

## What is Corporate Social Responsibility?

Have you ever wondered if anyone or anything was harmed during the production of the items you use every day? You may have heard about fair trade, sweatshops, damage to the rainforest, and corporate corruption, but what does it all mean? How can you be an informed consumer? How can you be sure that the company you work for demonstrates ethical practices? How can you contribute to making the world a better place?

Companies around the world consistently worry about their profits, but are also increasingly concerned with social responsibility and corporate reputation. **Corporate social responsibility (CSR)** is defined as the duty of a company's management to work in the best interests of the society it relies on for its resources (human, material, and environmental), to advance the welfare of society, and to act as a good global citizen through its policies. CSR can take many forms, including:

- Making charitable donations
- Treating employees ethically
- Being environmentally conscious
- Ensuring safe working environments
- Sponsoring local sports teams
- Creating and promoting diverse workplaces

### Benefits of Corporate Social Responsibility

Companies gain many advantages by demonstrating strong CSR:

- Companies use CSR as a marketing tool. Many educated consumers are interested in buying from companies that have solid CSR track records, such as Starbucks, Honda, and Roots.
- Being socially responsible dissuades governments from implementing regulations that might interfere with businesses. For example, if companies implement their own environmental controls, governments do not have to create pollution laws and pay to monitor compliance.

#### Impact: Society

Should companies be socially responsible?

Yes: Companies should be socially responsible because it is good for their employees, customers, communities, and the environment.

No: Companies should only meet their legal obligations, as being socially responsible may reduce their profits.



The Body Shop is a company that has built its reputation on corporate social responsibility.



## Global Gaffes



Entertainer Sean "Diddy" Combs and rapper Jay-Z found themselves in the dog house with their fans when it was revealed that both had used real fur in their clothing lines. The Humane Society of the United States tested the coats, found that the fur was from a dog native to Asia, and registered a complaint. Both Combs and Jay-Z stopped selling the garments.



- Companies can attract and retain excellent employees if they have solid CSR practices. This is especially true if employees are allowed to contribute and have their say with regards to the company's practices. For example, some companies pay employees to work for the United Way. These employees apply for the opportunity to be chosen to work for the United Way as sponsored employees during its fundraising campaign. During Motorola's Global Day of Service in 2008, over 10,000 employees volunteered on 329 service projects in 45 countries.

Some companies have successfully improved their corporate reputations. Gap Inc. and Nike traditionally had poor CSR practices, which included using sweatshop labour. In 2009, both companies were named to the Jantzi-Maclean's Fifty Most Socially Responsible Corporations, published by *Maclean's* magazine. Gap Inc. was cited for its implementation of a pilot project that allows the company to track where the fibres in its clothing originated to make certain that they were produced responsibly. Nike has recycled more than eighteen million pairs of shoes through its Reuse-A-Shoe program. The recycled shoes have been turned into surface materials for two hundred sports floors around the world.

**Table 6.1: Jantzi-Maclean's Fifty Most Socially Responsible Corporations, 2009**

SN Plus Inc.	Great-West Lifeco Inc.	Plutonic Power Corp.
ARISE Technologies Corp.	H. J. Heinz Company	Rio Tinto Alcan
Ballard Power	Hennes & Mauritz (H&M)	Royal Bank of Canada
Bank of Montreal	Hewlett-Packard Company	Stantec Inc.
Bank of Nova Scotia	Honda	Starbucks Corporation
BCE Inc.	HSBC Holdings	Sun Life Financial
BioteQ Environmental Technologies Inc.	IBM Corp.	Sun Microsystems Inc.
BMW	ING Group	Suncor Energy Inc.
Brookfield Properties Corporation	Innergex Renewable Energy Inc.	Talisman Energy Inc.
Canadian Hydro Developers	Johnson Controls Inc.	Telus Corporation
Canadian Pacific Railway Ltd.	Kinross Gold Corp.	Toronto-Dominion Bank
Cascades Inc.	Loblaw Companies Ltd.	Transalta Corp.
Catalyst Paper	Manulife Financial	Transcontinental Inc.
Dell Inc.	Nexen Inc.	Westport Innovations Inc.
Gap Inc.	Nike Inc.	Xerox Corporation
General Mills Inc.	Novelis Inc.	Zenn Motor Co.
Gildan Activewear	Petro-Canada	



## Criticisms of Corporate Social Responsibility

There are also some criticisms of CSR:

- Being socially responsible costs companies money, which detracts from the amount of profit a company can earn. This conflicts with the true purpose of any business, which is to produce goods or services at a profit. Milton Friedman, a famous economist, once argued that companies that are socially responsible are stealing from their shareholders.
- Companies spend valuable time and employee energy on CSR. Instead, they should concentrate on maximizing shareholders' wealth, and demonstrate responsibility by obeying laws and paying taxes.
- Good corporate practices can be used to distract customers from problems a company may be creating. For example, Imperial Tobacco Canada donates 1 percent of its pre-tax profits to non-profit organizations through its CSR program. As helpful as this donation is, it does not change the fact that the company sells one of the most dangerous products available.
- Companies may use CSR to enhance their reputation with domestic consumers, but may not act ethically in other countries.

## Corporate Social Responsibility in a Global Company

Companies need to be consistent in their CSR strategies. Their practices in foreign countries need to mirror their domestic practices or the company will be seen as hypocritical. It is wrong for a company to market itself as socially responsible in Canada, but be guilty of misbehaviour in other countries. If a company wants to use its CSR to bolster its reputation, yet does not act ethically in other countries, consumers will find out. Today's consumer is educated and can easily find out about corporate wrongdoing using technology, such as the Internet, and through special interest groups. A responsible corporate record is important to a company's success, because consumers who find out about a company's misdeeds will react by spending their money elsewhere.

Companies need to educate employees on their policies, practices, and expectations if they wish to establish consistent CSR practices. Many companies provide employees with a code of ethics that includes international considerations such as bribery, cultural sensitivity, supplier-customer relationships, confidentiality of information, and treatment of labourers. Sun Life Financial has a thirty-page code of business conduct aimed at educating its employees. This code addresses subjects such as fraudulent activities, money laundering, customer confidentiality, and fairness in the workplace. Companies also need to support their CSR practices by setting a CSR budget, appointing corporate officers who are leaders in CSR, and establishing a reward system that supports and encourages corporate social responsibility. Although companies may have many policies regarding CSR, they cannot guarantee that individual employees will act in an ethical way. It is important that companies hire honest employees and managers who will act as moral examples.

### Impact: Ethics

Is it important to buy from socially responsible companies?

Yes: People should make certain that the products or services they purchase are from socially responsible companies.

No: As long as companies are meeting their legal obligations in the countries in which they operate, it is fine to purchase their products and services.

**“Acting in an ethical way is not only the right thing to do—it also unlocks new ways for us to do business better.”**

Dan Henkle, SVP, Global Responsibility, Gap Inc.

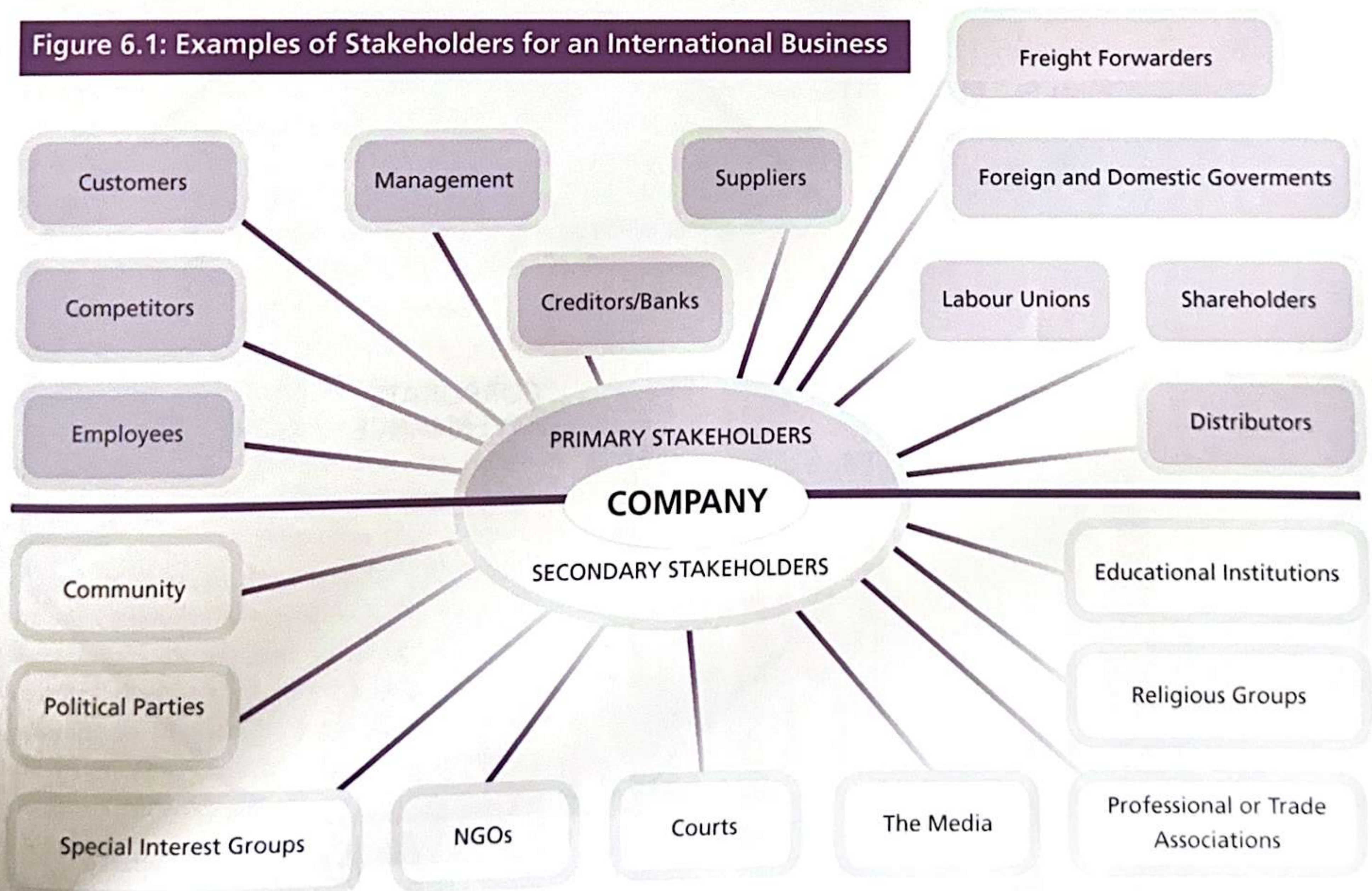


## Stakeholder Analysis

No matter how ethical a company is, it is difficult to please everyone simultaneously. Which group's interests are most important when a company is faced with an ethical dilemma? One way for a manager to analyze such a dilemma is to conduct a stakeholder analysis. Stakeholders are groups affected by the organization that have a stake in its success and profitability. Primary stakeholders, including customers, suppliers, competitors, and employees, directly affect the company and its profitability. These stakeholders are of critical importance and their interests should be considered first. Secondary stakeholders also have an impact on the company, but do not directly influence its success or contribute to its profitability. Secondary stakeholders include the local community, special interest groups, and the media.

When preparing a stakeholder analysis, managers should analyze which stakeholders have the most power and influence in the decision-making process. It is important to identify which stakeholder has the greatest impact on the profitability of the company. When Nike changed its ethical practices to become more socially responsible, it did so in response to customer concern about its reputation for using sweatshop labour. Key stakeholders in this situation included customers, management, employees, international governments, and suppliers. The media and special interest groups were important secondary stakeholders. These groups dramatically influenced the behaviour of primary stakeholders by educating customers about Nike's corporate practices. Currently, Nike has a well-developed code of conduct that is also used by its independent contractors, and it consistently pays above minimum wage.

**Figure 6.1: Examples of Stakeholders for an International Business**





## Business Ethics

**Business ethics** refers to a set of rules or guidelines that management or individuals follow to make decisions for their company. These guidelines include domestic and international laws, the company's code of ethics and corporate governance (see below), and the personal values of the individual making the decision. But even with such guidelines, not every situation has a clear ethical answer. That lack of clarity can lead to an ethical dilemma. You may have faced ethical dilemmas—whether to copy a friend's homework, call in sick to work to go out with friends, or illegally download music. Companies face ethical dilemmas related to paying bribes, using child labour, and corporate corruption.

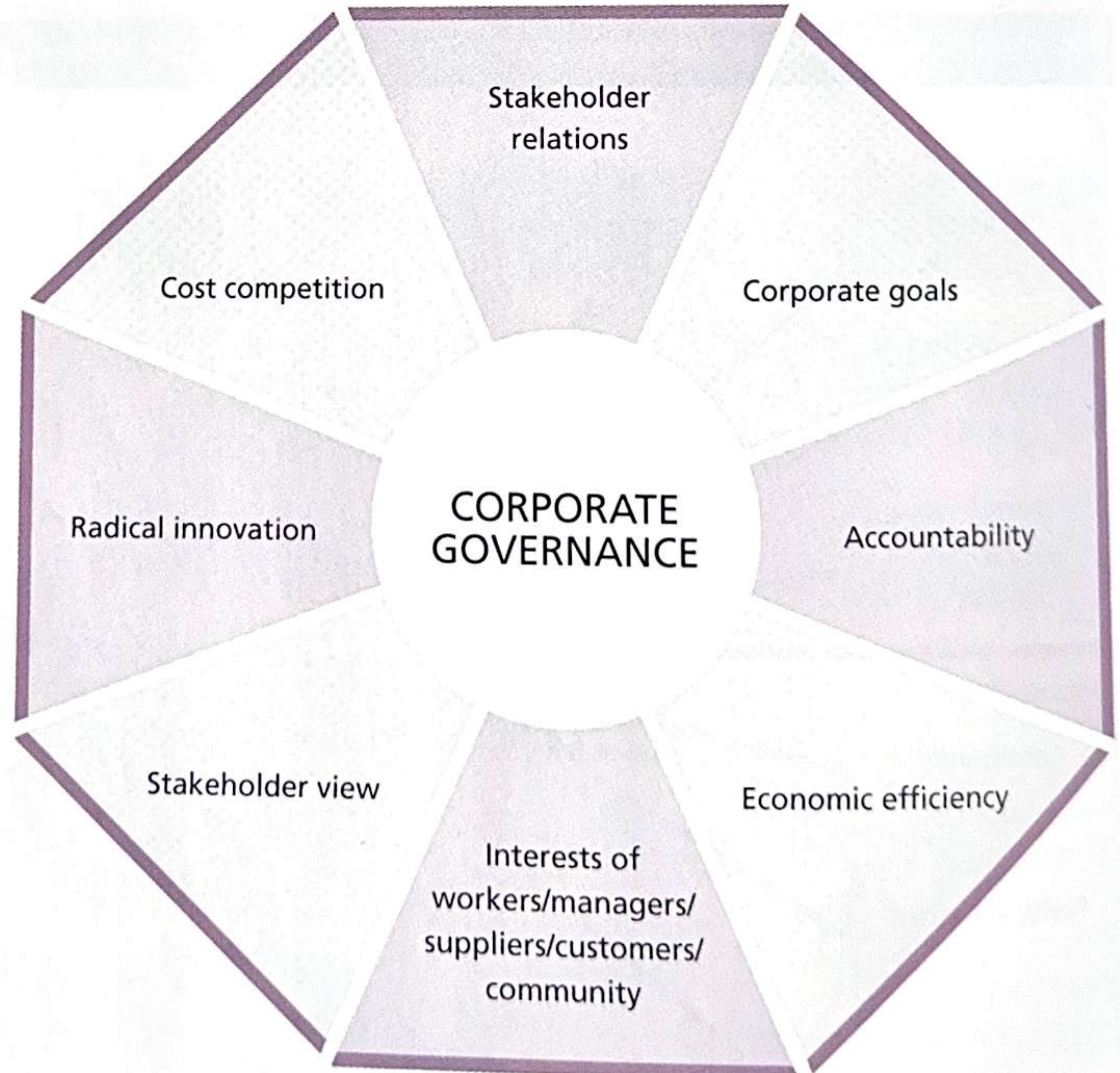
Beyond standard guidelines, companies can consider the “test of disclosure” method to solve an ethical dilemma. They can ask themselves, “How would we feel if everyone knew about the decision we made?” If they are not concerned, they have likely made an ethical decision. If they are concerned, they have probably not made the right choice.

You can also solve ethical dilemmas at work by asking:

1. Am I being honest?
2. Is my choice fair to the company's stakeholders?
3. Will my choice enhance the reputation of the company?

If the answers to these questions are yes, your decision is probably ethical. If you answered no, you need to rethink your solution.

**Figure 6.2: Corporate Governance**



Corporate governance is the set of processes, policies, and values that affect a company's day-to-day operations at every level.





British Prime Minister Gordon Brown meets with Saudi and British business leaders in Riyadh in 2008. In order to be successful when conducting business internationally, companies and governments must create standards and adapt them to accommodate local customs.

### Global Ethical Reasoning

How do companies working in many different countries, cultures, and value systems solve ethical dilemmas? How can a company be certain that people around the world will see its actions as ethical? For companies with a global focus, ethical decision making is more complex and less clear.

There are two methods of thinking about ethical issues in a global context. The first is the concept of **ethical imperialism**. From this viewpoint, also known as ethical absolutism, certain universal truths or values are standard across all cultures. In other words, if something is wrong in one country, it is wrong in all countries. For example, in Canada we believe that child labour should not be allowed. We have laws that require children to stay in school until they are eighteen. If we apply the viewpoint of ethical imperialism to this situation, no Canadian company would employ anyone under the age of eighteen on a full-time basis anywhere in the world. Critics of this viewpoint state that ethical imperialism wrongly forces the values of one culture onto another.

At the opposite end of this continuum is **cultural relativism**. According to this perspective, the values of different cultures should be respected, as the ethics of one culture are not seen as better than those of another. Companies that follow the idea of cultural relativism make decisions in the context of the cultural values of the countries in which they are doing business. Canadian companies would not impose their values on workers in other countries. For example, if the laws of a country permit sixteen-year-olds to work full time, a Canadian-owned business in that country would hire people of this age. A sixteen-year-old in another country may be providing the income his or her family needs to survive, and refusing to hire him or her could cause hardship. Decisions are even more difficult in countries where it is legal to hire a twelve- or fourteen-year-old.



### Think About It!



- 6.1 Define corporate social responsibility.
- 6.2 Provide four examples of social responsibility.
- 6.3 Describe how a company benefits from social responsibility.
- 6.4 What are two criticisms of social responsibility?
- 6.5 State ways a company can ensure it has consistent social responsibility practices across countries.
- 6.6 What is the purpose of a stakeholder analysis?
- 6.7 Explain the difference between primary and secondary stakeholders.
- 6.8 Define business ethics.
- 6.9 Define ethical imperialism. State an example.
- 6.10 Define cultural relativism. State an example.

In reality, neither ethical imperialism nor cultural relativism is completely correct; they are just two extremes.

**Table 6.2: Ethical Imperialism versus Cultural Relativism**

Ethical Imperialism	Cultural Relativism
One set of values for all cultures	Values are dependent on the culture
Right and wrong are the same in all cultures	Right and wrong depend on local values
A person's ethics are not situational	When in Rome, do as the Romans do

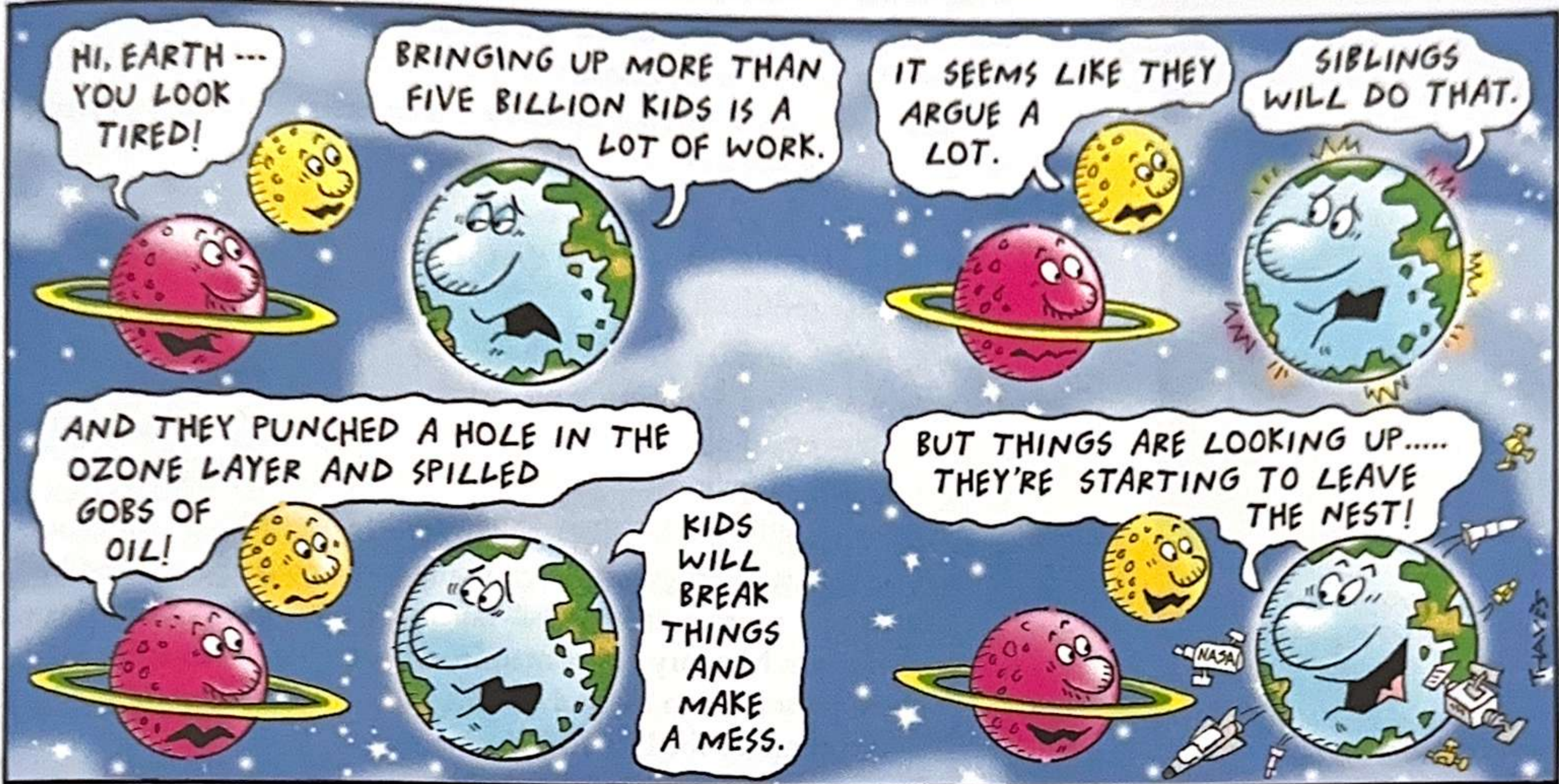
Companies should create a set of standards that must be followed in every country and then adapt them to local customs. The United Nations has attempted to create a minimum set of acceptable practices through its Universal Declaration of Human Rights.

### Universal Declaration of Human Rights

In 1948, the General Assembly of the United Nations created a framework for all nations to describe and ensure the rights of all people. The declaration is composed of thirty articles that promote peace, justice, and freedom throughout the world. In 1996, these articles were divided into two codes, one for political and civil rights and one for economic, cultural, and social rights. These include the right to:

- Life, liberty, and security
- Freedom of expression
- Freedom from slavery
- A fair trial
- Equal treatment before the law
- Freedom of movement, and the right to leave any country, including our own, and return to that country
- A nationality
- Marry and have a family
- Take part in the government of his or her country, directly or through freely chosen representatives
- Work, free choice of employment, just and favourable conditions of work, and protection against unemployment
- Equal pay for equal work
- Rest and leisure, including reasonable limitation of working hours and periodic holidays with pay
- Own property alone or in association with others
- Freedom of thought, conscience, and religion





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## Ethical Issues in International Business

There are many ethical issues surrounding international businesses. Are developed nations helping or taking advantage of underdeveloped countries? Are Western businesses destroying the environment because of their insatiable need to produce more goods? Are companies so powerful that the needs of the workers are irrelevant? There are no easy, quick answers to these questions; however, companies doing business in the global market need to consider and deal with these issues.

### Environmental Issues

Sustainable development—the ability to meet human consumption while maintaining the environment—is a critical issue that all businesses need to consider to ensure their futures. Trade can either foster or frustrate sustainable development. The natural environment is a major resource for businesses. It must be respected, supported, and renewed if businesses hope to have long-term sustainability. Many companies have taken advantage of the environment by polluting, depleting natural resources, and disposing of hazardous waste in unsafe ways. The world is faced with dramatic environmental changes such as melting ice caps, falling water tables, shrinking croplands, and the levelling of oceanic fish catches. There are two main categories of environmental damage: pollution and resource depletion.

**Pollution** is the contamination of the environment caused by the manufacture or use of commodities. It takes many forms: ozone depletion; acid rain; air, water, and land pollution; and nuclear waste. **Resource depletion** is the consumption of scarce or non-renewable resources. These include fossil fuels, minerals, forests, fish, and water. Companies are the direct cause of many of these problems and should be concerned



Relatives and friends carry a body in the Indian city of Bhopal after a poisonous gas leak from the Union Carbide Plant (seen in the background) killed thousands of people in 1984.





World leaders pledged to improve environmental practices—though no binding agreement was signed—at the 2009 United Nations Climate Change Conference in Copenhagen.

with trying to solve them. In addition, pollution and resource depletion have long-term implications for the success of businesses that damage or exhaust the resources they need.

There are many examples of major environmental damage caused by business and its interests:

- In 1984, poisonous gas leaked from the Union Carbide Plant in Bhopal, India, killing three thousand people and injuring another twenty thousand.
- Oil spills from tankers like the *Exxon Valdez* in 1989 off the coast of Alaska, the *Sea Empress* off Britain's coast in 1996, and the *Prestige* near Spain in 2002 have dramatically affected the world's oceans. Oil spills cause permanent damage to wildlife, affect tourism, and are extremely expensive to clean up.
- Canada's waterways have been polluted by mercury emitted by industrial sources such as coal-burning power plants and chlorine producers. Mercury has contaminated many kinds of fish, making them poisonous to eat and decimating a major source of food and commerce for Native Canadians.
- In Ghana, Lake Songor is quickly shrinking because of extensive salt mining on one side of the lake, and diversion of water for irrigation.
- In December 2008, the wall of a holding tank at the Kingston Fossil Plant (a coal-burning power plant) in Tennessee gave way, releasing wet coal ash in every direction. This caused severe contamination of area rivers and wildlife, and destroyed several homes.
- The deforestation of Brazil's rainforest has increased dramatically as farmers and ranchers clear land they need to support themselves. Over 50 percent of the world's wildlife and 40 percent of its oxygen comes from the rainforest. In 2007, Brazil lost 2.7 percent of its rainforest or 11,000 square kilometres.
- The world's largest trash pile floats in the North Pacific, and the submerged garbage in the world's oceans is approximately the size of Texas. This submerged garbage has created a dead zone, which severely affects all living organisms in its vicinity.

Governments have initiated agreements on environmental issues, including the Rio Declaration on Environment and Development in 1992, the Kyoto Protocol in 1997, and the Johannesburg Declaration on Sustainable Development in 2002. In Kyoto, governments agreed to reduce greenhouse gas emissions by 5.2 percent of 1990 levels by 2012 and by 50 percent by 2050. However, the United States, Australia, China, India, and Canada subsequently withdrew from the agreement because it would impede their economic growth, which destabilized its status.

The Johannesburg World Summit on Sustainable Development in 2002 was initiated by the United Nations to refocus the economies of the world on environmental issues. Its agenda included poverty, preserving natural resources, making globalization fair, and changing patterns of world consumption. Subjects of importance to Canada were sustainable forestry practices, overfishing in international waters, and climate change.



Unfortunately, U.S. President George Bush did not attend the conference, which limited the ability of the world leaders in attendance to formulate a global action plan for sustainability.

In 2009, world leaders met in Copenhagen, Denmark, to discuss climate change. The original intent of the meeting was to create a far-reaching, legally binding international agreement. Although countries pledged to improve their environmental practices, no binding agreement was signed and no emissions targets were established. The Copenhagen Accord does state that temperature increases should be limited to 2 degrees Celsius, and that developed and developing countries will pledge to restrict the growth of their emissions. Rich countries promised to contribute \$10 billion in short-term financing to aid poor countries to combat global climate change. The accord also pledges to raise long-term financing of \$100 billion by 2020 to help developing countries cut emissions. Leaders stated that the accord was the first step in dealing with global climate issues.

## Sweatshops

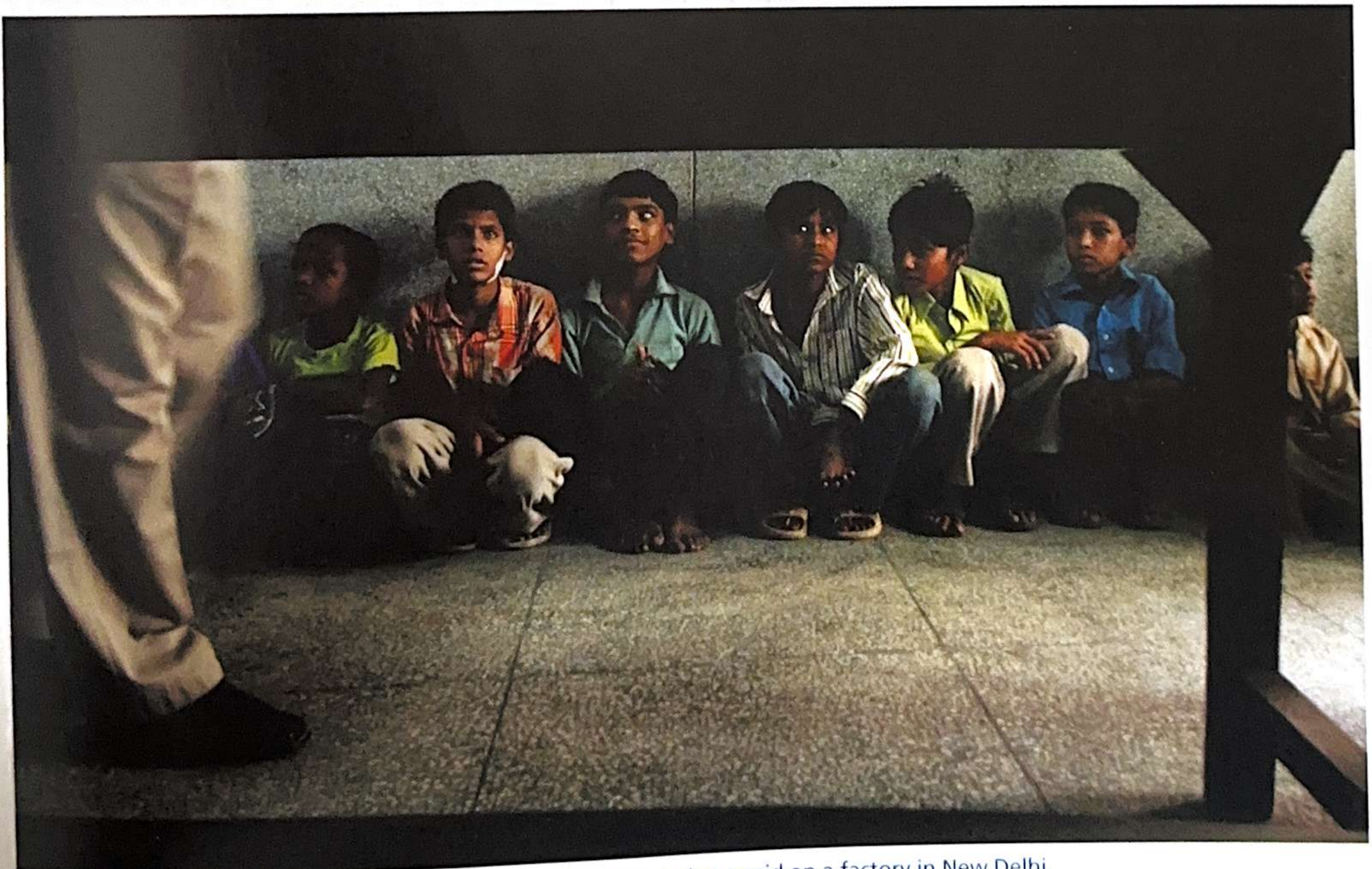
Where were the clothes that you are wearing made? How about your school's sports uniforms? Do you know if the people who made them were treated fairly? Do the factories that made them employ child labour? How can you find out? Does this matter to you? Are you willing to pay more for a product you know is made by workers who have been treated fairly?

### Impact: Ethics

Should foreign companies have factories in underdeveloped and developing countries to take advantage of lower wages?

Yes: Companies should keep factories in underdeveloped nations to provide needed employment, technology, and resources, which improve the standard of living in those countries.

No: Companies should remove their factories from underdeveloped nations because those countries may accept the use of child labour and having people work under sweatshop conditions.



Police and child rights activists rescued these young labourers during a raid on a factory in New Delhi, India. Children are often employed in sweatshops in underdeveloped and developing countries.





Workers from nearly four thousand garment factories in Bangladesh went on strike in 2006, demanding better wages.

**Sweatshops** are factories in underdeveloped and developing countries where the employees work in unsafe environments, are treated unfairly, and have no chance to address these conditions. The factories employ children, often as young as fourteen or fifteen, who work alongside adults. Sweatshops pay poverty wages that provide only one-quarter to one-half of a living wage in the community. Workers are often cheated out of overtime pay. The companies that run the factories set unrealistic production quotas. To meet these quotas, workers must put in twelve-hour days, cannot call in sick or take breaks, and are not paid for the last hour they work each day. Women who apply for jobs in these factories must submit to mandatory pregnancy tests. Working conditions are unbearable. The heat can be suffocating and accidents causing injury are common. If employees complain or try to organize a union, they may be harassed, intimidated, and/or fired.

Why do sweatshops exist? Global competitiveness, corporate greed, and consumers' expectations of low prices have helped create them. Developing nations desperately require foreign investment. They compete against each other by producing goods more cheaply than neighbouring countries. To minimize costs, companies subcontract their manufacturing to factories that pay low salaries, provide poor working conditions, force employees to work overtime, intimidate workers, and have high productivity.

Should companies avoid using factories in developing nations? No, companies need to continue to invest in these countries, but they must do so fairly. Workers need to be paid a living wage. This will differ in each country depending on its standard of living. Companies must pay enough to allow workers to meet their basic needs and enable them to plan for an improved future. Employees and their families need to be able to receive an education. Workers must have the right to self-determination. This means that they should be able to speak up against abuses and advocate for improved working conditions and increased pay without the threat of losing their jobs.

Many companies have improved their track records in terms of their use of sweatshops. Nike is a company often cited as using sweatshops. It



has worked hard to change this image. It now has an extensive code of conduct and carefully monitors its suppliers. The increase in labour costs are not passed on to consumers, because Nike teaches its suppliers more efficient production methods that decrease the need for overtime.

Another company that has faced consumer backlash over sweatshop practices is Gap Inc., which implemented its Gap Code of Vendor Conduct in 1996. In an effort to have complete public disclosure, Gap Inc. published the results of inspections of three thousand of its factories. It found many safety, pay, and overtime violations. Gap works with the companies to solve these problems. If the problem practices are not changed, Gap will not use these manufacturing facilities.

Even if companies are vigilant in their inspection of subcontractors, abuses still occur. Some vendors keep more than one set of books and coach employees to lie to workplace auditors about working conditions and hours.

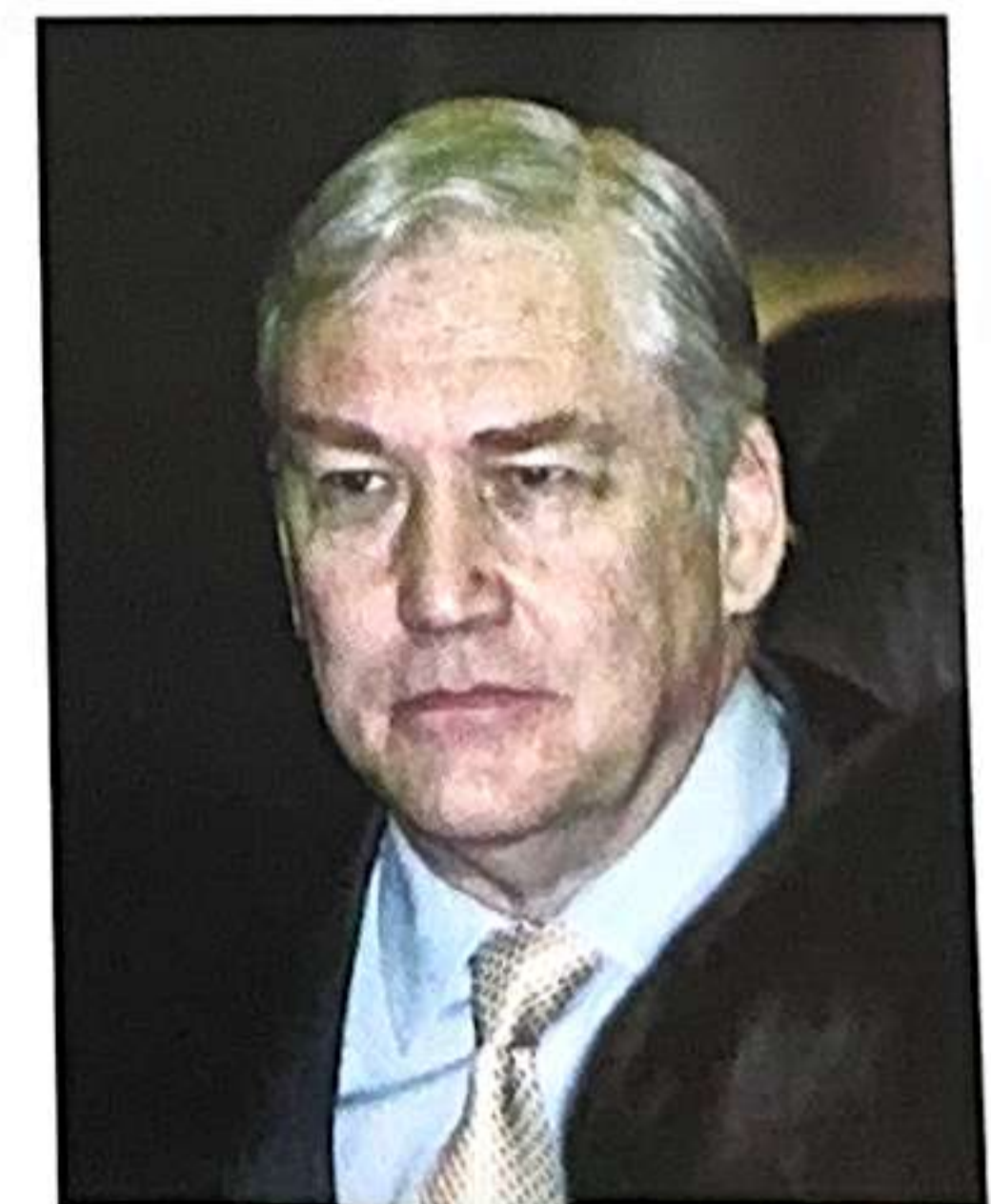
As a Canadian consumer, what can you do about sweatshops? You are faced with an ethical dilemma every time you shop. There are some practices you can use to try to ensure that you are purchasing products made by workers who are treated fairly. Investigate companies and learn about their social responsibility records. Buy fair trade products (see page 176 for more information), and boycott companies that use sweatshops.

## Corporate Corruption

It seems that every day there's something in the news about a corrupt company or executive. The United States saw the demise of Enron and WorldCom. Canada was home to the scandal involving Bre-X, the mining company that defrauded Canadians by falsifying records of gold deposits in Indonesia. These companies engaged in stock fraud and illegal business practices. These companies no longer exist. Shareholders lost millions of dollars and employees lost their jobs and their pensions. Senior executives in the companies were arrested and found guilty of corruption. **Corporate corruption** refers to involvement in illegal activities to further one's business interests.

Other examples of corporate corruption include:

- **Livent.** Garth Drabinsky and Myron Gottlieb were involved in an accounting scheme at Livent, the theatre production company they owned. Both were found guilty of misstating Livent's financial situation from 1993 to 1998. The men had overstated profits, under-represented costs, and inflated the value of assets. Both were tried and sentenced in 2009; Drabinsky to seven years in prison; Gottlieb to six. The judge stated that their sentences were a message to other Canadian businesses that fraud and dishonesty will not be tolerated in Canada.
- **Hollinger Inc.** Canadian-born Conrad Black controlled Hollinger Inc., a newspaper conglomerate that included the *National Post* (Toronto), the *Chicago Sun-Times*, and the *Daily Telegraph* (U.K.). Black was found guilty of fraud and obstruction of justice by the United States Securities and Exchange Commission (SEC). He had misappropriated millions of dollars



Conrad Black was found guilty of fraud and was sentenced to six and half years in prison.





Bernard Madoff was sentenced to 150 years, one of the longest sentences ever for a white-collar crime.

from Hollinger. The court sentenced him to six and a half years in prison, a \$125,000 fine, and the forfeiture of \$6.1 million, the amount that he stole from the company.

- **Bernard Madoff.** In the United States, Bernard Madoff spent years defrauding investors out of \$50 billion in a Ponzi scheme. A Ponzi scheme pays returns to current investors using new investors' money rather than actual profits. It was named after Charles Ponzi, who used this technique in the United States in the 1920s. Madoff was sentenced to the maximum sentence of 150 years in prison.

There are different forms of corruption. Many people consider it wrong to give a gift to a business, because it may be misconstrued as a bribe; however, in Japan this is a common practice and it would be detrimental to a business relationship not to do so. The following terms are used to describe certain exchanges that may take place in a business relationship. In some cases, they are considered to be corrupt practices.

- **Gift.** A symbol of friendship and respect, a gift is usually of low cost and often reciprocated, and is not considered a bribe in most cultures.
- **Tip.** A tip is an incentive for excellent service, and is not considered a bribe.
- **"Grease."** These are smaller payments made to encourage people to negotiate faster and speed up business processes. This is considered a bribe and is illegal in Canada.
- **Commissions.** These are large payments made to act as a facilitator or a go-between in business negotiations. Commissions are considered bribes when they are not a lawful business contract.
- **Bribes.** A bribe is money presented to induce people to do things they should not. Bribes are illegal.

In Canada, legislation makes it illegal to engage in practices such as bribes or excessively high commissions in return for business favours. The *Corruption of Foreign Officials Act* makes it illegal in Canada to bribe a foreign official and to launder or possess laundered property and proceeds. However, Canadian executives face an ethical dilemma when they work in countries such as China, Nigeria, India, and Taiwan, where bribes are common.

Frank and Ernest



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## Dumping

**Dumping**, in an international business context, means selling products in a foreign country below the cost of production or below the price in the home country. A company will dump its products to get rid of excess production in its home country without affecting home country prices. A company may also lower the price of the product in the foreign country to increase sales and force its competition out of business in the host country. In this case, the exporter will then raise the prices. This practice is called **predatory dumping**. Dumping may benefit consumers because prices are decreased. However, the lower price may cause domestic competitors to close, which will eliminate host country jobs. Once the competition leaves, the exporter usually raises the price on the product.

In Canada, companies can seek protection from exporters that are dumping under the Canadian Border Services Agency (CBSA) and the Canadian International Trade Tribunal (CITT). For example, Koolatron Corporation of Brantford, Ontario, which produces thermoelectric containers, reported that Chinese companies were dumping their thermoelectric containers into the Canadian market. Koolatron was finding it difficult to compete against the cheaper Chinese imports. The inexpensive goods caused output, market share, revenues, profits, productivity, and employment at Koolatron to decrease. A CBSA hearing in 2009 found that 100 percent of the Chinese imports were being dumped. The penalty was a 53 percent duty on all Chinese imports of thermoelectric containers for five years.

## Poverty

One of the biggest problems in the world is poverty. Over one-quarter of the world's population, or 1.4 billion people, live in intense poverty. This has improved over time, particularly in China because of its strong economic growth. In 1990, 42 percent of the world lived in poverty. The number of people worldwide living on less than \$1.25 a day has fallen from 60 percent in 1970 to 15 percent in 2005. For the quarter of the global population living in poverty, everyday existence is difficult. People who live in poverty are hungry, lack shelter, have no medical care when they are sick, have no access to education and cannot read, watch their children die of diseases carried in unsafe water, have no employment prospects, and live day-to-day.

One of the ways that poverty is being eliminated, one family at a time, is through microcredit. **Microcredit** is the granting of very small loans—often as little as \$100—to spur entrepreneurship. The entrepreneur does not need a down payment or a credit history. The money is used to start a small business such as farming, running a small shop, weaving baskets, selling rice, or providing cellphone service.

Microcredit first gained popularity in 1983, when Professor Muhammad Yunus of Bangladesh created the Grameen Bank. Banks like this now operate in over a hundred countries. In 2006, Yunus received the Nobel Peace Prize for his work in microcredit. The United Nations declared 2005 the Year of Microcredit.

### Think About It!

- 6.11. Define pollution. State examples.
- 6.12. Define resource depletion. State examples.
- 6.13. Describe three specific examples of environmental damage caused by businesses.
- 6.14. Describe a sweatshop.
- 6.15. Define corruption. State an example.
- 6.16. List the different terms by which bribery and corruption might be known. Which of these is illegal in Canada?
- 6.17. Define dumping in a business context. State an example.



Think About It!



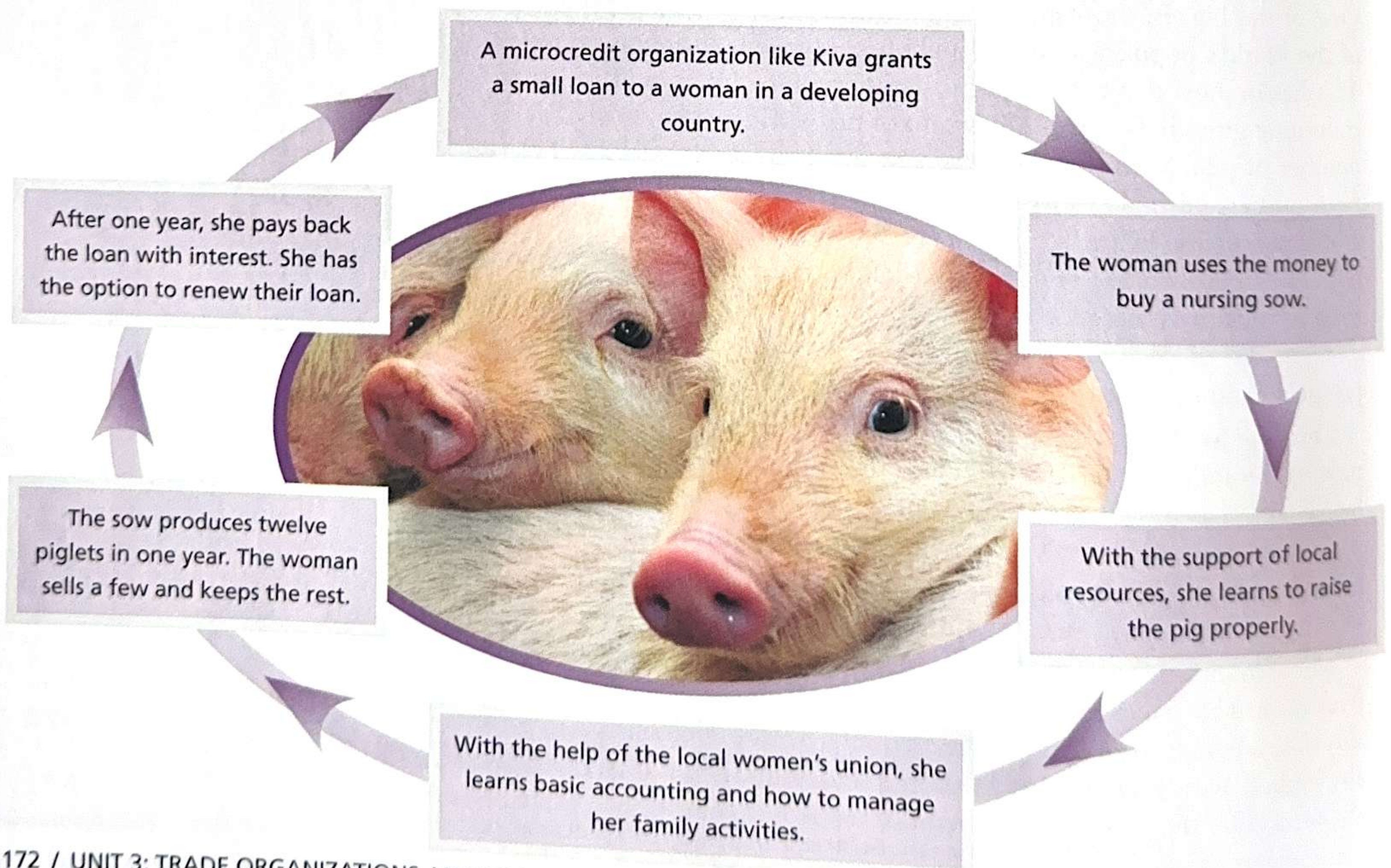
- 6.18. What is microcredit?
- 6.19. Why are women targeted to receive microcredit?
- 6.20. What is Kiva?

How does microcredit work? In small villages, groups of people form a lending circle and receive a group loan, often for \$1,000. The members then decide how the loan will be split. Each member is responsible for the others' debts and they collectively guarantee that the loan will be repaid. They are essentially collateral for one another. Most lending circles are composed of women, who use the money they make to pay for their children's education, food for the family, fuel, or medicine. Microcredit institutions often target women because they know that the money will be used to support their families. Because the women can contribute financially to their families, they gain respect, dignity, and independence, which they would not gain if they were simply given a handout.

Providing microloans expands international business. The people who receive these loans are able to support themselves and improve their standard of living. As these businesses expand, they trade with and support other local businesses, eventually selling to international customers and buying from international sources.

Many organizations help people loan microcredit money online. Kiva is an organization that matches entrepreneurs in underdeveloped countries with people who want to lend them money. Kiva's website allows donors to search for entrepreneurs, loan money (as little as \$25), receive updates, and communicate online with the entrepreneur. When the loan is repaid, the donor can reinvest it with another entrepreneur, donate it to Kiva, or withdraw it. The repayment rate is 99 percent. Kiva has given out nearly \$20 million to 230,000 entrepreneurs in 40 countries. Other microcredit organizations include SHARE and the Grameen Foundation.

Figure 6.3: How Microcredit Works





## Non-Governmental Organizations (NGOs)

There are thousands of organizations that help the world's population. In this book, you have studied trade organizations such as the World Bank, the United Nations, and the G20. There are also organizations that are not associated with a specific government. These **non-governmental organizations (NGOs)** are non-profit organizations that are made up mostly of volunteers, and have a service and development focus. These organizations work for the benefit of the members of other groups in the world's population.

The focus of NGOs is very diverse. They may centre on trade, education, youth, improving the environment, human rights, and a variety of other issues. NGOs are predominantly funded through charitable contributions. CARE, World Vision, Amnesty International, Greenpeace, the International Chamber of Commerce, and Doctors without Borders are all NGOs. NGOs can affect business activities throughout the world. They may influence child employment, unfair labour practices, and standards.

### Free the Children

Free the Children was started in 1995 by twelve-year-old Canadian Craig Kielburger. One day, while looking for the comics in the newspaper, he came upon a story about a Pakistani boy who had been working twelve-hour days, six days a week, as a slave in a carpet factory. Iqbal Masih escaped and spoke out against the child abuse common in factories. Sadly, Iqbal was killed by those who wanted to silence him. Kielburger organized his classmates and started Free the Children. Today, Craig and his brother Marc run the organization and speak all over the world to raise awareness and money.

Free the Children is the world's largest group of youth working to improve the education of children in forty-five countries. This NGO has won the Children's Nobel Prize and the Human Rights Award from the World Association of Non-Governmental Organizations. The organization's mission is to alleviate child labour, poverty, and exploitation. It strives to teach all children that they are powerful and can make a difference in the world.



### Global Gaffes

In 2007, Johnson & Johnson sued the American Red Cross, the well-known humanitarian organization, for trademark infringement. Johnson & Johnson stated that it owned the red cross symbol it uses on its packaging.

The Red Cross and Johnson & Johnson reached an agreement in 2008 that allows both to continue using the symbol.



Craig Kielburger is co-founder of Free the Children, a Canadian non-governmental organization that works to tackle problems, including poverty and exploitation, that affect the world's children.



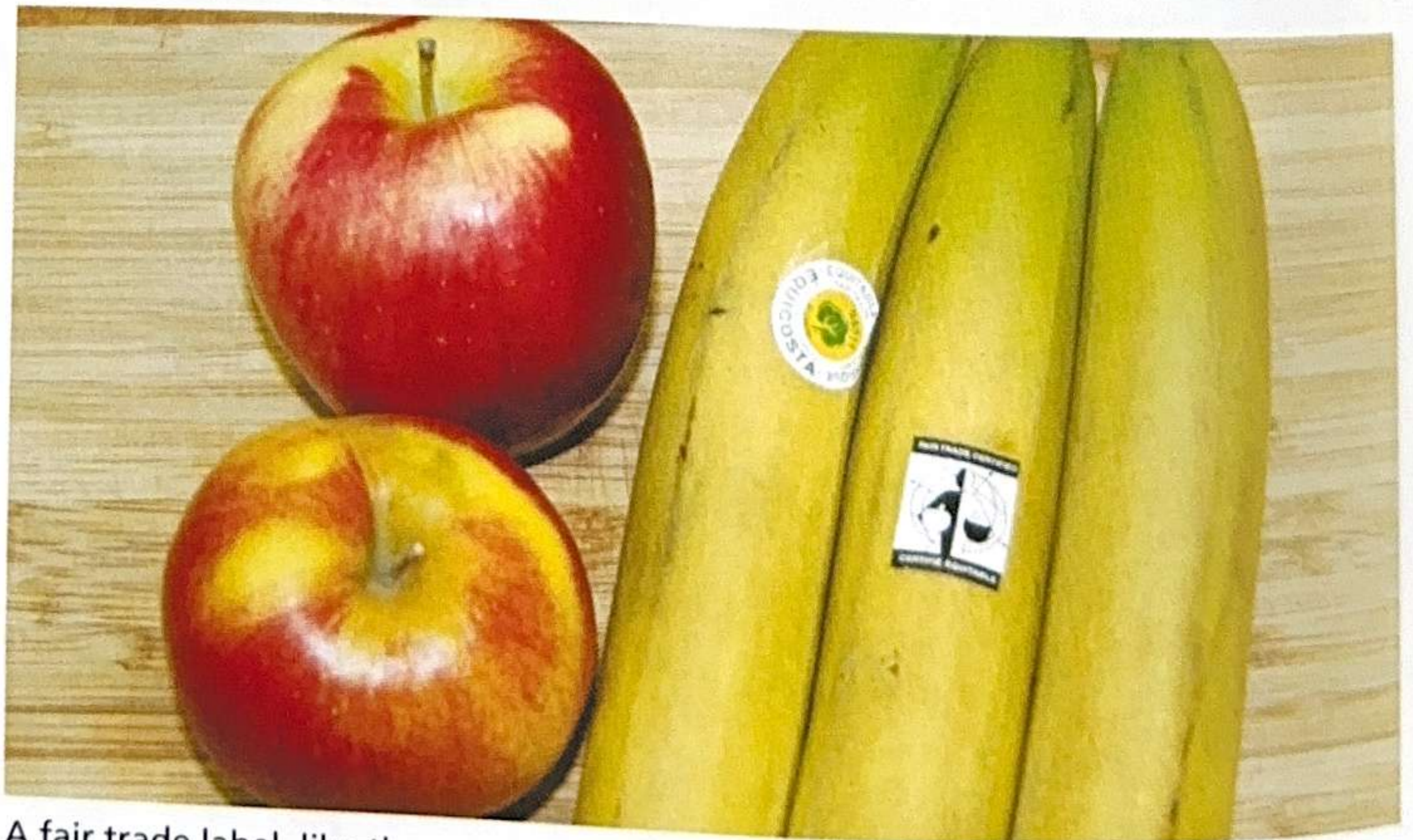
Free the Children has successfully built over five hundred schools around the world and mobilized North American youth to participate in outreach programs. Its Adopt-a-Village program focuses on education, safe water and sanitation, health care, and training opportunities. Through the program, many Canadian schools have raised money and adopted villages in countries such as Kenya, Sri Lanka, China, and India. North American youth are also involved in the Me to We movement, which is a social enterprise designed to help support the work of Free the Children. Its trips, speakers, music, books, and leadership seminars aim to show young people how they can work toward improving the world every day.

### **Fairtrade Labelling Organizations International (FLO)**

Fairtrade Labelling Organizations International (FLO) works diligently to secure improved trading relationships for producers around the world. It is headquartered in Bonn, Germany, and supports the efforts of fair trade organizations in individual countries. The Canadian member of FLO is TransFair Canada. The purpose of fair trade is to provide a fair and honest deal between all members of the supply chain. Fair trade guarantees that the prices paid for products are adequate to cover the costs of sustainable production. This allows members to improve their standard of living and plan for the future. The FLO sets standards that must be met to achieve fair trade status. These standards level imbalances in trade negotiations and unstable markets.

Under this system, workers are treated fairly—they are ensured safe working conditions, the right to join a union, adequate housing, and decent wages. Consumers know that the fair trade products they purchase are congruent with their beliefs and ethics, and companies are guaranteed that fair employment practices are part of the entire supply chain. Fair trade is critical for the environment, too; it rewards farmers who use sustainable practices and organic certification.

Fair trade products, including coffee, tea, bananas, cocoa, flowers, sports balls, and more, are identified by a label that certifies they have been ethically produced. In Canada, you will see the TransFair Canada label on all products that are deemed fair trade.



A fair trade label, like the one on the bananas pictured above, certifies that goods have been produced in an ethical way.





Ten Thousand Villages artisans employed with Peruvian group Manos Amigas hand-knit traditional finger puppets.

## Ten Thousand Villages

Ten Thousand Villages is a non-profit organization whose retail stores sell fair trade products throughout Canada and the United States. This NGO sources handicrafts from artisans in underdeveloped countries and sells their products to consumers, ensuring that goods have been ethically purchased and created using sustainable resources. Ten Thousand Villages sells products from over 130 artisan groups in more than 35 countries and provides employment for 60,000 people. The organization builds and develops relationships with artisans, and respects their culture, needs, and skills. Most of the artisans, 70 percent of whom are women, were previously unemployed or underemployed. They often work in small groups at home, where they can look after children or farms. Prices are mutually agreed upon between the artisans and Ten Thousand Villages; 50 percent is paid to the artisan when the order is placed and the remaining amount when the order is filled.

## The International Organization for Standardization (ISO)

The International Organization for Standardization (ISO) is the world's largest standards-developing group, implementing more than 17,500 standards worldwide. The name ISO is used globally; *isos* means "equal" in Greek. ISO standards are found in the areas of agriculture, construction, health care, and engineering. Have you ever seen ISO 9000 or ISO 14000 signs on factories or vehicles? These signs indicate that the factories or the companies that produced the vehicles have met the standards set by the ISO. The ISO 9000 series is a symbol of quality management, while the ISO 14000 series addresses environmental management.

ISO certification is critical for international trade. It ensures that products and services sourced globally are safe, reliable, productive, environmentally responsible, and interchangeable with products from other producers. It allows companies to source vendors from around the world at economical prices and not be concerned about the quality of the products and services they are purchasing. It increases exports and provides the opportunity for technology and quality standards to be developed in emerging economies. Employees benefit through improved safety standards and customers gain through increased consumer protection. ISO certification allows businesses to trade worldwide with confidence.

### Think About It!

- 6.21. What is an NGO? Give five examples.
- 6.22. Explain how Free the Children has helped youth around the world.
- 6.23. What is the purpose of fair trade?
- 6.24. What are the benefits of fair trade?
- 6.25. What is Canada's fair trade organization?
- 6.26. Describe how Ten Thousand Villages works.
- 6.27. What is the ISO? What are the ISO 9000 and the ISO 14000 series?
- 6.28. What are the advantages of ISO certification?



The ISO Central Secretariat Headquarters are located in Geneva, Switzerland.