLICT
- Reducing macroeconomic dependency and vulnerability
- Minimising contributions to oppressive regimes
- Managing corruption and bribery
2) MANAGING COMMUNITY RELATIONS AND LOCAL IMPACTS
- Comprehensive decision-making for entry and exit
- Managing changing conditions across the project cycle (e.g., exploration, construction, operation; external shift from peace to conflict)
- Ensuring effective and responsible security arrangements
- Minimising community-level social and environmental impacts with implications for conflict
- Respecting human rights and negotiating local consent
- Managing distributional issues: resource access, land claims, benefit sharing and compensation
- Ensuring equitable contracting and hiring
3) MINIMISING CONFLICT FINANCE
- Addressing war economies: kidnapping, extortion and conflict commodities
- Managing investor and investment linkages
4) MINIMISING INDIRECT LINKS TO THE CONFLICT
- Managing upstream linkages: suppliers and business partners
- Managing downstream linkages: products and services
5) ADDRESSING THE CONFLICT CONTEXT
- Displaced peoples, small arms, humanitarian concerns, interaction with armed groups
- Becoming a surrogate or symbolic target

This list of challenges (Table 7) gives quite a comprehensive view on the issues that should be considered when engaging in business activities in conflict areas. In sum, it is quite obvious from the table that managing business in conflict areas requires a subtle approach to the local environment, discrete ways of acting and, above all, an insightful and objective way of perceiving the different actors' motives relative to the conflict.

While firms should recognise and take into account the above-mentioned challenges in their operations in conflict areas, it would appear to be equally important for NGOs setting the guidelines for corporate responsibility to understand the background of the firms' decision-making and risk-evaluation processes. However, according to Berman (2000), policymakers and advocates generally understand little about the way corporate managers approach the issue of armed conflict in their operational decisions. Co-operation would most probably provide a solution for this flaw. Collaborative social initiatives are therefore discussed in the next section.

5.5 Collaborative social initiatives

The issue that is frequently addressed in the context of conflict-preventive or resolving actions is the importance of co-operation between the different actors in the conflict area. A number of codes and guidelines refer to the value of partnership-based approaches in tackling the relationship between business and violent conflict (Switzer & Ward 2004, 15). For instance, the United Nations nowadays relies on its partnerships with the private sector to help fund its development work around the globe (Bennett 2002, 403). Donor governments and major multilateral donors such as the World Bank have also recognised that effective conflict prevention and peace building require improved coherence between the full range of external policy instruments, and greater coordination is needed during the implementation of aid programmes (International Alert 2000) and conflict-sensitive business practices (Ballantine and Haufler 2005, 22). The need for collaboration is also illustrated in Table 7, in which it is suggested that one of the greatest challenges in conducting business in conflict zones concerns “managing community relations and local impacts”. It is quite obvious that these cannot be successfully managed without co-operation with the local actors and the local community.

Indeed, Pleuger (2004) argues that private-sector engagement in all phases of a conflict can only be successful if it is embedded in a broader concerted effort, accompanied by strong partnerships among governments, international organisations, business and civil society. Moreover, Bray (2005, 10) points out that there is a heightened risk of local conflict if communities believe that they are not being consulted. He suggests that the best practice would be to form collaborative ‘tri-sectoral’ alliances between companies, government agencies and civil-society groups (this idea could be considered synonymous with the concept ‘multitrack-diplomacy’, introduced by Banfield et al. (2003, 65), see Chapter 0).

While Switzer and Ward (2004) agree with Pleuger (2004) and Bray (2005) on this, they also remind us that practical “how to do it” guidance concerning cooperation in conflict areas is still incomprehensive and somewhat unorganised. Although guidelines and conflict-sensitive business practices have been established recently, as mentioned in Chapter 5.3, Ballantine and Haufler (2005), argue that acting on the micro level might not contribute to peace building effectively enough, and emphasise the importance of collaborating with macro-level actors. Pearce II and Doh (2005), in turn, suggest that collaborative social initiatives (CSIs) could follow the five principles presented in Figure 10. These principles have not been designed specifically for conflict situations, but they would seem to be applicable also in that context.

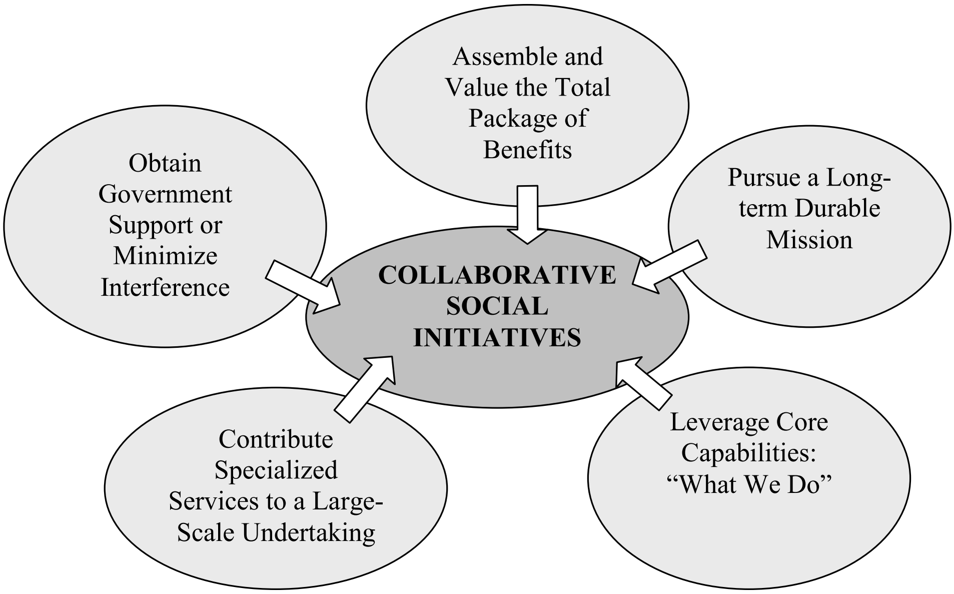

Figure 10 Keys to Successful Collaborative Social Initiatives (Pearce II & Doh 2005, 34)

The principles suggested in Figure 10 are instructions that might not be clear and self-evident without explanation, and therefore the purposes behind them are briefly explained below. Pearce II and Doh (2005) argue that *pursuing a long-term durable mission* is recommendable because companies make the greatest social contribution as they identify an important, long-standing policy challenge and participate in its solution over the long term. *Leverage of core capabilities (“what we do”)* is argued to be important since the social initiatives might be expected to gain maximum benefit if there is a strategic connection between the firm’s core business and the social initiative. *Contributing specialised services to a large-scale undertaking* is included among the principles since contributors to initiatives in which other private, public or non-profit organisations are also active have an effect that goes beyond their limited contributions (Pearce II & Doh 2005, 33–34).

Moreover, *government support should be obtained or its interference minimised* since it has been noticed that government support for corporate participation in collaborative social initiatives – or at least having an open and co-operative attitude – may have a major positive impact. *Assembling and valuing the total package of benefits* is recommended since project follow-up may enhance motivation and accelerate good results. The valuation should include social contributions delivered, as well as the reputation effects that improve the company's position among its constituencies. However, despite the pricing, there should be genuine commitment behind the initiatives, and they should not be seen as just another way of generating revenue. Stakeholders usually see through nominal commitments that aim only at short-term positive goodwill. (ibid., 35–36)

There is also implicit justification for the use of collaborative social initiatives in Pinkney's (2005, 3) arguments concerning globalisation, corporations and conflict. She discusses the role of voluntary guidelines – or codes of conduct for business – in enhancing socially responsible activities in conflict areas. These guidelines include, for instance, the United Nations Global Compact, the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, the Voluntary Principles on Security and Human Rights, and Amnesty International's Human Rights Guidelines for Companies. She points out that, while these guidelines are beneficial in their promotion of packages of principles that address the general problems businesses face when trying to act responsibly in difficult situations, they also have many drawbacks. One of these flaws is that they do not directly address many of the problems companies deal with when working in conflict zones, but often introduce generalised strategies that may not always be appropriate in very different regional and geographic contexts.

It could therefore be argued that, by engaging in collaboration, for instance, with local as well as international NGOs that are already familiar with the area, a company could gain valuable information on its specific characteristics and on the underlying causes that ignited the conflict in the first place. Furthermore, this kind of collaboration would also make sense because it could assist in avoiding overlapping functions in conflict transformation work. For instance, the goal of conflict-sensitive business practices (CSBP) that suggest how companies should contribute to conflict prevention and resolution (see Chapter 5.3), and other CSR guidelines, is largely similar to that in Civil-Military Co-operation (CIMIC) work, for example.

Common CSBP goals and more general CSR guidelines, and CIMIC operations, appear to be, for instance, to undertake such actions that facilitate the creation of employment and educational opportunities, technology transfer, and the raising of living standards. In addition to this, one of the primary tasks of CIMIC is to support local administration and to co-operate with it in order to improve and normalise the everyday life in the conflict or post-conflict area (Ahola 2005). Given their close relationship with the local administration and through conducting humanitarian work among the local people, CIMIC employees have a lot of valuable, practical knowledge related to the conflict area and the historical background of the conflict, as well as of the local people, their religion, habits and way of thinking, for example.

Moreover, many CIMIC operations are funded by foreign governments with peacekeeping forces in the conflict area. In Kosovo, for instance, the CIMIC projects in which the Finns are involved are financed by the country's Foreign Affairs Ministry fund that is reserved for the peacekeeping contingent's small projects (Ahola 2005). If the CIMIC-business co-operation, for instance, were more effective, the benefits would possibly be multiplied since the efforts would be coordinated, and two different organisations would not be striving towards the same end without knowing what the other was doing. Collaboration would undoubtedly eliminate the unnecessarily overlapping functions so that the funds could be used more effectively for the common goal. This strategy would be quite in tune with United Nations' (UN) efforts to share and coordinate resources and expertise with business in order to coordinate contributions to key development projects, including humanitarian relief efforts. The strategic allocation and sharing of knowledge and technology have particular significance in their coordination projects. (Witte & Reinicke 2005, 24)

5.6 Summarising comments

As mentioned in the introduction, the aim of this writing was to provide an initiative and encourager for further discussion on corporate social responsibility in conflict areas. By giving an overview of the basic definitions and the current discussion on the subject, the writer wanted to give a basis for future discussion on the theme.

It could be concluded from this overview that economic recovery appears to be essential in order to bring about a lasting resolution of conflicts, to project political stability, and thereby simultaneously to help to avoid possible new conflicts in the future. It is important to create sustainable businesses that are not dependent on the unstable status of the country or on the presence of the peacekeeping force, for instance. The corporations operating in the area naturally play a crucial role in achieving this kind of economic recovery.

The challenge is to engage the corporations in conflict prevention and resolution so that they may contribute to the development of the area effectively and in the right direction. In order for this to happen, it could be argued that their motivation to operate in the area in the first place, their commitment to it, and their so-called entrepreneurial responsibility are relevant factors in determining whether the engagement will result in successful outcomes.

However, corporations cannot resolve conflicts on their own, but merely contribute as one of the actors aiming at peace building in the area. Therefore, collaboration with the local community and the actors within it, as well as with the international or local NGOs, is necessary in order to enable effective conflict transformation from the violent phase to stable peace. This also applies to conflict-prevention work: collaborative initiatives improve the chances of anticipating, recognising and resolving submerged tensions, and thus of preventing new conflicts. All these actions require a subtle approach to the society in which the operations are being carried out. Comprehensive knowledge of the background of the conflict and the society and its culture also enhance the chances of successfully conducting socially responsible business in the area.

Unfortunately, achieving an ideal balance between business actors and conflict is not as black and white or as straightforward as these summarising comments might give reason to believe. There are still several open questions in terms of the practical aspects of CSR goals in conflict areas. One of the most important of these is, arguably, whether the guidelines - or codes of conduct - imposed on corporations should be voluntary or obligatory. Another concerns the monitoring of whether the corporations fulfil these requirements or not. Thirdly, it would be worthwhile considering the different kinds of corporate motivation to enter a conflict-prone area, and especially how this might influence the degree to which the companies fulfil their social responsibilities. All of these questions would be useful themes for further discussion.

> "Role of business in armed conflict can be crucial for good and for ill"
> - UN Secretary-General Kofi Annan -

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6 GLOBAL CORPORATE CITIZENSHIP IN POST-CONFLICT RECONSTRUCTION

Esa Stenberg

Abstract

Post-conflict reconstruction is a huge challenge for the countries and regions concerned. Recently, the role of the private sector in this has been the subject of debate, since it seems to be critically important for the long-term economic and social recovery of countries affected by conflict. Basically, companies are hesitant to invest or start operations in this kind of region, but the globalisation phenomenon has forced them to reconsider their responsibilities. The concept of global corporate citizenship (GCC) is adopted and discussed in this paper for the purpose of analysing questions concerning what companies could do in these regions and how. There are some well-known cases of companies that have taken their first steps towards finding a proper role. From the conceptual point of view, the post-conflict situation offers a specific context for testing GCC. It seems obvious that the various problems related to this situation cannot be addressed by the business sector alone. One strategy for implementing GCC would be to gradually develop partnerships with the relevant government and civil-society organisations. It also seems that a growing number of big multinational corporations (MNCs) are taking this challenge seriously. Together with the international organisations, they could develop guidelines for cooperation in these regions.

6.1 Introduction

Post-conflict reconstruction is a huge challenge for the countries and regions concerned. The role and strategies of the private sector have recently been emphasised in the financing of reconstruction on a sustainable basis. Private-sector development is critically important for the long-term recovery of economies affected by conflict (Bray 2005), which specifically means the creation of jobs and economic resources. Both local and international businesses have important roles to play in this effort. The post-conflict role of the private sector may be especially dramatic because conflicts are the greatest multiplier of humanitarian problems. The period of post-conflict reconstruction is the one in which the interest, investment capacities and cooperation of business are most needed (Maresca 2005).

The problem is that these are exactly the circumstances in which businesses are most hesitant to invest. They hesitate because of all the uncertainties – general instability, low levels of security, the absence of many normal services, and the difficulty of making a fair profit. Obviously, the normal, traditional incentives for taking considerable risks are missing.

The core idea of global corporate citizenship (GCC) is that companies have responsibilities (1) *beyond profit and compliance with the law*. Globalisation has led to the conclusion that these responsibilities must be considered (2) *within the global context*. It has also promoted a convergence of ideas about such responsibilities given the shift in dominance from national to transnational practices.

These core principles of GCC are most relevant when we consider how the private sector could be motivated to start operations and make investments in conflict-prone regions. Post (2000) poses the most essential questions regarding the concept of the *global corporate citizen:*

- What does it mean to be a global corporate citizen?
- What does global corporate citizenship mean for business strategy?
- What policies and practices can a society reasonably expect from its corporate citizens?

These questions are addressed in this paper in the context of post-conflict reconstruction.

6.2 Conceptual development

The concept of global corporate citizenship (GCC) is used instead of corporate social responsibility (CSR) here because it is considered more relevant in this context. The strategic and process aspects of corporate social responsibility (CSR) have been further developed within the concept of *corporate social responsiveness* (Wartick & Cochran 1985; Swanson 1995), while the debate on *corporate social performance* (Wood 1991; Swanson 1995) has focused on the outcomes of CSR. *Stakeholder theory* addresses the question of which groups in society corporations should be responsible to (Freeman 1984; Donaldson & Preston 1995).

Matten and Crane (2003) claim that, to some extent, these concepts have tended to gain wider and more enthusiastic acceptance in the academic literature than in corporate thinking and practice. They suggest that references to *corporate citizenship* (CC) have appeared in CSR discourse in the last few years primarily via corporate actors. However, its usage has been far from consistent and not quite clear (ibid). It clearly needs further elaboration and a more specified definition. The term originated in US businesses in the 1980s (Altman & Vidaver-Cohen 2000), and has since entered the language of the global business community. According to Carroll (1999), CC is an extension of the management literature and the research conducted under the auspices of CSR.

Siemens is one of the most active participants in the GCC debate. Its policy paper (Siemens 2004) states that it prefers to use the term corporate citizenship instead of CSR with regard to its principles, policies and reports because it believes that "CC provides a better reflection for what we are doing". The company emphasises the importance of being globally in tune with the guidelines of the Declaration of Human Rights, the ILO conventions, OECD guidelines, and Agenda 21. Siemens also expects this from its suppliers and business partners.

In its early usage CC was identified as charitable donations and other forms of corporate philanthropy undertaken in the local community. As opposed to corporations engaging in charity simply for the sake of it, CC presents a case for *strategic philanthropy* (Matten & Crane 2003). A typical example of this is represented by Texas Instruments, which defines CC as "giving back to the communities where we operate" since this "makes them better places to live and work in, thus making them better places to do business" (Texas Instruments 2002).

Global corporate citizenship could be seen as a way of promoting the company as a global entity, because as a citizen of the world they say they have a role in solving the social problems being faced (Matten & Crane 2003). This view is an argument for the use of CC, because post-conflict reconstruction is, to a great extent, a global social issue. Obviously, companies cannot define their business responsibilities alone, and other stakeholders also have an influence.[21] An important point is that stakeholder groups themselves are globalising as well: take, for example, the consumers to whom products are increasingly being marketed on a global basis.

The concept of citizenship is traditionally connected to nation states. As business has internationalised and gone global, the questions and pressures considered to belong on the domestic level in the 20th century have shifted to the global arena (Post 2000).

[21] Carroll (1993) divides stakeholders into two categories: primary stakeholders are those who are directly and permanently involved, such as employees and shareholders, whereas secondary stakeholders are more wide-ranging and include customers, suppliers, the government, NGOs, interest groups, the local community, the environment and the wider society

The change in the role of the state and the increased reliance on market forces has led to a context in which new emphasis has been placed on the self-regulation of companies (Jenkins 2001). *Corporate codes of conduct* are a manifestation of this in the areas of labour and environmental standards, and of human rights. The social and environmental impact of big business is no longer seen as primarily an issue for governments to deal with, and is now regarded as a matter of corporate citizenship, for which companies themselves, or their trade associations, should set standards (ibid).

Post (2000) proposed the following definition: "Global corporate citizenship is the process of identifying, analyzing, and responding to the company's social, political, and economic responsibilities as defined through law and public policy, stakeholder expectations, and voluntary acts flowing from corporate values and business strategies. Corporate citizenship involves actual results (what corporations DO) and the process through which they are achieved (HOW they do it)". The CC definitions of some well-known companies are given in Table 1 below.

Table 8 Commitments to corporate citizenship (Matten & Crane 2003).

Company	Corporate Citizenship Statement	Source
Exxon Mobile	“We pledge to be a good corporate citizen in all the places we operate worldwide. We will maintain the highest ethical standards, comply with all applicable laws and regulations, and respect local and national cultures. We are dedicated to running safe and environmentally responsible operations.”	http://www.exxonmobil.com
Ford	“Corporate citizenship has become an integral part of every decision and action we take. We believe corporate citizenship is demonstrated in who we are as a company, and how we conduct our business and how we take care of our employees, as well as in how we interact with the world at large.”	http://www.ford.com
Nike	“Our vision is to be an innovative and inspirational global citizen in a world where our company participates. Every day we drive responsible business practices that contribute to profitable and sustainable growth.”	http://www.nike.com
Nokia	“Our goal is to be a good corporate citizen wherever we operate, as a responsible and contributing member of society.”	http://www.nokia.com
Toyota	“With the aim of becoming a corporate citizen, respected by international society, Toyota is conducting a wide range of philanthropic activities throughout the world. Its activities cover five major areas: education, the environment, culture and the arts, international exchange and local communities.	http://www.toyota.co.jp

GCC is manifested in the strategies and operating practices a company develops in operationalising its relationships with and impact on stakeholders and the natural environment (Waddock 2002). It incorporates the rights and duties of companies, stakeholder relationships, and the opportunities and challenges in the global business environment. The concept integrates stakeholder relationships into their operationalisation, because in addition to carrying social implications through their business activities, they also includes issues related to company performance with respect to specific stakeholders and the natural environment (ibid).

Both internal and external factors influence the shaping of an organisation's citizenship. Its core values shape its strategic goals, business plans and activities. Companies link citizenship principles to business activities when operating on a global scale.[22]

The Global Corporate Citizenship Initiative, GCCI (2005) survey focused on how (its signatory) companies were building partnerships with other companies, governments and inter-governmental organisations, and non-governmental organisations in order to address key international development challenges, including leadership, innovation and good practice in corporate citizenship. The four key findings were as follows.

- Promoting good governance and tackling corruption.
- Getting "it right" in big emerging markets (China, India, Brazil, Russia, Southern Africa, South East Asia, the Middle-East) will be critical. These markets offer enormous long-term business potential, but also pose a variety of risks and challenges, including fundamental economic restructuring and uncertainty, political transition, evolving governance structures, poor working conditions, human-rights concerns, environmental stress and high levels of inequality. It is obvious that none of these issues can be addressed by the business sector alone.
- Development challenges cannot be met without partnership between business, government and civil society.
- Two main reasons for getting engaged in partnerships were: committing to the company's own values, principles, policies and traditions; and protecting the corporate reputation and brand.

The second finding relates strongly to post-conflict reconstruction as it stresses the role of companies in emerging markets, and also the need for private-public partnerships.

Post (2000) analysed global corporate citizenship as an evolution of thinking. Different types of knowledge are created as an organisation moves through various stages of response to social and political issues (Figure 11).

[22] At Motorola, for example, the company's core values ("respect for the individual" and "uncompromising integrity") require active management responses to ethical issues that arise around the world. The company has created a global ethics process that engages senior corporate managers with those who are at the front line of day-to-day business conduct in locations around the world (Post 2000)

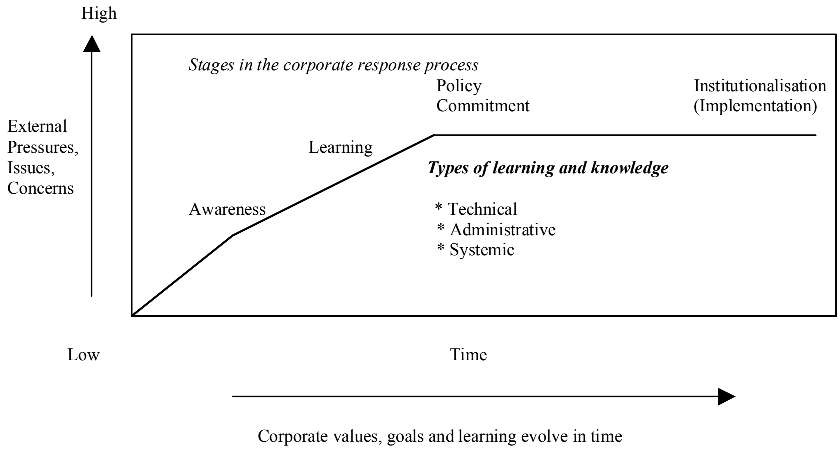

Figure 11 The evolution of global corporate citizenship thinking (Post 2000, 31).

Organisational learning includes how to identify, monitor and engage issues in a timely and effective way. The experience of each company in its interaction with various stakeholders shapes its corporate citizenship profile.

In order to be competitive in terms of citizenship strategies, many companies have recognised that it is important to integrate global business strategies and local interests. International business research has shown that the introduction of a global brand in a developing country is not likely to succeed against domestic competitors unless the global company establishes its credibility as a local company (Post 2000). This is an important point in terms of long-term business prospects. Once a company takes a positive role in a post-conflict situation, it can effectively establish credibility in the country's markets.

Zadek (2001) suggests that GCC has grown up over three generations, each one trying to address a specific question. The first generation tackled the question: "Can corporations be responsible in ways that do not detract from, and may add to, the commercial value of their business?" The answer was positive. The second generation asked: "Are more responsible companies likely to prosper in the future?" Here, a less certain answer was forthcoming. The present generation of corporate citizenship is confronted with the question: "*Is corporate citizenship likely to make a significant contribution to addressing the growing levels of poverty, exclusion and environmental degradation?*" It is the consideration of this question that should have the biggest impact on the success and reputation of corporate citizenship in Africa. (de Jongh & Prinsloo 2005)

6.3 GCC in the context of post-conflict reconstruction

Countries or regions emerging from conflict are good testing grounds for the principles of GCC, at least in terms of the third question raised by de Jongh and Prinsloo ("Is CC likely to make a significant contribution to addressing the growing levels of poverty, exclusion and environmental degredation?"). These countries urgently need basic infrastructure services, but they lack the public revenue, government capacity and investor interest to provide them (Schwartz, Hahn & Bannon 2004).

As new governments in conflict-affected countries begin to prioritise policies and interventions during the process of reconstruction, they may have vague or detailed knowledge of the potential role of the private sector in the provision of infrastructure services. Schwartz, Hahn and Bannon argue that, although governments find it difficult to implement public-private arrangements for providing these services, the benefits are obvious.

In fact, since 1990, over 130 developing countries have transferred the operating risk of power, water, telecommunications and transport projects to the private sector through a wide range of public-private partnerships. These 2,500 infrastructure projects have resulted in the mobilisation of about 750 billion US dollars in investment commitments[23]. The problem is that *conflict-affected countries – particularly those that could be characterised as weak or non-functioning states – have been markedly less successful than other developing countries in attracting private investments for the rehabilitation or expansion of their basic infrastructure* (ibid). The reasons are obvious:

- higher political and economic risks
- a lack of counterpart agents
- greater investment needs
- lower payment capacities on the part of consumers

The international community seeks to improve post-conflict situations by re-establishing the framework conditions in which business and other aspects of economic life can function normally. This is important, but it is not enough. Businesses focus on specific opportunities that fit their business models, and unless they are attracted to such opportunities, they will not invest. *New ways must be found to attract and involve businesses under these circumstances in order to ensure early investment and job creation.* Maresca (2005) calls this "encouraged investment".

What are needed most are wholly-owned or partially-owned small and medium-sized businesses that offer meaningful, sustainable jobs to local

[23] Estimates taken from the World Bank PPI Database.

people. Typically, this means small and medium-sized investments by local entrepreneurs.

In order to encourage domestic investment and to attract foreign direct investments, it is essential to have in place a stable, supportive, effective and transparent legal framework. Although a growing number of companies throughout the world are involved at the early stage of war-to-peace transitions, few will be able to sustain their involvement unless initiation of the rule of law and institutions practicing good governance soon follow. (Gerson 2000)

Kanter (1999) points out that, although "traditionally, business viewed the social sector as a dumping ground for spare cash, obsolete equipment, and tired executives, today smart companies are approaching it as a learning laboratory". Herein lies the context for the emergence of *a partnership between private enterprise and public interest that would produce profitable and sustainable change for both sides.* (ibid)

Gerson (2000) raises the question of what the business can "learn" from entry into troubled areas. One thing is that it meets the challenge of establishing a business under adverse conditions, but conditions that nevertheless promote the shaping of the market for decades to come by securing preferential rights for early entrants and drawing up the legal and regulatory framework in which they will have to operate.

6.4 Human-rights issues

Connected to the corporate citizenship concept is the growing acceptance that companies should respect the human rights expressed in the Universal Declaration of Human Rights. The question remains *how it is possible to ensure that companies are responsible and accountable* (Howen 2005). As in many CC issues the crucial question is whether voluntary initiatives by companies are enough, or whether there is a need for obligation. The international debate on this has become polarised over the last couple of years, and has been a source of controversy especially within the United Nations.

Nicholas Howen, the secretary-general of the International Commission of Jurists, said recently (21.10.2005) that he did not see any alternative but "*to move gradually towards developing a set of legally binding rules, a set of global standards about the ways in which companies should respect human rights".* Howen claims that these should be rules that not only require states to ensure that companies do not violate human rights, but which can also apply directly to companies if states are unwilling or unable to enforce them. Governments still have the primary obligation to respect human rights, and this primary responsibility cannot be shifted onto business. The point is to make businesses accountable when their actions seriously affect human rights. (Howen 2005)[24]

On human rights issues, the guidelines most frequently referred to by companies are the UN Global Compact and the Universal Declaration of Human Rights, and the Declaration of the International Labour Organisation. The UN Human Rights Norms for Business go into much greater detail, and reference key international instruments that provide much more significant guidance to transnational and other businesses confronting these issues, as well as to the individuals and groups affected by and monitoring compliance (The UN human rights norms for business 2004).

6.5 The role of the private sector

Bray (2005) draws the conclusion that the role of international companies in post-conflict reconstruction is an essential complement to the work of international aid agencies, and that the importance of the private sector will increase as aid flows continue to decline. A better understanding of the variations within the private sector is needed. Who invests, and why? What can be done to ensure the maximum social benefits? The first point concerns the *balance between large companies – the truly global players – and smaller regional firms.* Large companies will invest if the conditions are right, but post-conflict countries are much more likely to attract smaller companies with a higher tolerance of risk (ibid).

The mobile-phone sector offers examples of European-based niche players, such as Millicom, Mobitel and Celtel, all of which operate in post-conflict states in Africa and are competing with two South African companies, Vodacom and MTN. The Australian company Telstra was the first to set up operations in Timor-Leste after the Indonesian withdrawal in 1999. (ibid)

As far as niche players are concerned, there is a special group of investors, *diaspora investors, or* people who originate in the country concerned but who have established themselves – and built up funds – abroad. Many, but not all, diaspora companies are SMEs: Celtel, for example, was founded by Dr. Mohammed Ibrahim, who was born in Sudan and explicitly cites the desire to

[24] Howen gives a few examples from many well-documented cases. Some companies have been implicated in the torture or ill-treatment of prisoners in Iraq. In Bosnia-Herzegovina there are companies that are discriminating against returning refugees by only employing Croats. In Burma, UNOCAL was well aware that its business partner, the Burmese government, was using forced labour and torture to clear land around the Yanada oil pipeline. The de Beers group has admitted buying diamonds from rebels, knowing that this money funded these groups' military activities and acts of serious violence against civilians.

'give something back' to his home region as one of his motivations for setting up his network of companies across 13 countries in Africa. Similarly, Afghan-American investors have provided a substantial proportion of the backing for the Afghanistan International Bank. In Somalia, expatriate returnees have used their funds and their external contacts to help set up their country's mobile-phone networks. Diaspora investors may be a major asset to countries that otherwise find it difficult to attract international commercial interest (ibid).

International donors typically benefit from widespread publicity and international goodwill immediately after the end of a conflict. This leads to a substantial increase in the flow of aid in the first two years, but the flows begin to decline by the third or fourth year (Collier et al. 2003). On the other hand, *international commercial interest is likely to be very limited in the immediate aftermath of conflict.* The companies most likely to be active are those who, like the construction companies, are directly involved in the physical reconstruction. By the third or fourth year, there may be greater interest from investors (Bray 2005). Within this overall pattern there are significant variations between different sectors and types of company (ibid).

The private sector's role in post-conflict situations incorporates many practical operational areas. The most immediate tasks are in the area of repairing the key infrastructure, providing tax revenues to fund government expenditure, retraining ex-combatants, rebuilding social capital, and engaging with government and other civil-society actors in a public dialogue about the country's needs. Local SMEs play a vital role, especially in job creation. Indirectly, the private sector's existence augments stocks of capital through repeated transactions and contract agreements that eventually lead to increased levels of trust.

6.6 Managing societal effects

Companies may adopt one of three different strategies in managing their effect on society: compliance, risk minimisation and value creation (Figure 12).

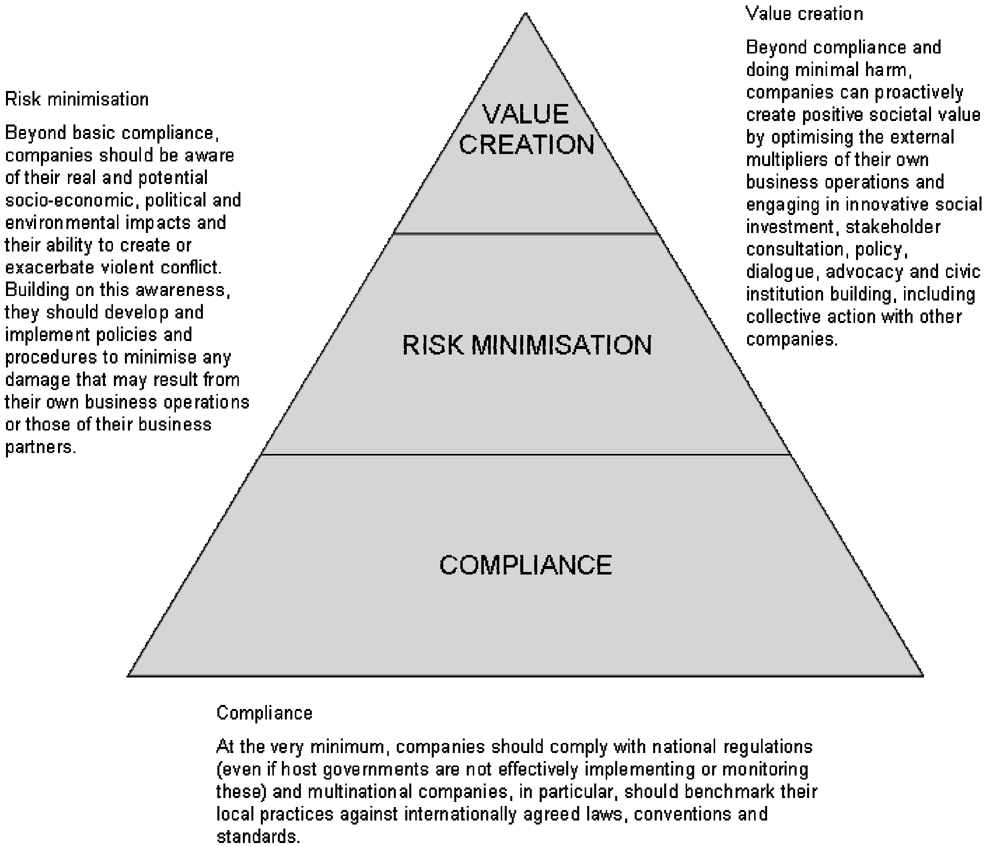

Figure 12 Strategies for managing corporate responsibility (Nelson 2000, 28).

Companies can contribute to conflict prevention, crisis management, and post-conflict reconstruction and reconciliation through their (ibid.):

- core business operations
- social investment and philanthropy programmes, and
- engagement in public-policy dialogue, advocacy and institution building.

As a framework for considering the areas in which companies can make a positive contribution to their host countries and communities, the following five areas are suggested (Building competitiveness and communities 1998):

- strengthening economies
- building human capital

- promoting good governance (at both corporate and national levels)
- protecting the environment
- facilitating social cohesion and respect for human rights.

To date, few companies have made explicit public commitments concerning their role in conflict prevention and resolution. However, a growing number are issuing policy statements, principles and operating guidelines on specific issues that are linked to conflict prevention such as human rights, anti-corruption measures, security arrangements and labour conditions (Nelson 2000). Over the past few years, for example, Shell, BP Amoco, Rio Tinto, British Telecommunications, Premier Oil, Nokia, Novo Nordisk, Norsk Hydro and Statoil have incorporated explicit statements on human rights into their business principles or policy statements (ibid). Several of these companies are now developing performance indicators for the way they deal with human rights at the operational level.

To complement its resource capacity and commercial objectives, the private sector can also provide a social and humanitarian contribution to the reconstruction effort. In an increasing number of cases there is an internal war behind the post-conflict reconstruction. Internal war is largely understood as stemming from a combination of resource competition and weak institutions. In other words, it originates in under-development.

6.7 Discussion

Post-conflict reconstruction offers a specific context for testing the GCC concept. In the global business setting, the demands on a good corporate citizen are high, of course, especially for big MNCs (or TNCs). For them, GCC means the ability to follow and be aware of the political and economic circumstances in any part of the world. They are expected to build a value framework for this kind of situation based on their knowledge and awareness. The values shape the strategies. In its simplest form a strategy could be that the company simply avoids operating in conflict-prone areas, and this is obviously the one most frequently adopted.

If, however, the strategy is towards real GCC, some guidelines must be developed for approaching various conflict areas. One of the findings of the Global Citizenship Initiative survey was that companies want to ‘get it right’ in these markets. At the same time, it was obvious to them that the various problems could not be addressed by the business sector alone. One strategy for implementing GCC would be to gradually develop partnerships with the relevant government and civil-society organisations for the purpose of defining the proper role for each of these stakeholder groups.

De Jongh and Prinsloo (2005) suggest that the present generation of CC is confronted with the question: "Is CC likely to make a significant contribution to addressing the growing levels of poverty, exclusion and environmental degradation?" In their opinion, consideration of this question should have the biggest impact on the success and reputation of CC in Africa. What answer is given very much indicates what kind of contribution CC has in post-conflict reconstruction. There are clear signs that the biggest MNCs take CC seriously in these regions, and they are obviously looking for a proper role mainly in partnership with public organisations. New projects for defining guidelines for this kind of operation are in preparation, one of which involves cooperation between the Crisis Management Initiative (President Martti Ahtisaari) and the Turku School of Economics and Business Administration.

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