

**UNIVERSITY OF WAIKATO**

**Hamilton  
New Zealand**

**The Business of Social Responsibility:  
Evidence from the Garment Industry  
in Northeast Thailand**

Steven Lim and Michael P. Cameron

**Department of Economics**

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**Steven Lim**

Economics Department  
University of Waikato  
Private Bag 3105  
Hamilton, New Zealand.  
*Email:* slim1@waikato.ac.nz  
*Web:* <http://www.mngt.waikato.ac.nz>

**Michael P. Cameron**

Economics Department and Population Studies Centre  
University of Waikato  
Hamilton, New Zealand  
*Email:* mcam@waikato.ac.nz  
*Web:* <http://www.mngt.waikato.ac.nz>

## **Abstract**

Many business managers demonstrate a reluctance to engage fully with corporate social responsibility (CSR). They often perceive CSR as a cost and their CSR activities tend to be piecemeal and defensive. Such suboptimal outcomes can stem from a failure to appreciate a firm's social assets. We suggest that firms have the potential to engage much more fully with CSR, in a manner that is consistent with a profit-maximizing approach to business. But managers need help in both gaining an awareness of the social contributions that they can make and in navigating their way through CSR issues. To this end, we outline a program of four-Ds, namely dialogue, data, design and delivery, to assist managers integrate CSR issues into their overall business strategies. Our case study of the garment industry in Thailand illustrates how CSR issues can be leveraged to increase worker productivity and deliver positive social and community health outcomes, despite operating in an area that is often subject to criticism.

## **Keywords**

corporate social responsibility  
social contracts  
rural development  
Thailand

## **JEL Classification**

I18, I38, L31, M14

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## 1. INTRODUCTION

Companies are feeling increasingly caught in the seeming conflict between maximizing profits and complying with norms of corporate social responsibility (Cogman & Oppenheim, 2002). For corporations that consider that ‘the business of business is business’, their response to CSR criticisms has ranged from outright denial of the adverse impacts on others (e.g., see Avila & Whitehead, 1993) to *ad hoc* defensive strategies, such as the publishing of glossy sustainability reports and undertaking other public relations initiatives (Davis, 2005). We argue that such responses, by themselves, are short-sighted and piecemeal. More importantly they treat CSR solely as a cost, reinforcing the perception of incompatibility between profits and social responsibility. But, as we will demonstrate in this paper, focusing on strict profit maximization can work in tandem with CSR: addressing social issues may improve the competitiveness of a firm and provide profitable location opportunities for manufacturers. The positive links between profits and CSR represent an important, emerging area for business research (e.g., see Wagner and Schaltegger, 2006). Our contribution is to show how firms might systematically navigate through complex CSR issues, including collecting and analyzing data to determine the actual impact of their CSR initiatives.

Business managers, perhaps because of commercial pressures or unfamiliarity with social issues, can overlook the important contributions that their companies make to others (Prieto-Carron et al., 2006). Given this knowledge gap and the potential gains from incorporating social opportunities into commercial strategy, we present a framework to assist business managers discover the social assets that they possess. The focus is on stakeholder dialogue, data search, business strategy design and outcome delivery (the four-Ds), based in part on Avila and Whitehead (1993), and specifically on a business-NGO-academic collaboration in Northeast Thailand that the authors have been involved with since 2000. Dialogue with key stakeholders to unveil salient CSR issues, together with data analysis to verify their salience, will better position firms to leverage their social contributions, both internally to enhance worker productivity and externally to benefit wider stakeholders. By inviting a reassessment of ‘the business of business is business’ view, we show how the role of business may be extended to deliver socially responsible outcomes in novel ways.

We present the Asian garment and footwear industry as a case study, given the widespread perception of ‘sweat shops’ and worker exploitation that the industry often invokes. For firms that outsource production in lower wage Asian countries, the relocation of jobs may involve an element of controversy. On the surface, at least, it might appear that profits and social responsibility are incompatible. The firm is often perceived to be relocating to take advantage of

wage differentials and is therefore seeking to pay its Asian workers as little as possible. The charge of exploitation tends to follow automatically. Our case study of firms in Northeast Thailand offers a very different perspective to this, in part by reshaping perceived negatives into market opportunities and incentives for firms to act in the social interest.

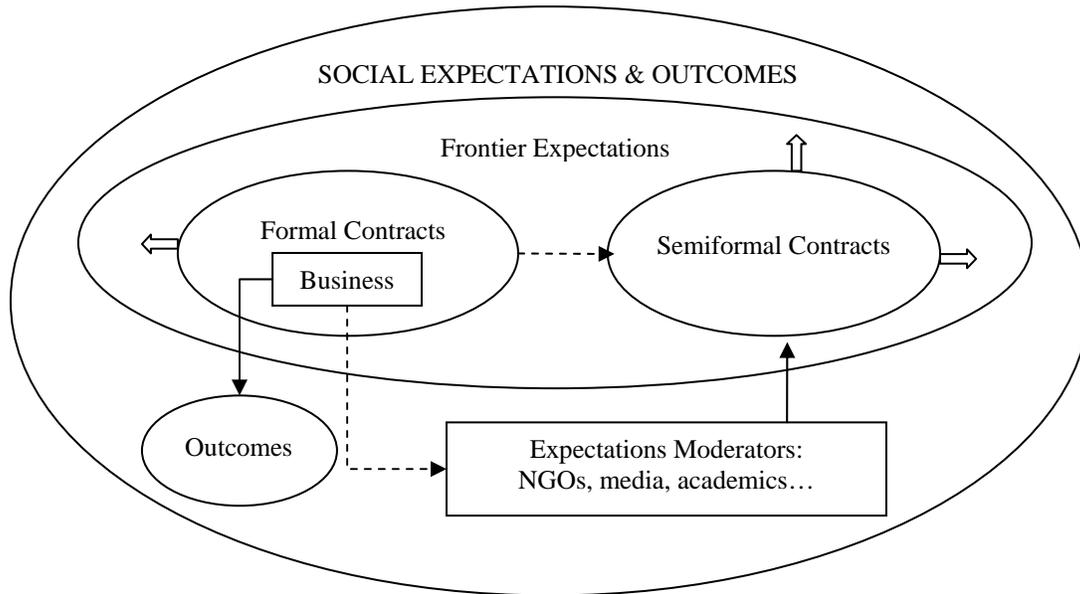
Concretely, the much lower manufacturing wages in Thailand reflect labor abundance, and in particular disguised unemployment and an oversupply of labor in the rural sector. Business contributions to social responsibility potentially loom large here. The relatively low Thai wages induce companies to favor labor-intensive production methods that spread the benefits of job creation among more people. This is especially important in an environment where social and community health problems, such as HIV/AIDS, are common and relate closely to poverty. Applying the four-Ds framework, we will explain why profit-maximizing firms in such an environment may rationally choose to pay higher than market wage levels for workers, and why managers might actively seek out and respond to CSR feedback from outside sources such as NGOs. Lastly, we will detail how managers can develop a fuller understanding of the social assets that they possess to boost both their market competitiveness and their contributions to the wider society. The focus will be on recognizing the mutually-beneficial social contracts that firms can engage in with other stakeholders, and on translating elements of the contracts into an operational strategy for firms.

## **2. THE SOCIAL CONTRACT**

Davis (2005) views the relationship between business and society as an implicit social contract; i.e., a set of obligations, responsibilities and opportunities for mutual gain. An overview of social contracts is presented in Figure 1, based in part on Bonini et al. (2006).

According to Bonini et al. (2006), social expectations can take a variety of forms. A firm may face explicit expectations, such as in formal contracts enforced by the legal system. These include government regulations, tax rules, intellectual property, and shareholder and worker rights. Beyond these lie implicit expectations, i.e., expectations not bound by strict legal or regulatory requirements, such as a commitment to environmental sustainability and other forms of CSR. The semiformal contracts arising from implicit expectations may influence a firm's behaviour vis-à-vis relevant stakeholders, for example via industry norms and voluntary codes of conduct, or, in contrast with formal contracts, may be legally ignored by the firm. As the social expectations widen from formal to informal, so too does the range of stakeholders, moving from the immediacy of the firm and its customers to a more diverse group of stakeholders that includes the community at large.

**Figure 1. Social Contracts**



Frontier expectations are those which have the potential to become formal or semiformal expectations over time. A firm may not even currently realise the existence of some frontier expectations (Bonini et al., 2006), yet the set of formal and semiformal contracts may expand as frontier expectations are eventually incorporated into implicit and explicit expectations. The speed and extent to which the expansion occurs can be influenced by groups such as NGOs, the media and academics (see Figure 1). Note that CSR factors may appear in explicit, implicit and frontier expectations. The key point of demarcation is that compliance with the CSR issues inherent in implicit and frontier expectations is voluntary.

For the firm depicted in Figure 1, its business strategy is constrained heavily by formal contracts. Engagement in semiformal contracts is minimal, at least in this scenario. Let the firm initially be delivering outcomes that are suboptimal both from its own perspective and from that of the wider community in which it is located. The point is important, since it admits the opportunity for simultaneous increases in the firm's profits and contributions to CSR. Our pivotal assumption is that the firm systematically underestimates or discounts the contribution it can make to outside stakeholders. This myopia, due to informational asymmetries or entrenched attitudes that constrain information search, restricts the firm's CSR strategies to compliance with formal contracts. By not engaging more fully with CSR, the firm misses out on profitable opportunities. We argue, along with Davis (2005), that semiformal expectations act as leading indicators of factors that may affect business profitability, including the motivation of employees

to seek work with the firm in the first place. Failure to take account of these expectations can hurt the firm's bottom line.

The firm's initial CSR strategies tend to be defensive. One reason may be that frontier expectations constantly evolve, and so too do the explicit and implicit expectations that follow them. With social expectations and contracts blurred and in a state of flux, actively incorporating CSR issues becomes difficult. The risks are compounded when poorly designed and executed CSR initiatives backfire. For the manager it may appear safer to adopt a reactive, defensive approach, limiting the firm's CSR activities to complying with those solely required by formal laws and regulations.

The aim of this paper is to demonstrate how to shift the firm's strategic horizons further into the area of semiformal contracts and implicit expectations, recognizing that in doing so it engages further with CSR and widens the outcomes it delivers. But initiating the firm's CSR activities requires managers to undertake information searches with key dialogue partners to identify wider stakeholder issues relevant to the firm. The discovery of the social issues can be analytically complex and involve quite high search costs. Bonini et al. (2006) suggest that a number of important issues are complicating the evolution of expectations. Formerly peripheral or localized issues have the potential to become globalized; discontinuities in demographics, such as population sizes and age distribution, are dislocating traditional social organization; and the dislocations themselves are being worsened by rising income and wealth inequalities. Even in a world of static expectations, determining exactly which of the many CSR issues are of direct relevance to the firm is problematic.

With the aid of a case study, we present a systematic method for evaluating social problems that a firm might (indirectly) alleviate, while still pursuing a strictly profit maximizing approach. We will see how revisions to employees' reward structures that establish higher remuneration levels and establish a pro-social gender bias can assist the firm to simultaneously increase its profits and help solve significant social and community health problems.

### **3. CASE STUDY BACKGROUND**

The case study focuses on a recent business-NGO-academic collaboration in Northeast Thailand that exploits the pivotal role of business in reducing poverty and combating HIV/AIDS. We examine the role of two firms, Ban Phai Union Garments and Ban Phai Union Footwear, that have set up factories in a rural area of Khon Kaen Province. The factories liaise closely with a large NGO, Thailand's Population and Community Development Association (PDA). The PDA

runs Community Based Integrated Rural Development (CBIRD) centers, one of which is located in Ban Phai District of Khon Kaen Province, around 450 kilometers northeast of Bangkok. The CBIRD centre's activities include income generation and employment, water resource development, forestry and environmental preservation, and local institution building. Given the significance of HIV/AIDS in Thailand, the CBIRD centre especially emphasizes HIV/AIDS information, prevention, and care.

To help achieve its social objectives, the CBIRD centre hosts several manufacturers ranging in size from just a few employees to several hundred. The two largest firms are Ban Phai Union Garments and Ban Phai Union Footwear. Ban Phai Union Garments has three factories at the CBIRD site, which employ around 270 workers. The factories produce uniforms, mainly for medical or cleaning personnel, almost exclusively for export to Europe. Ban Phai Union Footwear also has three factories, producing shoe parts for Nike, and employs approximately 870 workers (for additional details, see Lim (2001) and Lim and Cameron (2003)).

The close link between HIV/AIDS and the broader social issues of unemployment, the empowerment of women and rural-urban migration provides an opportunity for the firms and the PDA to assist nearby communities at risk of HIV/AIDS. The assistance comes in the form of export-oriented rural industrialization, in which the firms collectively may make valuable contributions (some of the economic and income advantages of rural industrialization are demonstrated in Lim and Pomfret (1995), Rozelle (1994), Sicular (1992), Zweig (1992), and Islam (1991)). The basic idea is as follows. If, by pursuing production cost advantages, entrepreneurs locate their factories in rural areas, then they bring jobs to villagers and reduce the incentives for rural-urban migration, including that of women who might otherwise participate in the commercial sex trade. Since the sex industry and HIV/AIDS are closely related, the actions of firms in stemming migration are likely to translate into pro-social community health outcomes. In turn, the firms' workforce is healthier; absenteeism and labor turnover diminish. By paying above-market wages the firms achieve increases in worker productivity and are able to select from a higher-quality pool of prospective employees. At the same time the higher wages further reduce the incentives for rural out-migration and sex work.

While the above points may appear obvious with hindsight, it is by no means clear that foreign firms, when initially considering locating their manufacturing in Asia, are likely to have such CSR issues in mind. In the following sections we demonstrate how the four-Ds of dialogue, data, strategy design and outcome delivery provide a framework for the potential integration of CSR issues into business strategy. Dialogue with stakeholders, NGOs, academics and others acquaints a firm with the range of social expectations and CSR issues that it may be indirectly

connected with, and prompt the firm to consider the issues more deeply. The deeper consideration may require collecting data to determine the validity and significance of the CSR issues. More complex, however, is the incorporation of the actual CSR issues into the firm's business strategy, with the delivery of positive business and social outcomes the ultimate measure of the firm's performance.

#### **4. DIALOGUE AND THE UNVEILING OF SOCIAL ISSUES**

There are many social issues that affect business today, of which only a few might be relevant to a particular firm in a particular environment. Bonini et al.'s (2006) views on the evolution of social expectations offer a very useful starting point for narrowing the search for CSR issues. Growth in people's sensitivity to risk, the belief that businesses should act responsibly towards their workers, the transformation of traditional social organisation due to age and population changes, contagion from globalized diseases, and uneven distributions of wealth all point to the emergence of social problems that may require some form of remedial action. The question is whether and how the responses might be integrated into a grass-roots, bottom-up approach, with firms contributing in a significant way.

Determining the firm's contribution is likely to involve dialogue with a wide variety of stakeholders. NGOs that actively work with marginalised members of society are a good information source. In our case study of firms in Northeast Thailand, a leading NGO, the Population and Community Development Association, provides concrete advice to firms on local social needs that the firms can help address. Their concerns relate to rural out-migration, particularly of women, to large cities such as Bangkok, where entry into the commercial sex industry is widespread. These concerns tie in closely with Bonini et al.'s (2006) approach to social contracts between business and stakeholders. As we will see in the following data section, income disparities between regions have led to considerable out-migration in parts of Northeast Thailand. The economic-related migration has generated a missing stratum of household caregivers in the region, a problem of social transformation and community breakdown that a business-NGO partnership may help to reduce. The migration also ties in with the highlighting of globalized disease, given the connections between migration, sex work and HIV/AIDS. An increased sensitivity to risk was apparent in our interviews in 2003 with people living with HIV/AIDS (PLWHA). The PLWHA reported substantial feelings of stigma from fellow villagers in the Northeast, resulting in social ostracism and self-removal from many community activities (e.g., see Apinundecha et al., 2007).

Given the dialogue with the NGO and other stakeholders, including villagers and sex workers, it is clear that the issues of migration and commercial sex are crucial in influencing HIV/AIDS prevalence in the local region (see also Singhanetra-Renard, 1997). Out-migration also impacts adversely on the formation of social capital. Traditional social networks, particularly that of the family, can break down as adults succumb to HIV/AIDS. People living with HIV/AIDS become further disenfranchised from market opportunities, worsening the social dislocation in which HIV/AIDS spreads (Mutangadura, 2000; Brundtland, 2000). Migrants themselves, either as sex workers or purchasers of commercial sex and illicit drugs, can contribute directly to the prevalence of HIV/AIDS. Thus, much of our case study focuses on the presence of firms in reducing HIV infection by lowering incentives for people to migrate. As we will highlight later, from the firm's viewpoint, acting responsibly towards its workers by offering above-market salaries has an important impact on stemming the rural out-migration of at-risk people.

The key is for the firm to recognize the profit potential of its CSR initiatives. Again, dialogue with NGOs and academics is useful. The PDA identifies and nominates villages that are suitable to host business investment, and explains to firms how they can access relatively cheaper land and labor in the rural areas. The wage and other savings more than compensate for the added costs in transporting factory output to Bangkok (in Khon Kaen Province wages tend to be more than 20 percent lower, and land rentals about 30 percent lower, than in Bangkok). There is a strong gender bias in the overall employment figures of the factories, which can be used to the firms' public relations advantage. (Of the 1400 or so workers in three of the manufacturing companies operating in CBIRD-Ban Phai, 83 percent are female.) In return for these business advantages, the firms bring their capital, know-how and networks to the countryside in a process of industrialization and job creation. The result is a symbiotic relationship between business and local villagers, mediated and monitored by a watchful NGO. In effect, an informal contract begins to emerge between the three parties, with interlocking goals serving to bind them together.

The employment by the firms generates a more stable household income for villagers. The income stream earned by female factory workers buffers the seasonal agricultural incomes earned by male household members, thus reducing the need for men to seasonally migrate to cities and possibly bring HIV/AIDS back to the household. With population movement considered to be a crucial issue in Thailand's HIV/AIDS epidemic (Singhanetra-Renard, 1997), limiting the push factors behind labor migration is potentially very important. The farm economy of Northeast Thailand has made large income gains from decisive government interventions in the rural economy. These include the provision of infrastructure, especially good roads and

highways, support for village credit cooperatives to mobilize capital, and improvements in schooling and education. The result is increasing rural prosperity that allows greater investment in labor-saving agricultural technology. The downside, however, is rising farm unemployment. In the absence of compensating off-farm jobs, labor migration and rural-urban drift worsen the HIV/AIDS problem. The CBIRD firms become crucial in improving social and health outcomes in the local area by absorbing displaced or migrant workers (Lim et al., 2007). With approximately 52 percent of the workers in the factories at CBIRD-Ban Phai being former migrants, the firms appear well placed to contribute to the welfare of others.

## **5. DATA**

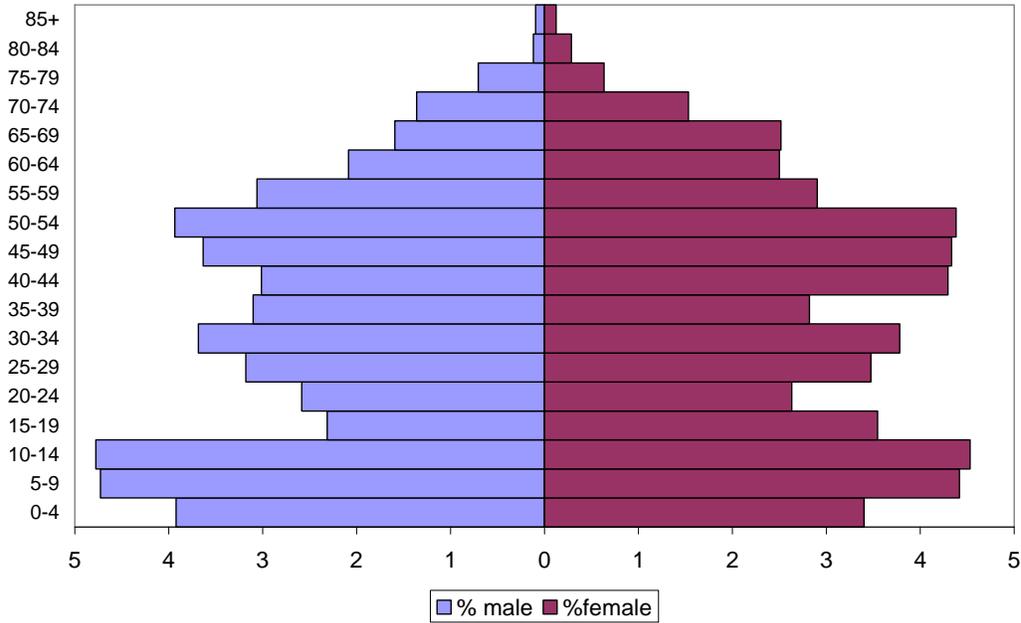
Stakeholder dialogue uncovers CSR issues of relevance to the firm and highlights the potential of mutually-beneficial social contracts. Understanding the wider CSR contributions that a firm could make is useful, but managers also need to ascertain whether the CSR issues are important enough to warrant further consideration or eventual action. The next question in our case study must be: how significant are the migration issues to stakeholders, particularly the wider community? To address this question, the authors and their research team conducted three related surveys between June and October 2003. The first survey was a representative household survey of 660 households, covering all sub-districts in Ban Phai and Phon districts of Khon Kaen Province. Ban Phai District was selected due to the presence of the CBIRD center. Phon District was selected randomly from the eleven remaining districts in southern Khon Kaen Province. Villages were selected using stratified random sampling, with three villages selected from each of the 22 sub-districts, and ten households selected randomly from a census of households in each of the 66 villages. This provided a total sample of 660 households, which, when weighted as detailed in Deaton (1997), is representative of the population from which it was drawn.

The second survey was of 71 PLWHA, selected randomly from HIV-infected inpatients and outpatients attending one of three hospitals in southern Khon Kaen Province. The third survey was a representative survey of the households of 48 factory workers from the CBIRD center. The workers were selected randomly from a list of employees of the two firms.

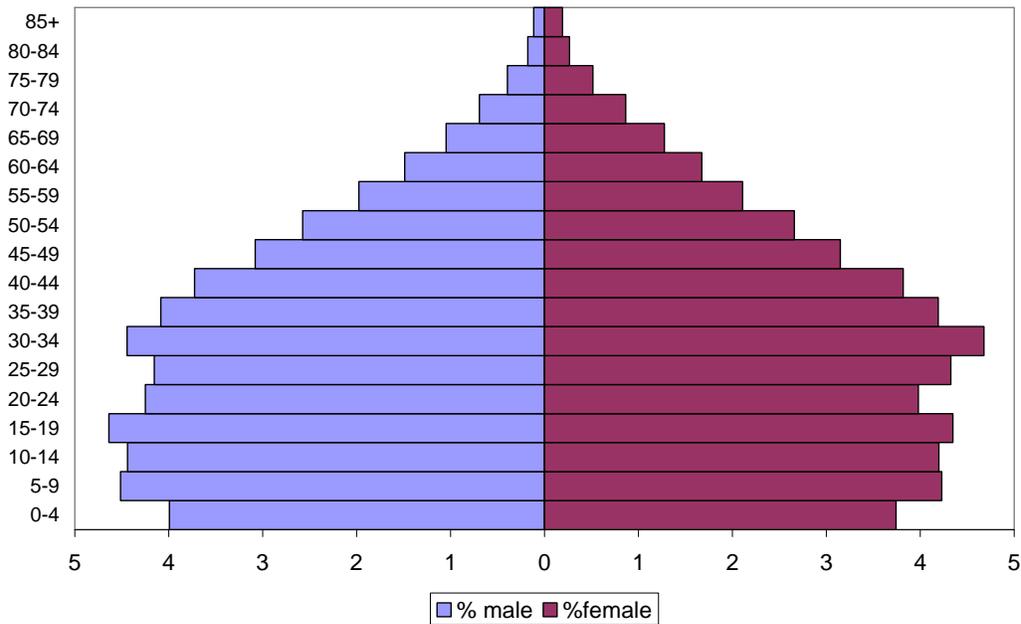
The three surveys collected data from each group on demographic characteristics, household composition, asset ownership and migration. The survey data support the ideas suggested in the business-NGO dialogue above: migration has a significant impact on rural communities and is closely associated with risk of HIV infection. Many of the households in the representative household survey were affected by migration, whether of a temporary or seasonal nature (approximately 10 percent of households) or long-term (45 percent of households). The effect of migration on the age-sex distribution of rural villages is startling. Comparative distributions for

the representative household sample, weighted to account for the stratified nature of the sample, and the 2000 Population and Housing Census are presented in Figures 2 and 3.

**Figure 2. Weighted Age-sex Distribution for the Representative Household Survey**



**Figure 3. Age-sex Distribution for Khon Kaen Province**



Source: National Statistic Office (2000)

There is a clear demarcation between the distributions, arising from differences in the definitions of who is a ‘member’ of a given household. The 2000 Population and Housing Census defines a household member as someone who is registered as a member of the household, which includes many permanent or long-term migrants who were not ‘usually resident’ in the household and so not included in the representative household survey conducted by the authors. This explains why the largest differences are observed in the 15-39 age groups, the age groups most likely to migrate away from the village to work.

As noted previously, migration is thought to be closely associated with the risk of HIV infection. This association can be confirmed by comparing the PLWHA sample (n = 71) with the 1787 adults from the representative household sample. To test the association between migration and HIV infection, the data from the two samples were pooled and the logit regression model shown in Equation (1) below was applied:

$$AIDS = \beta_0 + \beta_1 Gender + \beta_2 Age + \beta_3 Education + \beta_4 Wealth + \beta_5 Migrant + \varepsilon$$

The AIDS variable is bivariate, equal to one for the PLWHA sample. While this implicitly assumes that the adults from the representative household sample are not infected with HIV, this assumption seems plausible because the proportion of the adult population of Thailand estimated to be living with HIV/AIDS is less than two percent. Education is the self-reported number of years of schooling, and wealth is measured as the log of total household assets, excluding the house itself and land. The ‘migrant’ variable is the key variable of interest. It is bivariate, indicating whether a given individual belongs to a migrant household or not. A migrant household is defined as a household which has had one or more recent permanent or seasonal migrants.

The results of the logit regression are reported in Table 1. Men appear to be at significantly lower risk than women (odds ratio = 0.6270, p = 0.013). This is likely to be a result of the characteristics of the PLWHA sample, which is predominantly composed of women. Of the sample, nearly 65 percent (46 out of 71) are women, many of whom had been infected by their husbands who had already died of AIDS-related causes. Risk of HIV infection decreases significantly with age (p < 0.001), education (p = 0.001) and wealth (p < 0.001). Finally, adult members of migrant households appear to be at significantly higher risk of HIV infection (p < 0.001). The odds ratio of over 4.7 indicates that an adult member of a migrant household is at nearly five times greater risk of HIV infection than an adult member of a non-migrant household. This is consistent with the prior that migration is significantly associated with higher risk of HIV

infection. Migration and HIV/AIDS therefore appear to be significant issues in the local community.

**Table 1. Logit Model of HIV Infection**

	Odds Ratio	Coefficient	Std. Error <sup>†</sup>	z	P >  z
Gender (1 = male)	0.6270	-0.4668	0.1885	-2.48	0.013**
Age	0.8922	-0.1140	0.0104	-10.92	< 0.001***
Education	0.8872	-0.1197	0.0370	-3.23	0.001***
Migrant household	4.7006	1.5477	0.1874	8.26	< 0.001***
Wealth	0.6086	-0.4967	0.0570	-8.72	< 0.001***
Constant	–	7.4201	0.7954	9.33	< 0.001***
Pseudo R <sup>2</sup> = 0.2757					

\* Weakly significant at  $p < 0.1$ ; \*\* significant at  $p < 0.05$ ; \*\*\* significant at  $p < 0.01$

<sup>†</sup> Reported standard errors are for the coefficient, not the odds ratio

## 6. STRATEGY DESIGN

Given the importance of the migration-HIV/AIDS issue, and the ability of businesses to affect migration and HIV/AIDS prevalence in their local community, the next step for the firm is to ask: is it to its advantage to integrate the CSR issues into its business strategy? If the integration adds more to the firm's costs than it does to revenues, then addressing CSR issues involves trade-offs. But a CSR strategy in which the firm, its workers and wider stakeholders all benefit simultaneously would be a compelling proposition.

The major element of the firm's business strategy that we will focus on is the wage structure and, in particular, the role of efficiency wages. Efficiency wages are wage premia designed to induce increased worker productivity, mainly since workers know that if they underperform they risk being fired and will lose the premium. When firms and NGOs collaborate at the CBIRD site to develop the business skills of the workers, provide free health care and also assist the workers' children to supplement their incomes, the concept of the efficiency wage widens even more. Efficiency wages paid by the firms also have the desirable spillover effect of reducing incentives for villagers to migrate for economic reasons. Worker absenteeism and labor turnover are also likely to fall in the presence of an efficiency wage, further justifying its use by the firm. Thus, in this case study, it is possible to integrate mutual self-interest between a firm, the villages it draws its labor from, and relevant NGOs dealing with migration and community health outcomes. CSR objectives appear compatible with profit maximization.

Our investigation in 2003 revealed that, with factory workers at that time being paid at least B133 per day, villagers eagerly sought employment with the firms (40 baht were roughly

equivalent to one USD.) The wages compared well against the minimum wage of B167 per day for unskilled work in Bangkok, a city where living costs were much higher. Depending on the season, each factory vacancy at the Ban Phai CBIRD site might attract 9-10 job seekers. Workers could earn an additional B2 per day if they followed straightforward work norms, such as maintaining punctual arrival times. A further B10-20 per day was offered as a bonus, which was tied to group performance. The workers received other pecuniary and non-pecuniary benefits. Meals were sold on-site at a break-even price of B10 and workers could access free basic health services at an on-site clinic. Pregnant women received light work, and the factories guaranteed their jobs if the women returned to work within 90 days of giving birth. Workers found that outside credit agencies made loans more readily if they knew that the loan applicants worked at the factories (Lim and Cameron, 2003). Despite the savings in wages compared with Bangkok, the wages paid by the firms exceeded on average those paid by local firms in the same area. That is, the firms did not follow a policy of squeezing wages to the lowest market level as set by alternative employers – they paid an efficiency wage.

From an economic and business perspective, the wage and worker benefit structure is an important source of competitive advantage for the firms. Higher wages and better working conditions relative to those of other local firms reduce moral hazard problems. Moral hazard in the workplace may arise when, having signed an employment contract, a worker's performance changes to hurt the interests of the employer. Worker absenteeism and laziness are potential problems facing any factory. But by paying a wage greater than that of local competitors the firms raise work effort. Many workers realize that they are better off working for the firms, since their best alternative is to work elsewhere for much lower wages. Some other factories in Khon Kaen Province paid as little as B70-80 per day to their workers in 2003, a rate that was illegal given Thailand's minimum wage laws. Sometimes the wage payments were even made 2-3 months late. The workers in the factories thus had, and continue to have, strong incentives to perform well to keep their jobs. An additional payoff to the firms relates to lower labor turnover. Labor turnover imposes dislocations and increased training costs on a firm. But turnover at factories is very low; for the first six months of 2001 the turnover rate stood at 3.3 percent in the garment factory and 1.3 percent in the factory producing Nike shoes.

All other things being equal, efficiency wage and bonus systems tend to attract higher quality workers, mitigating adverse selection problems. Adverse selection arises when one party to an agreement has private information or hidden characteristics that may be used to the detriment of the other party. For example, at the time of a job application, a lazy worker might conceal his or her lazy tendencies from an employer. Firms need a mechanism to weed out such workers. Bonus systems, if appropriately structured, induce workers to self-select and reveal information

about themselves. Bonuses reward high performing workers, while dismissal for poor work performance punishes the lazy or incompetent. On average, such a system tends to encourage a relatively higher quality pool of job applicants, since workers typically know their quality and thus their probability of prospering or not under the bonus system.

But a number of conditions need to be satisfied for bonus systems to succeed. Worker output must be transparent, as must be the relationship between effort and output. The level of performance risk outside the worker's control must be low. These conditions are clearly met in the factories, where individual piece rates dominate the production process. Workers typically work one to a machine, so that each worker's performance is easy to measure. Since bonuses relate to group output, there are incentives for group members to identify poor performers and apply peer pressure to lift their performance. The ease of output measurement severely constrains the scope for employer arbitrariness in bonus allocation. Reward, then, is closely tied to work performance. Further, as noted above the reward system has been widened to encompass non-pecuniary benefits as well. Women can undertake training courses that the companies and the PDA organize, such as for HIV/AIDS prevention, team building, business skills development and interpersonal workplace relations. The courses are important and valuable to workers, since they better prepare them for business opportunities once they have left the factories.

Given the adverse impact on business profits of HIV infection within the workforce, the major HIV/AIDS-related concerns for firms include reduced productivity and increased costs due to absenteeism, morbidity, the training of replacement employees, and increased wages as the supply of skilled and unskilled labor falls (e.g., see Whiteside, 2001; Forsythe, 2002; USAID, 2004). Forsythe (2002) suggests direct benefits to CBIRD firms from their in-house HIV/AIDS education programmes, while Aventin and Huard (2000) extend their analysis of the effects on business to include deterioration of firm socialization, reducing the transfer of firm-specific knowledge.

Thus, there are sound commercial reasons for the firms to offer efficiency wages. In doing so, they also contribute to lower migration and reduce HIV/AIDS prevalence in nearby communities. Yet the firms have taken their corporate responsibilities further. Together with the PDA, the firms actively contribute to the knowledge and skills of the workers via in-house training programmes. Business skills are pivotal in raising the value of women's labor endowments, widening their market opportunities and opening doors to a wider range of higher income-earning activities. The economic empowerment of women is an important source of change in HIV-risk behavior (Husain and Badcock-Walters, 2002). The empowerment is more likely when women can earn an income outside traditional male-dominated areas. It is here that

the CSR dimension associated with village labor mobilization includes longer-term business skills acquisition by women.

## **7. DELIVERY OF SOCIAL OUTCOMES**

Globalized production activities, such as the outsourcing of manufacturing, are often subject to criticism. We argue for a more guarded evaluation. Specific demographic, economic and cultural conditions within a host country affect any assessment of the desirability of manufacturing relocation. Knowledge of these specific conditions and the way that they shape business and social outcomes is crucial. A company that sets up a hi-tech, capital-intensive plant that bankrupts local competitors and puts their workers out of work may be subject to intense criticism. Yet the same firm, applying labor-intensive technologies and establishing a factory in a poor region with high female unemployment, would deliver much different social outcomes and would be received much more favorably.

So how do the case study firms measure up in terms of CSR delivery? Only a cursory assessment can be offered at this stage, focusing on the experiences of workers in the factories and their migration status. Of the workers that we interviewed, the average duration of work in the factories was over 38 months, with the longest period of employment of eight years. A significant number of workers had previously worked in farming, but most had come to work from some other factory (around one third) or from the trade industry (slightly less than a quarter). Many of workers coming from industry or trade had previously been working in Bangkok.

When questioned about perceived changes in their lifestyle resulting from their factory job, the workers gave responses that indicated overwhelmingly positive changes. Among these, financial changes were highlighted as the most important. A majority, around 60 percent, mentioned increased income as the key change, while 23 percent mentioned their increased savings and just over eight percent emphasized reduced debt. Better living standards (four percent) and a happier or more satisfied family (20 percent) were also mentioned as important changes. Most workers considered their factory employment to be positive, and there were no negative responses.

Slightly over half of the factory workers questioned had undertaken recent migration, i.e., within five years of beginning their jobs at the factories. Nearly all of the migrants had moved to Bangkok, with three having gone to Khon Kaen city and one to Surin Province (also in the Northeast region). Almost all had migrated for work, where jobs were fairly evenly divided between trade and industrial occupations. The two main reasons given for deciding to work for

the firms at the CBIRD site were closeness to the worker's village (58 percent) and higher incomes (31 percent). The wages earned by the CBIRD workers were significantly higher than for their previous job. In the two weeks prior to interview, the workers had earned on average B2,490, or a monthly wage of approximately B5,390, compared with an average earning of B3,982 per month at their previous job. A paired *t*-test confirms that the earnings from the factory jobs were significantly higher than earnings in the workers' previous job ( $p = 0.0103$ ) (Lim et al., 2007).

But do the jobs tend to go to the poor, the people most at risk of contracting HIV/AIDS? Comparing the demographic and household characteristics of the CBIRD factory workers with those of adults from the representative household sample, there seem to be many important differences. The factory workers are significantly younger, and there is a strong bias towards the employment of women. The factory workers tend to come from households that are relatively large, with more productive-age adults and lower dependency ratios. More importantly, the wealth of factory workers' households is significantly lower than that of the representative household sample, whether measured as total household assets per capita (excluding the house itself and land) or total assets per capita (including the house and land). This supports the view that jobs created by the CBIRD firms target the poor.

But despite the lower wealth of the CBIRD worker households, consumption data reveal a zero incidence of poverty (using an absolute poverty line constructed using methods described in Lanjouw (1997) and Ravallion (1994)). This implies that, although on average the households had low wealth, their expenditure was much higher than poor households from the representative household sample. The CBIRD workers were using their additional income to increase consumption, or may have been using the additional income to repay debts or increase financial assets. This suggests an avenue for debt and poverty reduction that has implications for the fight against HIV/AIDS. From our interviews with 11 female sex workers in Khon Kaen city and Bangkok in 2003, debt and poverty were cited as the leading determinants of women's decisions to move into the sex industry (Lim et al., 2007). Yet some of the women further revealed that they would only shift to alternative, non-sex work if the wages were about the same as in their current employment, around B20,000 per month. Such high wages for unskilled, non-sex-industry jobs are unlikely, suggesting an element of lock-in in occupational choice. An obvious response, then, would be to discourage entry into the sex industry in the first place, a policy emphasized by the CBIRD factories and NGOs.

Importantly, the CBIRD workplace benefits, wage levels and CSR policies set local standards for other factories to emulate. The firms establish competition for economic and CSR

outcomes that benefit important stakeholders in the area, serving to discipline the behavior of their less socially responsible competitors. As an indication of the impact that CBIRD firms are having, the defection of workers from competitors' factories to CBIRD factories has resulted in personal threats to CBIRD-Ban Phai staff. While some of the other factories have allegedly been bribing government officials to ignore regulations, CBIRD factories benefit from the reputational benefits of complying with and exceeding government guidelines and standards. Regardless of their motivations for improving workplace conditions, the CBIRD firms promote a local 'market' for ethical business behaviour (Lim et al., 2007), a market that will grow over time as more and more firms participate in the local CBIRD program.

## **8. CONCLUSION**

Businesses must understand their impacts on local communities if they want to influence the social contracts that they have with stakeholders. From this, the firms can leverage their social contributions to create value and widen the opportunities for enhancing the welfare of local communities. The key is to recognize the implicit social contract that exists between a business and stakeholders, where the two are bound together in often complex and non-obvious ways. We have presented a model of mutually-reinforcing business and stakeholder interests that permits a synthesis of CSR and profit maximization. The aim is to encourage firms to act in the broad interests of the community. By promoting an economic and financial interdependence between NGOs, villagers and firms, the major stakeholders cooperate in pursuing the objectives of higher profits, lower migration and less HIV/AIDS. Through the process of the four-Ds, we hope that the pro-social activities of CBIRD firms will further contribute to the debate on social and ethical issues relating to business (see Figure 1). By becoming more familiar with their contributions to the community, firms will be in a stronger position to influence fundamental debates, particularly in academia and the media, that determine social perspectives on business.

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