



Operationalizing peace through commerce: Toward an empirical approach



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KEYWORDS

Business and peace;
Corporate
responsibility;
Commerce;
MNCs;
Poverty alleviation

Abstract Most scholars would agree that the goal of business is to create value. Yet, can there be anything more valuable than peace? This article tackles the following research question: How can, or do, businesses advance peace? It explains why peace through commerce is a topic worthy of study and sets out an empirical approach to operationalize it. The implementation of that approach remains in the future, but in this article, I seek to examine the contours of a possible approach. The proposed study will demonstrate how some businesses have already begun to move toward advancing peace and will give direction for how businesses could follow suit in the future. With both a content analysis and a panel data analysis, there would be data to help determine an index for peace through commerce, which would contribute a great deal to the existing body of literature. The proposed study will help scholars and practitioners alike understand the relationship between business and peace better. © 2016 Kelley School of Business, Indiana University. Published by Elsevier Inc. All rights reserved.

1. Can—and do—businesses advance peace?

Most scholars would agree that the goal of business is to create value (Griffin, 2016; Prahalad & Ramaswamy, 2004). Yet, can there be anything more valuable than peace? Colonialism teaches the possible negative ramifications of a business taking over the role of the government in a country. What about the positive impacts? Are there things

that businesses have done or can do that will actually make the world a better place? Just as any nation must look toward the positive future rather than dwell on the past, this article tackles the following research question: How can, or do, businesses advance peace? There are many ways in which this is actually possible, and recently scholars have begun to argue that the only way is to rethink the whole system—by considering peace through commerce. If multinational corporations (MNCs) are the most powerful economic actors in the world (Goodwin, 2005), this article posits that it is important that they advance peace and take care of

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people who belong to the community in which they operate, especially if the government is not doing this job.

2. Theoretical foundations

Throughout much of R. Edward Freeman's work on stakeholder theory (Freeman, 1984, 2000; Freeman, Harrison, & Wicks, 2007) and Timothy L. Fort's work on peace through commerce (Fort, 2007; Fort & Gabel, 2007; Fort & Schipani, 2007), there is a particular theme which scholars must face: Times have changed and there is a need to rethink the way we have viewed business in the past. A new approach is necessary because the landscape of business has changed due to globalization and technology. The field of business is known for its cutting edge innovation, allowing firms to stay ahead of the established competition and excel as risk-taking entrepreneurs. Peace through commerce is just that: innovative, timely, and quite possibly the key ingredient for a firm to gain competitive advantage.

Multinational corporations have the resources and power to help improve the economic, social, and political systems in which they operate (Goodwin, 2005; Lawrence & Weber, 2014). In fact, 53 of the 100 largest economies in the world are MNCs (Carroll, 2004). There is a need for more research into corporate responsibility (CR) actions that are beneficial to business while effectively contributing to the communities abroad in which they operate (Visser, 2008). By viewing society as the ultimate stakeholder, MNCs can capitalize on emerging markets in any developing country through poverty alleviation actions (Steen, 2007) and thus contribute to peace building (Fort & Schipani, 2004). Additionally, CR actions such as poverty alleviation can build trust in firm-stakeholder relationships with the result of improving firm performance (Fort, 2007). This article explains why peace through commerce is a topic worthy of study, and sets out an empirical approach to operationalize it. The implementation of that approach remains in the future, but in this article, I seek to examine the contours of a possible approach.

3. Demonstrating peace

Peace is a difficult construct to empirically test because it is more aspirational than most constructs and has several implicit components such as human development, happiness, and a negative relationship with violence (Sen, 2011b). To simplify, I will use the reduction of violent conflict as the indicator

for peace and use the Human Development Index (HDI) as an indicator for reduction of poverty.

Much of the existing peace through commerce literature emphasizes the fact that businesses do not *need* to advance peace, but that many already do and emphasize that they *can* (Oetzel, Westermann-Behaylo, Koerber, Fort, & Rivera, 2010). Many businesses do not establish peace as a 'hypergoal'—a set of specifiable goals applicable to all publically owned, for-profit corporations independent of their purpose, type, business, or legal governance (Dunfee & Fort, 2003). Keeping in mind the history of the British East India Company in the 1800s, the United Fruit Company in the early 1900s, and the ethical scandals of the early 2000s, it is important to emphasize that this study proposes that ethical business behavior can lead to peace (Fort, 2010). Specific examples of these behaviors include fostering social harmony in the community through tolerance education CR programs in Poland, which built capability of voice for community citizens; engaging in track-two diplomacy in post-apartheid South Africa, which de-escalated conflict and promoted mutual understanding; and adopting voluntary principles on security and human rights (Fort & Schipani, 2004; Oetzel et al., 2010).

While the aforementioned behaviors exist, I am not arguing that businesses do not have unethical business behaviors, but rather that they can do good things—thus the bias in this research is inherent. The first proposition is therefore about possibility (Fort & Schipani, 2004).

- *Proposition 1: There can be a positive relationship between ethical business behavior and peace.*

4. Poverty alleviation and ethical welfare economics

Poverty alleviation is important because it can build peace (World Bank, 2011). To clarify, global poverty is quite possibly the world's biggest challenge because it has so many other implications, such as terrorism and violence. It denies people basic human rights, opportunities, and choices (Sen, 1999). Around the world, over one billion people live on less than US \$1 per day, measured by purchasing power parity (ppp), and another two billion live on between \$1–\$2 a day (Sachs, 2005). They cannot meet basic survival needs such as clean water, health care, food, shelter, clothing, or education (Sen, 2011a).

Poverty is defined in several different ways with various ways to measure it. Most definitions commonly accepted in the academic and international

development communities include more elements than just economics (Sachs, 2005; Sen, 1999). The UN Committee on Economic, Social and Cultural Rights, for example, defines poverty as “a human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights” (United Nations Committee on Economic, Social and Cultural Rights, 2001). Ethical welfare economist Amartya Sen simplifies this definition to that of “deprivation of basic capabilities” (Sen, 1999, p. 20). In this article, poverty will be defined as a state where a person is deprived of choices and basic human needs (Pralhad, 2005; Sen, 1999, 2011a).

The most widely used framework with which to measure poverty was developed by Jeffrey Sachs and was used by the United Nations to form the 2015 Millennium Development Goals developed to fight poverty (Sachs, 2005). This framework of poverty makes it easier to compare relative value using quantitative indicators to measure and compare conditions between different regions. According to this framework, an individual is living in extreme poverty if he or she lives on less than \$1 per day (ppp) (Sachs, 2005). Individuals are living in moderate poverty if their income is between \$1–\$2 per day (ppp) (Sachs, 2005). Individuals with a household income less than the national average in their country and lacking access to resources and opportunities that the middle class takes for granted may be said to be living in relative poverty (Sachs, 2005).

Ending global poverty will require contribution from global citizens from all parts of the world, and will include businesses as well as individuals and governments. In developing countries, it can be difficult for foreign firms to build and maintain trust with stakeholders. Through corporate responsibility actions and responsible management (RM) actions such as poverty alleviation, firms can build trust with stakeholders in the community in order to capitalize on emerging markets. Trust is necessary for firm-stakeholder relationships to thrive because there are assumptions of reciprocity and a nexus of contracts that defines the organization (Jones, 1995).

In many countries worldwide, poverty alleviation and sustainable development practices have become quite important to consumers and employees. I posit that a firm’s ethical business behavior can only help reduce violence if there is a strong established trust relationship between the firm and its external stakeholders.

- *Proposition 2: The positive relationship between ethical business behavior and peace is moderated by perceived responsible management actions.*

5. MNCs’ current CR: The need for global initiatives

Through corporate responsibility actions, MNCs can make poverty-alleviating investments in the communities abroad that provide resources and sustain them. A report sponsored by the World Bank Institute, the Private Sector Development Vice Presidency of the World Bank, and the International Finance Corporation defines CR as “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life, in ways that are both good for business and good for development” (Petkoski & Twose, 2003). CR in the developing world is a particularly salient topic because of the interconnectedness of nations and global markets, as demonstrated by the ongoing financial crisis (Visser, 2008).

Economists such as Hernando de Soto even argue that this interconnectedness will be most beneficial to the poor because globalization of capitalism will free human potential (de Soto, 2000). Thomas Friedman also claims that globalization can mitigate the strength of conflict (Friedman, 2000). In addition, Fort and Schipani (2004, p. 23) suggest that globalization may have “direct consequences for sustainable peace.” Taking all of these together, I propose that the relationship between ethical business behavior and peace is moderated by the level of openness to globalization of the host country.

- *Proposition 3: The positive relationship between ethical business behavior and peace is stronger at higher levels of globalization.*

6. Corruption, poverty, and civic participation

There is confusing evidence in the literature as regards poverty levels, corruption levels, and their connection to violence in a country. For example, in a preliminary corruption level index, India and China are shown to have high corruption levels yet they are considered to be the fastest growing economies in the world today (Fort & Schipani, 2004). The other two rising developing economies that are part of the BRIC grouping, Russia and Brazil, also have opposing levels of corruption (Fort & Schipani, 2004).

Furthermore, it is difficult to establish linkages between poverty levels and the connection to corruption. Disparities in economic levels are apparent in the developing world, but it is difficult to compare countries where population sizes are two to three times the largest population in the Western world. For example, how does one compare India or China—countries with over one billion people—to any country in Europe? Perhaps splitting India or China into states would help test the propositions.

Additionally, democratic regimes would proclaim that corruption levels are lower in established democracies; however, India, the world's largest democracy, and China, a communist state, are at similar corruption levels (Fort & Schipani, 2004; Peck, 1998). Amartya Sen and other progressive welfare economists would state that a true test of democracy (and equality) is the level of civic participation in a country (Sen, 1999). If a country has a participatory government, the assumption is that the people have a say as to whether or not a private firm comes or goes. Yet this is not always the case when the government itself has high levels of corruption.

In other words, there is no conclusive evidence about the levels of democracy, corruption, or poverty leading to a reduction of violence, but they are all important environmental factors that may or may not lead to peace (Fort & Schipani, 2003, 2004; Oetzel et al., 2010). If the civic participation levels in a country are high, it means that human rights are protected to some extent and that there are safeguards against dominant groups taking advantage of their positions in society (Peck, 1998). Face-to-face interactions are more egalitarian generally, and they can therefore contribute to community and peace (Fabbro, 1978).

I posit that the relationship between ethical business behavior and peace is mediated by levels of corruption, civic participation, and poverty. Higher levels of corruption and poverty and lower levels of civic participation will affect the outcome of peace however ethically the business behaves.

- *Proposition 4: The positive relationship between ethical business behavior and peace is mediated by the host country's civic participation, corruption, and poverty levels.*

7. Foreign policy

Although commerce in Japan and the U.S. as well as Germany and Russia did not prevent the fighting in World War II, there is evidence that commerce may mitigate violence between warring countries (Fort & Schipani, 2004; Friedman, 2000, 2005). MNCs have a

very clear interest in good foreign policies with countries where there are physical and natural resources to be used, usurped, or traded. Resource scarcity has created an unprecedented scramble for resources that have repeatedly resulted in war and violence (Fort & Schipani, 2004). However, this raises colonial issues from the past, and Western governments should be warned about the possibilities when businesses act as 'agents of the state' (Fort & Schipani, 2007). The 'economization of foreign policy' outlines the connection between economic gain and foreign policy, and while natural resources are a significant consideration, they are not the only reason businesses benefit from good foreign policy (Klare, 2001).

Since some of the MNCs in the world are larger than the economies of many countries, it is safe to make the assumption that they may have a large amount of political power, as do countries (Carroll, 2004). If this is the case, an ethical business operating in a developing country may also be able to influence foreign policies between nations.

- *Proposition 5: There is a positive relationship between ethical business behavior and foreign policy between the host country and the MNC's home country.*

8. Sustainable competitive advantage: Long-term investments necessary

Currently, the ways in which MNCs engage in CR in the developing world appear mostly short-term and superficial. For example, CR initiatives do not tend to fund education (van Fleet, 2011). While the impact of education initiatives may seem difficult to measure in the short-term, with proper evaluation methods and sufficient time, their impact actually can be demonstrably profound. For instance, investments in computer education programs funded by an MNC in Bangalore could potentially provide future job opportunities for impoverished students and increase demand for new technology. Though they take more time to succeed, CR initiatives such as education could have long-term benefits for the MNC and society: families in the area would have a vested interest in the company's success and children would become better educated future employees (Greening & Turban, 2000). The trust built with the communities may in fact help establish competitive advantage because of consumer loyalty (Gul, 2014; Zhou, Brown, & Dev, 2009). Additionally, better educated future employees can be a resource that gives a firm operating in the host country sustainable competitive advantage—provided the firm has clearly

established trust relationships with the community (Greening & Johnson, 1997; Greening & Turban, 2000; Pfeffer, 1994).

- *Proposition 6: There is a positive relationship between peace and business performance.*

9. Proposed research design

Most of the literature that exists to date on peace through commerce can be analyzed via content analysis in order to sort out the different ethical behaviors that exist. Thus this research design is justified because it includes content analysis but it is uniquely mixed with panel data analysis and questionnaires. I propose a combination of the three aforementioned techniques in an effort to conduct a more robust study. The dataset to be used was created by working with a team of researchers. Following is an idea for the best way to tackle the propositions set forth according to the ensuing model.

9.1. Dataset

The population for the aforementioned propositions is ethical businesses because I am only suggesting that ethical business advances peace (Fort, 2010). Thus, the dataset must be composed of businesses that are recognized for their ethical business behavior. Additionally, the sample should be narrowed to Western-based MNCs because one of the propositions is about foreign policy between two nations and another is about the corruption and civic participation levels of a host country. To be able to determine which Western-based MNCs to use, I examined the existing rankings and various reporting mechanisms and what they specifically measured. In addition, I gathered a few articles that explained why current measures do not work, or at least are not as good as they could be. Finally, the research team cross-referenced these lists and identified a list of firms that were ranked most often on all of the lists in 2011.

9.2. Dependent variables

- Peace would be measured by the 2011 Global Peace Index, produced by the Institute for Economics and Peace.
- Business performance would be measured via return on assets (Khanna & Rivkin, 2001; Venkatraman & Ramanujam, 1986). In this case, market share may not be the best indicator because emerging markets are not established markets.

9.3. Independent variables

- International interactions would be used as a measure of the “complete range of foreign policy interactions [within each dyad], focusing on three interrelated facets of international interactions” (Davis & Moore, 1997, p. 175). Foreign policy dyad relationships can be measured by conflict, cooperation, and net interactions using the Conflict and Peace Data Bank (COPDAB) (ICPSR, 1948-1978).
- The Gallup Civic Engagement Index would be used to measure the level of civic participation.
- Transparency International’s Corruption Perceptions Index would be used to measure the corruption level. Transparency International has been compiling this data since 1995 (Wilhelm, 2002).
- To measure the poverty level, a preliminary line of inquiry might consist of data on the changes in the labor market (including variations in employment opportunities, take-home pay, and growth industries), levels of economic and social inequities in society (such as changes in the Gini coefficient), the effect of the decline of small businesses and local economies on society, and the prevalence and conditions of child labor. An all-encompassing measure is the HDI.
- The New Globalization Index, which uses 21 different variables to account for the level of globalization in a country (Vujakovic, 2010), would be used to measure the globalization level.
- Assuming that having an ethical rewards and punishment system in place at a firm leads to ethical employee behavior (Ford & Richardson, 1994; Treviño & Weaver, 2001), the ethical business behavior would be indicated by an aggregated checklist created by employee questionnaires.
- Perceived responsible management actions such as poverty alleviation actions would be measured by the retention of customers and employees in the host country.

9.4. Method

There are several steps to the proposed analysis. First, the list of firms includes the countries where the firm operates. For each of the host countries, I would draw upon the Global Peace Index, the Gallup Civic Engagement Index, the HDI, the New Globalization Index, and the COPDAB dyadic

relationship index. For each business, I would utilize ROA, retention of employees and customers, and questionnaires about the implementation of an ethical rewards and punishment system in the firm.

9.4.1. Ethical business behavior and responsible management actions

To find this initial data on each firm, I would capitalize on existing research from sources that would likely include the United Nations and other multi-lateral agencies, international development and aid organizations, advocacy and human rights groups including local NGOs, and research centers and universities situated in developing countries. If the data does not already exist, fieldwork could be used to the extent possible.

9.4.2. Panel data analysis

With the indexes already found for each of the host countries and the surveys, I would use sound statistical methods and tools such as Analysis of Variance (ANOVA) to test the propositions and determine which factors are the relevant and significant ones. Software packages such as Statistical Analysis System (SAS) will be useful for large-scale data sets.

9.4.3. Content analysis

The researcher would conduct a content analysis based on the already-created business and peace filter. The reasoning for this is not clear through the propositions presented. This article presents propositions based on that which is most easily translated from the peace through commerce literature into an empirical study, and that is precisely what the filter does. The propositions are based on theories, and through testing them the research team will be able to demonstrate how businesses *can* advance peace. However, one of the main goals of peace through commerce literature is to say that businesses are already doing this, and this has not yet been adequately addressed.

Thus the content analysis will fill this void: demonstrate what businesses already *do* advance peace. The analysis will be based on press releases by the firm itself, the firm's self-published website, as well as newspaper articles that include the firm's name. The research team would be able to look at the business and peace filter and be able to identify whether or not this particular firm does what the literature says it should do in each category. Eventually the research team should be able to have a list of businesses that do advance peace—a business peace index—and how they do it, which other businesses may be able to emulate.

10. Limitations

10.1. Causal inference issues

Empirical studies in business and peace have been limited for many reasons, but this particular design is primarily limited due to endogeneity issues. How can we be sure that ethical employee behavior leads to peace rather than peace leading to ethical employee behavior? While proposing the relationships between peace and ethical business behavior, one must be cautious and recognize that the relationships are that of association, not causation. In other words, the relationships proposed are that of a statistical correlation between two variables, not that of causation, where changing one variable may actually cause the other to change as well.

10.1.1. Self-selection bias

Businesses tend to enter countries that are stable (OECD, 2006). Thus, there may be self-selection bias inherent in the dataset. For example, a business that advances peace could enter only when the situation is improving, and thus it may seem as though they are helping to improve the situation when in fact they are not. There are two ways to possibly solve this problem: One is through lagging the variables in order to determine if the situation of peace is actually getting worse or better when the business enters. The other way to minimize this issue is to select countries at random.

10.1.2. Unobserved variables

An endogeneity problem is almost inherent in all peace studies because of unobserved variables (Tomz & Weeks, 2012). In this particular study, this problem affects both the independent variable (ethical business behavior) and the dependent variable (peace). Is it ever possible to suggest a unique effect on peace by ethical business behavior if there is something else affecting both? As an example, what if a regime change pressured firms to behave more ethically and was taking action to improve peace?

It is incredibly difficult to correct for unobserved variables through controls directly. Therefore, I propose the instrumental variables approach as an alternative. Using the instrumental variables approach, I would use an instrument to tease out the unique relationship between the independent and dependent variables by assigning a hypothetical counterfactual for each observation. The instrument would have to be related to ethical business behavior, but not at all related to peace. Then I would perform a two-stage least squares regression for robustness. The basic idea is that if there are unobservable variables affecting both ethical

business behavior and peace, we do not know what the unique effect is of ethical business behavior on peace. Therefore we create the counterfactual: We can thus estimate what would have happened to peace in the absence of ethical business behavior. So, if the firm acted unethically, would there still be peace? Once we think of an instrumental variable, we can conduct robustness tests and we should be able to minimize the endogeneity problem.

10.2. Minimizing the issues

These issues are problematic throughout social sciences, and so the ideal scenario is to try to minimize causal inference by using panel data for the dependent variables of peace and business performance; in this way, the variables are lagged and thus the dependent variables can be seen over time. Additionally, if possible, using a quasi-experimental design where there is a treatment and a control would help the design as well. While these ideas may be unrealistic, they should be relayed in order that someone who attempts this knows how to try to minimize this problem.

11. Conclusion

Peace is an outcome rarely associated with commerce or business (Oetzel et al., 2010). Businesses currently look to maximize value and do so without doing any harm (Lawrence & Weber, 2014). Fort encourages ‘maturity’—pairing value maximization with a peace-building version of capitalism—and suggests a paradigm shift toward this way of business that would maximize value to society in the 21st century (Fort, 2007). Although the reputation of business in the world and in media has been one of creating conflict (Fort, 2015; Oetzel et al., 2010), now is the time for business to change its reputation and move toward advancing peace. The proposed study will demonstrate how some businesses have already begun to do this and will give direction for how businesses could follow suit in the future.

Performing both a content analysis and a panel data analysis would generate data to help determine an index for peace through commerce, which would contribute a great deal to the existing body of literature. In this article I have set the stage for a unique empirical design that will help scholars and practitioners alike better understand the relationship between business and peace. Hopefully this will be a standard that businesses will admire and strive for and where they will see the benefit as well.

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