

## The value creation of reducing poverty through stakeholder

Supawadee Sutthirak<sup>1</sup> Patthanij Gonjanar<sup>2</sup>

<sup>1</sup>Program (Management), Faculty of Management Sciences, Prince of Songkla University (PSU)

Telephone: 0801381237, E-mail: supavadee85@gmail.com

<sup>2</sup>Faculty of Management Sciences, Prince of Songkla University (PSU)

Telephone: 0818979602, E-mail: pattanij.g@psu.ac.th

### Abstract

This paper elaborates the study of value creation of reducing poverty through stakeholder, focusing on factors that affect value creation of organization. The value creation model was developed based on GEMI [1], beside those of Fahy, Roche and Weiner [2]. The cause of chronic poverty, some time started at the financial crisis, has brought bankruptcy of companies. Those companies have a going concern to increase shareholder and maximize profit of their operation. To create wealth for company's shareholders and stakeholders is a way to reduce poverty through the creation of organizations, including value creation model identifying factors that create firm's value and going concern of 3 factors of successful performance: Corporate Social Responsibility, Corporate Governance and Innovative Organization. The value creation model can help companies to create firm's value that generates revenue over and above the economic costs or maximizes shareholder wealth. When a firm can create value-added, consequentially it will be an integral part in helping to reduce poverty by transferring the wealth arising from the firm to stakeholders.

**Keywords:** Value Creation, Corporate Governance, Corporate Social Responsibility, Innovative Organization, Stakeholder, poverty reduction

### Introduction

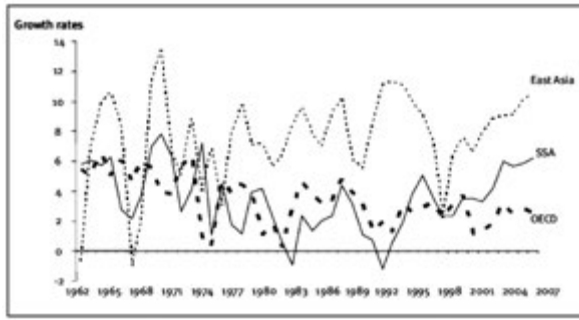
Poverty is pronounced as a deprivation in well-being. Thus, poverty arises when people lacks key capabilities,

and has inadequate incomes, insufficient education, poor health, insecurity, low self-confidence, a sense of powerlessness, or absence of rights such as freedom of speech [3]. Poverty is a multi-dimensional phenomenon, and it is less amenable to simple solutions. For instance, while higher average incomes certainly help reducing poverty, it may need to be accompanied by measures in order to empower the poor, or insure them against risks, or to address specific weaknesses [4] Main causes of underpin chronic poverty that insecurity, limited citizenship, spatial disadvantage, Social discrimination and poor work opportunities [5].

More than the last five years, in an era of unprecedented global wealth creation, number of people living in chronic poverty has increased. Between 320 and 443 million people are now trapped in poverty that lasts for many years, often for their entire lifetime. Poverty is not simply about having a very low income: it is about multidimensional deprivation-hunger, under nutrition, illiteracy, and unsafe drinking water, lack of access to basic health services, social discrimination, physical insecurity and political exclusion [5]. Due to the global crisis, poverty reduction became slower. Between 2008 and 2009, based on projections, number of the poor is estimated to have increased in 9 and 10 of the 25 DMCs, under \$1.25 per day and \$2 poverty lines, respectively. Asia and the Pacific region remain home to the largest number of the world are poor. In 2008, around 63% of the poor worldwide lived in the region [6]. Depth of poverty had significantly declined in

the pre-crisis years [7]. In term of infrastructure plays an important role in supporting growth and poverty reduction. Serving as production factor of infrastructure capital stock makes the supply side helps supporting growth and poverty reduction directly. Improved infrastructure that promotes technology progress also supports the growth and poverty reduction indirectly. There is still a discussion if the increased infrastructure capital stock is a factor that has direct increasing effect on the productivity or actually it is an effect from other factors combining together. Some also believes that to generate significant externalities by many economic activities could create greater effect than the accumulated effect from only one simple factor, and these indirect effects can be operated via different methods. And so forth, these include labor productivity gains resulted from improved information and communication technologies, reductions in time wasted and stress incurred when commuting to work, improvements in health and education, and improvements in economies of scale and scope throughout the economy [7]. Fiscal balances improved in 2010 as economies throughout the region being recovered from the financial crisis. Government spending on social security and welfare as a ratio to GDP has been rising in many economies, although in these economies, the ratios are still mostly below 3% and well short of the 8%-14% ratios in the developed economies of Australia, Japan, and New Zealand [8]. In 1998, the world economy has entered a slowdown, which originated in South East Asia. The Asian Crisis has caused severe economic turbulence in the economies of South East Asia since the summer of 1997. There have been two distinct phases to the Asian Crisis: the first one was from July - December 1997, when the first international assistance was provided, and the second one was since mid-1998, when the turbulence has spread beyond the region as Russia, China and Brazil have shown signs of contagion. This crisis was initially a financial one as speculation

caused funds to drain out of Thai and Korean currencies and stock markets. The crisis eventually caused economic growth rates to collapse in several South East Asian countries. The Asian financial crisis involves four basic problems or issues: (1) a shortage of foreign exchange that has caused the value of currencies and equities in Thailand, Indonesia, South Korea and other Asian countries to fall dramatically, (2) inadequately developed financial sectors and mechanisms for allocating capital in troubled Asian economies, (3) effects of the crisis on both the United States and the world, and (4) role, operations, and replenishment of funds of the International Monetary Fund [9]. The Asian financial crisis took a hold of the economies of four Asian countries, Indonesia, South Korea, Malaysia and Thailand, All four countries suffered in reducing profitability and lowering market and book values [10]. Productivity in Thailand decreased, unemployment became high, and businesses went bankrupt causing the worst recession in Thai postwar history. In Thailand, the worst recession in Thai postwar history was caused by decreased productivity, higher unemployment rate, and business bankruptcies. While Japan became a significant place for investment among other countries in the region, following a fundamental restructuring of Japanese industry, Plaza Accord, as a result of the depreciation of the dollar against the yen. The massive outflows of Japanese capital that intensified at the end of 1980s caused an important global impact, but were especially influential among smaller Southeast Asian economies [11]. East Asia's growth was diverging as much as it did during the last significant global economic downturn in the early 1990s. From 2000 to 2007, Northeast Asian countries (China, Japan, Korea, and Taiwan) posted an annual real GDP growth of 4.4%, Southeast Asian economic (Indonesia, Malaysia, the Philippines, Singapore and Thailand) also achieved annual growth rates in excess of 5% [12]. Figure 1 shows growth performances varying substantially among developed and developing countries.



**Figure 1** Growth rates have been diverging, but for how long [13]

Since the financial crisis struck in the U.S. in the fall of 2008 (*Hamburger crisis*), the growth of East Asian economies has decelerated dramatically in many countries after the crisis. In Southeast Asia, Singapore was affected most strongly by the crisis, followed by Malaysia and Thailand [12]. The suitable words for “creating more wealth than ever before” are not simply “money making”, “profit maximizing”, or “value adding” in a ambiguous sense any more. Therefore, we should learn from economic history and prominent companies and thoughts at the present in order to understand the real meaning of wealth creation [14]. Figure 2, illustrates how the financial crisis, led to the bankruptcy of companies; which were then need to be restructured. Business was necessary because of the going concern in maximizing profit from operation and increase stakeholder. We believe that companies can create firm’s value that generates revenue over and above the economic costs and increase stakeholder wealth, as well as to reduce poverty.



**Figure 2** Poverty reduction from financial crisis

## 2. Methodology Design

This paper is documentary research. Secondary data was examined in order to construct a proposed

the model of the linkage between value creation and factors affecting on the value creation.

## 3. Poverty reduction

Private companies are the key factor of development process. All kind of companies, regardless of farmers, small enterpriser, local production companies, international companies, spend resources on new ideas and facilities invigorating the basis of economic growth and accomplishment. They provide more than 90% of jobs-creating opportunities for people to apply their talents and improve their situations. They provide goods and services needed to sustain life and improve living standards. They are also the main source of tax revenues, contributing to public funding for health, education and other services. Firms are thus central actors in the quest for growth and poverty reduction [15]. Business responds reduce poverty depending on many factors, such as industry structure, company vision, size, location and ownership structure. But even more important is the presence of conditions that promote good governance. Internal changes in companies, such as to strengthen or redefine company’s value of culture, are needed when the companies would like to put poverty alleviation issues into company’s strategy. These core changes can nurture entrepreneurial spirit and leadership across the organization, creating clear visions and readiness to support new. It is necessary to go beyond capturing an attention from corporate executives and senior managers and to put more emphasis on connecting business growth and profitability with engaging the poor [16].

Freeman [17] outlines that from the firm’s perspective, a firm has relationships with a broad variety of stakeholders, including governments, competitors, consumer, and environmental advocates, media, and others. When a business is successful and has value added, they can create wealth though

stakeholder. Private sector plays a significant role in poverty reduction, which could be achieved by direct benefits, such as ethical business practices implementation and a policy to offer employment, products, and services to poor people, as well as by indirect positive effects on business development and macro-economic policy. A company's structure is important in determining its connection to poor people. Each industry has a different structure of supply and distribution chains, different forms of competition and different shareholder expectations, which shape the scope and form of its interactions with poor people-whether they are employees, suppliers, customers, competitors or neighbors [18]. To achieve enduring development of the business is depending on the business's effects on the bottom line. To obtain such sustainable development, the business can apply life cycle management as this business approach aims for short-term success and long-term value creation. Global businesses are using it to reduce, for instance, their products' carbon, material and water footprints, as well as to improve social and economic performance of their offerings in order to ensure more sustainable value chains. These efforts improve company's performance; strengthen corporate credibility and stakeholder relations, as well as to enhance shareholder value, both on local and global level [19]. Regardless of these limitations, some expect that they could compare the social value derived from different social programs as same as how they compare the financial return of investment (ROI) of different companies. This expectation may not be realistic, as the infrastructure needed for social value creation calculation for social programs, does not really exist. For financial ROI calculation, the infrastructure needed for calculation, such as accounting profession, brokers, financial analysts, financial reporting and financial concept establishment, has taken a long time to be developed (some even said it took for centuries for the infrastructure to be

developed) and there are still constant debates about how economic value is measured and how much value companies are creating [20]. Companies can contribute to poverty reduction when they adopt strategies that aim for profit-by-investing, rather than profit-by-exploiting, their workforce, environment, community, local and national business community, and national regulation and governance [18]. Sustainability is an emerging and evolving concept used with increasing frequency in today's globalized business world. Every day, corporate decision-makers grapple with their company's impact on environment, natural resources and society-in addition to tackling questions of economics. At the forefront of their minds, it is the need to answer a critical question of how to guarantee more sustainable business practices in the future-to reduce their company's ecological footprint and increase their resource efficiency and productivity so that resources are not unnecessarily depleted or permanently damaged-and still ensure a sufficient profit and the creation of social value [19]. This paper presents a model of the increase stakeholder wealth that was developed based on the enterprise governance framework [2], which is based on the principle that good governance alone cannot make an organization becomes successful. An emerging framework, under the three dimensions of Performance, Conformance and Corporate Responsibility, addresses primary concerns that boards and senior executives must effectively manage in order to ensure a delivery of long-term value to stakeholders. Stakeholder Theory [17] and Agency Theory [21] support enterprise governance in creating long-term value to stakeholders and poverty reduction. This paper defines the Conformance factor as Corporate Governance (CG), Corporate Responsibility as Corporate Social Responsibility (CSR) and Performance as Innovative Organization. Innovative Organization includes people, processes, and systems lead to successful performance capability

and competitive advantage. Value Creation is when the management generates revenue over and above the economic costs and increase stakeholder wealth, which can reduce poverty consequently. Value creation strategies were changed from tangible assets management to knowledge-based strategies creating and arranging the company's intangible assets. These include customer relationships, innovative products and services, high-quality and responsive operating processes, skills and knowledge of workforce, information technology supporting the work force and linking the firm to its customers and suppliers, and organizational climate that encourages innovation, problem-solving, and improvement. Poverty can be reduced by private sectors when they contribute to economic growth, create more jobs, as well as offer more earnings to poor people. In addition, it can also help reducing poverty by offering lower price of products and services to poor people. Small and medium enterprises can be engines of job creation-seedbeds for innovation and entrepreneurship. But in many poor countries, SMEs are marginal in domestic ecosystem. Many of them operate outside formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long-term capital, the base that companies are built on [18]. Private sector can reduce poverty by value creation of business from innovative organization, corporate social responsibility and corporate governance after the value is added through stakeholder wealth.

#### **4. Contributing to poverty reduction**

The value created by a firm equals to benefits that the firm's customers receive minus the costs that incur to the firm's suppliers and minus the costs of using the firm's own assets. To increase value created, the company increases benefits to its customers, lowers costs of its suppliers, uses its resources more effectively, or combines suppliers and customers in

new or more efficient ways. The value creation will success or not, value creation is dependent variable and measured by the firm's value that has four components such as growth in sales, operating profitability, capital requirements and weighted average cost of capital. Those components can be developed to this equation where there are 2 components in the equation: The dollars of operating capital provided by the investors; the additional value that management has added or subtracted, which is equivalent to market value added (MVA) [22]. Competition strength and company's characteristics play a significant role in company's ability to create and capture the value. Many companies can add values in the markets where the demand of customers exceeds industry capacity, while they need to have a competitive advantage in order to survive in the markets where the industry capacity is more than customer's demand. A company needs to share created value with its customers and suppliers, as sharing the captured value would mean an exact value of the company. There are three basic rules in value-driven strategy: to approach competitors' customers by providing a greater customer value than the one provided by competitors, to approach competitors' key suppliers by providing a greater supplier value than the one provided by competitors, and to approach investment capital in competition with other investment opportunities in the market by increasing the company value for its investors. Company's managers can obtain a consistent framework for designing and implementing strategy by understanding those three significant rules. The company must create greater total value than its competitors and capture the incremental value to be brought to the market. The company's competitive advantage can be obtained by determining the difference of overall value created by industry when the company is in and when the company is not in the market. The value created by the firm also equals

to customer willingness to pay minus costs of using the firm’s assets and costs incurred by suppliers. Achieving a competitive advantage means that the firm must either increase customer benefits, lower supplier costs, or discover innovative transactions. Accordingly, there are three sources of competitive advantage: (1) Cost efficiencies that make more efficient use of the firm’s assets and supplier inputs or lower supplier cost; (2) Product differentiation to raise customer benefits; and (3) Transaction innovations that lower costs of transactions or create new combinations of customers and suppliers. Three types of competitive advantage are called cost advantage, differentiation advantage, and transaction advantage. Competitive advantage equals to the difference between value created by the company and potential value created by its competitors. When market demand outruns industry capacity, competitive advantage increases the value added by the company and also increases its potential profits. When industry capacity outruns market demand, competitive advantage also ensures that the firm will survive [23]. Value creation has a multi-dimensional concept that cannot be addressed by any single corporate action. The firms that can create value are also able to increase shareholder wealth and create benefits to stakeholders and consequently it will lead to poverty reduction as well.

#### 4.1 Innovative Organization

Innovative Organization is an implementation of a new or significantly improved product (goods or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations [24]. Firms can derive four basic benefits for Innovative Organization by: (1) an increased market size; (2) a greater returns on major capital investment or on investments in new products and process; (3) a greater economies of scale, scope, or learning; and (4) a competitive advantage through location

(e.g., access to low-cost labor, critical resources, or customers) [25]. In a flurry of theoretical and empirical investigations, most researchers have used intangible assets and total factor productivity growth as proxies for innovative activities [26]. Intangible assets transforms into skilled actions, providing firms with competitive advantage and improved performance [27]. The organization for economic co-operation and Development describes ‘intellectual capital’ as economic value of two categories of intangible assets of a company: (1) Organizational (“structural”) capital; (2) Human capital [28]. Structural capital (also called organizational capital) refers to knowledge and skills owned by the firm including databases, intellectual property, trade secrets, business routines and processes, and organizational competencies. Relational capital is knowledge and resources embodied in external stakeholders, including R&D collaborators, suppliers, and customers. Human capital includes knowledge and skills of individual employees [29].

The innovative capacity of a country is a basic driving force behind its economic performance, providing a measure of the institutional structures and supporting systems that sustain innovative activity. Furman, Porter and Stern framed a concept of national innovation capacity measured by patenting rates, and estimated its institutional sources for a group of 17 OECD countries [30]. Innovation is widely regarded as a central process driving economic growth and competitiveness of nations. But it takes a long time for a country to reach the technological frontier where innovation becomes a principle driver. In the case of the outstanding latecomer economies of the 19th century, Germany and the US, it took from 50 to 100 years for these countries to catch-up with and overtook the UK that was the leader. In the 20th century, Japan has caught up with the leaders, and in the postwar period, outstanding cases have been those of the East Asian “Tiger” economies, Korea,

Taiwan, Hong Kong and Singapore, described by the World Bank as the “East Asian Miracle” [31]. Taiwan is equipped with an innovation system that is much more flexible and suited to dealing with changes than those of Japan and South Korea. Thus, it is also conspicuous how much better Taiwan fared through the crisis than Japan and South Korea [30].

Morales et al. [32] studied on influences of personal mastery on organizational performance through organizational learning and innovation in large firms and SMEs. Most previous publications agree that organizational innovation influences performance positively, such as Irwin et al. [33]. They used a resource-based view to show positive relationship between technological innovations and organizational performance. Hurley and Hult [34] demonstrated positive relationships between organizational innovation, a market orientation, and organizational learning, showing that all of these elements together influenced the potential for good performance. Senge [35] also indicates that leaders’ positive view of innovation is an essential factor for its implementation and development within the firm and improvements in organizational performance. On the way to move toward wealth creation, serious attention has to be paid to the interconnection between the productive and the distributive dimensions of the creation process. Production as an innovative process and the improvement of productivity were not an issue, while distribution was enforced in an extremely egalitarian way. Productivity increase became a key goal in the economic reformation leading to a greater inequality in which a stronger motivating structure could be obtained and millions of Chinese people could be lifted out from the poverty. Anyhow, later on the inequality then became greater causing a decreasing rate of productivity. For development ethics, it is therefore important to promote virtuous cycles between production and distribution and prevent vicious cycles. Moreover,

since poverty is not only an issue of earnings but deprivation in multiple respects, government has to provide public goods such as basic health care and education. Business, too, is increasingly called for contribute to the alleviation of poverty in appropriate ways [14]. Countries that generate middle rate of income has moved up the value chain and become more industrializes and service-oriented economy, as well as has built a human capital by increasing number of flexible skilled workers and applying more innovative thoughts in business. Differently, general and higher quality secondary education and tertiary education in low-income countries, which is considered as a core of productivity, need to be developed as workers in those countries will remain in the large traditional sector. Such development can be done by improving financial services, new development in technologies, and infrastructure. The heart of increasing overall employment and earning probability of people in the rural area would be to develop value added production sector in the area by using agricultural products as inputs. The large population that will remain informally employed could benefit from access to high quality technical and vocational education and training programs so that they can develop specific skills and the human capital that will allow them to leverage their skills into higher incomes [8]. Financial outcomes are separated causally and temporally from improving employees’ capabilities. The complex linkages make it difficult, if not impossible, to place a financial value on an asset such as workforce capabilities or employee morale [36].

#### **4.2 Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is a company’s obligations to be accountable to all of its stakeholders in all its operations and activities. There are four parts of CSR, categorized in terms of economic, legal, ethical, and philanthropic responsibility [37]. The European Commission defines CSR as ‘a concept whereby companies integrate

social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis'. CSR has increased significantly during the last decade. Many firms started reporting about their ethical, social and environmental conduct. And in marketing, being green and social is positioned as a relevant product and firm characteristic. In academic research, CSR has become a topic of interest too [38]. The importing of CSR in Asian countries has led to various structural changes in business community. CSR of Japanese Corporation is regarded as professionalization, whereas China companies would view it as an importation of dominant Western views. In Malaysia and Thailand, there is direct engagement with CSR debates and practices [39]. Moreover CSR issues in Asia encapsulate problems such as lack of or disparities in education, poverty, labor rates and standards, human rights, health care, corporate governance and vulnerability to natural disasters [40]. In Thailand, CSR policy integration should ensure that companies are not selective in their CSR contribution and disclosure of their policies and achievement should be used to enhance transparency and accountability in the practice of corporate social responsibility. CSR in Thailand still needs to be more effectively implemented and regulated with regard to the environmentally friendly nature of the corporate production process and in ensuring that internal stakeholders, such as workers and employees, are suitably treated in terms of pay, adequate facilities, equal male-female opportunities, childcare provision and safe working conditions. CSR activities, as implemented by companies in Thailand, still at the best only partially respond to or reflect the social and environmental needs of Thai society [41]. CSR is similar to and different from other traditional corporate market activities, if they are to pursue value creation through CSR. An understanding of the conditions under which CSR may create value is

crucial, in order to develop a theory of strategic CSR. All firm activities may add value in the moment that they reduce costs, create product differentiation, or move customers to buy from one firm rather than another. CSR is an opportunity to re-configure the competitive landscape as well as to develop distinctive and dynamic resources and capabilities [42]. The linked between CSR-business strategy and business benefits was apparent that including CSR as an integral part of business strategy is highly beneficial in terms of CSR evaluation and measurement, and determining its impact on profit [43]. Related study found the business awareness of the relationship between socially responsible investment and reputation, linked to their desire to have a positive impact on societies in which they operate. It indicates that business strategies play an important role in CSR; also, that such an approach to CSR may result in higher financial flexibility in terms of increased social investment [44]. Therefore, sale growths can be increased, cost can be reduced in order to increase the company's profit, as well as investment risk and lost of stakeholder's confidence can be reduced by implementation of CSR. The role of business in development has been continually increased as a link to both the lost of confidence in the government's role as developing agency and the limitation of the government in playing a role in the economy causing by 1980s' global deregulation. Significant functions in development, such as basic infrastructure preparation, empowering access to water, electricity, and health and education, are restructured by moving the responsibility from government sector to private sector. As providers of goods and services, as employers, as investors, and increasingly as shapers of developing countries' policies, there is no doubt that the private sector is central to efforts to tackle poverty. Anything from environmental management, health and safety rules and human rights to community capacity building and philanthropic activities has been



considered under the CSR umbrella. This confusion is amplified when translated to the world of development policy, where consensus is equally lacking of how to measure and define, let alone tackle, poverty [45].

CSR is located in wider systems of responsibility in which business, governmental, legal and social actors operate according to some measure of mutual responsiveness. CSR theories, concepts and ideas primarily originate from market economy countries with relatively strong institutional environments in which regulation is efficient and fairly enforced [46]. CSR can be totally different from one country to the others. For developing countries where the institutional environments do not important, CSR is considered as arbitrary law enforcement, bureaucratic incongruity, property rights insecurity, as well as corruption, which is different from developed countries where the institutional environments are rather important. CSR in those developed countries is normally considered as policies and activities beside sudden economic and legal needs. [47]. The Bottom of the Pyramid (BOP) and Growing Inclusive Markets (GIM) approaches are an attempt to manifest that those companies can conduct profitable business with the poor and solve poverty-related problems by new business models. This is considered as an option besides trying to change global trade and financing legal institution such as World Trade Organization (WTO), World Bank, or International Monetary Fund (IMF). To explain this in a few words, BOP and GIM approaches try to persuade companies to innovate new products, services and business models within which poor people are customers, entrepreneurs, suppliers and partners rather than simply cheap labor [48]; [49]; [46]. Private sector firms are continually searching for new business opportunities. Developed world markets are expected to grow at an average annual rate of less than 3.0% over the foreseeable future. With stock market and other investors typically demanding

double-digit returns, few organizations are likely satisfied with this modest level of projected growth. Additionally, with the arrival of new competitors and new technologies, these already saturated that the markets are becoming more and more competitive [50]. This means firms must broaden their search both for new markets to increase revenues and for new sources of supply to reduce costs [51].

The dramatic poverty can be success by the distribution of land to agricultural households and the creation of economic incentives for increased farm production. The more recent achievements are explained by increased employment in the private sector and increased integration of agriculture into the market economy [52]. According to BOP, profit and ability involved in generating self-finance growth are significant factors in reducing poverty and societal returns from every invested capitals depends on the business's economic performance. The hypothesis, in fact, is that we can combine profits and poverty alleviation together. A long-term plan with a support from the continuous accessibility to self-generated financial resource makes BOP business being able to rate its business models, which in fact could help reducing poverty. In the process of BOP creation and implementation, the business has to deal with other external parties that are not accustomed with BOP. In this case, their participation in venture design of BOP is very important. Actually, long-term success of a business is considered as being able to capture values for all partners in the business. Without viable local partnerships, the venture will have difficulty in generating a sustainable competitive advantage and is unlikely to achieve financial viability [51]. New business model that have been driven primarily by a focus on addressing unfulfilled demand and or innovations in distribution methods and logistics that reduce cost have overlooked the fundamental, need to develop and scale up market institutions. Real breakthroughs toward more productive corporate

engagement at the BoP will require more in-depth understanding of the meaning of “market based solutions;” clarification on the types of markets (informal vs. organized markets); and understanding of the role of companies in connecting with other factor and product markets in order to reinforce job creation opportunities. Business models need to include mechanisms to deal with following challenges: (1) Increasing productivities and real incomes of the poor; (2) Enhancing job creation opportunities through direct employment or self-employment, supported by products and services that boost productivity; (3) Moving away from “traditional consumers” concept to the concept of “productive consumers” that develops self-esteem and dignity among consumers, which should be complemented by both creating conditions for employment but also by paying decent salaries [16].

#### 4.3 Corporate Governance

Corporate Governance (CG) is a process of supervision and control intended to ensure that the company’s management acts in accordance with interests of shareholders [53]. At its core, corporate governance is concerned with identifying ways to ensure that strategic decisions are made effectively. Governance can also be a thought of as means to establish harmony between parties (the firm’s owners and its top-level managers), whose interests may conflict [25]. Good governance has also been described elsewhere as a striving for rule of law, transparency, responsiveness, participation, equity, effectiveness and efficiency, accountability, and strategic vision in an exercise of political, economic, and administrative authority [54]. Agency theory suggests that governance matters are more among firms with greater potential agency costs. Rational investors are unlikely to value safeguards against unlikely events. Yet, there are few studies on relations between governance and firm value control for investor perceptions of the likelihood of agency

conflicts. Firm value is an increasing function of improved governance quality among firms with high free cash flow. In contrast, governance benefits are lower or insignificant among firms with low free cash flow. Chi and Lee [55] showed that un-control of this conditional relation between governance and firm value could lead to erroneous conclusions that governance and firm value are unrelated. Corporate governance structures used in Germany, Japan, and China differ from each other and from the structure used in the United States. The U.S. governance structure focuses on maximizing shareholder value. In Germany, employees, as a stakeholder group, take more prominent role in governance. In contrast, Japanese shareholders played virtually no role in the monitoring and control of top-level managers. However, now Japanese firms are being challenged by activist shareholders [25]. Related studies suggest that good corporate governance serves as an effective mechanism to alleviate the opportunistic behaviors of management, to improve a company’s reporting quality, and to increase firm value [56]; [57]; [58].

Corporate governance plays an important role in transforming business and state relations. The Asian crisis has affected corporate governance and accounting system on the valuation of book value and earnings. Results indicated that the value relevance of earning in Indonesia and Thailand was significantly reduced during the Asian financial crisis, while the value relevance of book value increased. In Malaysia, the value relevance of both earnings and book value decreased during the crisis. In Korea, neither book value nor earnings was significantly impacted by the crisis. It indicates that the level of corporate-governance mechanisms has an impact on the extent of changes in value relevance of book values, but not earnings. Specifically, value relevance of book value declines when corporate governance is weak [10]. Corporate governance is a viable solution that could reduce poverty. Traditionally, it has been

viewed as a domain of large companies in developing economies-something of interest to investors and CEOs. In any case, according to past several decades experience, corporate government has more meaning than aforementioned. It helps to clean up governance environment, exposing insider relationship and injecting values of transparency and accountability in both private and public transactions. Corporate governance is also an effective mean of building up a functional small and medium-sized enterprise sector which can be capable in generating jobs and attracting investment-recognized sustainable solutions to poverty [59]. Value can be created when the private sector positing is working together with increased control measure and strong governance. Corruption has appeared as one of significant obstacles of democratic development and economic growth in developing countries. From time to time there is a question concerning to the relation between high corruption levels and bad governance, as well as higher poverty, higher inequality and insufficient public services. In economic point of view, lower investment, greater informal sector, higher costs in running a business, and uncertainty in making an agreement, are results of corruption. Regarding to wider prospective of corporate governance, which has been seen as a set of mechanism dealing with organization change and is not only a change in company level, the corporate governance is one of major composition of successful development strategies. Corporate governance is fundamentally central to building competitive economies, reducing corruption in private sector, promoting property rights, and creating jobs and wealth-all of which are components of successful poverty alleviation efforts. Closer attention, on how to use corporate governance to improve public governance and promote market-aimed and democratic reformation, must be paid by the development community. Successful institutional reforms require building of local capacity

and commitment to reform efforts, not transferring policies from one set of books to another. Seeking access to capital and entry into global markets, the private sector in many emerging markets can become a true leader in corporate governance reform, allowing the benefits of transparency, responsibility, fairness, and accountability to spread across society and help millions to escape poverty [59].

## 5. The conceptual framework

The conceptual framework of the value creation model is designed based on secondary data that related to the financial crisis and poverty problem. This paper identifies the value creation model that creates a firm's value and going concern from successful performance of three factors: Corporate Social Responsibility, Corporate Governance and Innovative Organization. Factors and directions of influence have been affecting the value creation that increases wealth for shareholder and stakeholder. Relationships between constructs are illustrated in the model in Figure 3. If a firm can create value-added, it will be an integral part in helping to reduce poverty that transfer of wealth arising from the firm to stakeholders. Key stakeholders in a business organization include creditors, customers, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, and the community from which the business draws its resources.

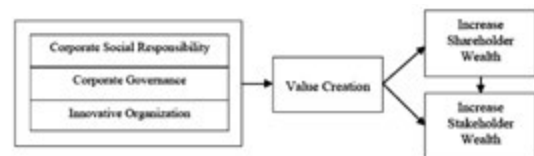


Figure 3 the Value Creation Model

## 6. Conclusion

There are 5 main causes of chronic poverty: insecurity, limited citizenship, spatial disadvantage, social discrimination and poor work opportunities.

Chronic poverty some time starts at the financial crisis, which has brought bankruptcy of companies. Those companies have a going concern to increase shareholder and maximize profit of their operation. To create wealth for shareholders and stakeholders is a way to reduce poverty through the creation of organizations, including value creation model identifying factors that create a firm's value and a going concern derived from successful performance of the three factors: Corporate Social Responsibility, Corporate Governance and Innovative Organization. This model can help companies to create firm's value that generates revenue over and above the economic costs or maximizes shareholder's wealth. In addition, the boards and senior executives can effectively manage the business to ensure the delivery of long-term value to company's stakeholders. Value creation must be given to organizations by focusing on human resources development, quality and ethics, in order to develop a sustainable manner. Also, the organization is responsible for the care of social and environmental good. Society and Environment will give a return to an organization to operate sustainably. Accordance with ADB's report, it is related to Key Indicators for Asia and the Pacific. It was reported that many countries in developing Asia have made substantial progress in shifting their workers to higher quality employment. Much of the shift has been enabled by policies that have facilitated structural transformation without neglecting welfare of the rural workers. With appropriate demand- and supply-side policies and some levels of social protection, Asian countries can make substantial progress toward to develop higher quality employment that will enable them to continue reducing poverty and achieving stable and inclusive economic growth [8].

## 7. References

- [1] Global Environment Management Initiative. (2004). *Clear Advantage: Building Shareholder Value*. Retrieved from <http://www.gemi.org>.
- [2] Fahy, M., Roche, J., & Weiner, A. (2005). *Beyond governance: Creating corporate value through performance, conformance and responsibility*. New York, NY: John Wiley and Sons.
- [3] The World Bank. (2001). *World Development Report 2000/2001: Attacking Poverty*. World Bank Institute. Retrieved from <http://web.worldbank.org>.
- [4] The World Bank. (2005). *Poverty Manual: Introduction to Poverty Analysis*. World Bank Institute. Retrieved from <http://siteresources.worldbank.org>.
- [5] Chronic Poverty Research Centre (CPRC). (2009). *The Chronic Poverty Report 2008-09: Escaping Poverty Traps*. Retrieved from <http://www.chronicpoverty.org>
- [6] Wan, G. & Sebastian, I. (2011). Poverty in Asia and the Pacific: An Update. *ADB Economic, Working Paper Series 267*, Asian Development Bank.
- [7] Straub, S. & Hagiwara, A. T. (2011). Infrastructure and Growth in Developing Asia. *Asian Development Review*, 28(1), 119-156.
- [8] ADB. (2011). *The key indicator for Asia and Pacific 2011*. Asian Development Bank. Retrieved from <http://www.adb.org>.
- [9] Nanto, D. K. (1998). The 1997-98 Asian Financial Crisis. Congressional Research Service Report.
- [10] Friday, P. Y., Eng, L. L. & Liu, C. (2006). The effects of the Asian crisis, corporate governance and accounting system on the valuation of book value and earnings. *The International Journal of Accounting*, 41, 22-40.
- [11] Beeson, M. (2002). Southeast Asia and the Politics of vulnerability. *Third World Quarterly* 23(3), 549-564.
- [12] Kuroiwa, I., & Kuwamori, H. (2010). Shock Transmission Mechanism of the Economic Crisis in East Asia: An Application of International Input-Output Analysis. *Institute of Developing Economies. Japan External Trade Organization*, 1-33.

- [13] Velde, D. W. (2008). The global financial crisis and developing countries. *Overseas Development Institute*, 1-5.
- [14] Enderle, G. (2010). Wealth Creation in China and Some Lessons for Development Ethics. *Journal of Business Ethics*, 96(1), 1-15. Washington DC.
- [15] The World Bank. (2004). *The World Bank Research Program*. World Bank Institute. Retrieved from <http://siteresources.worldbank.org>.
- [16] The World Bank. (2008). *Business and poverty: opening markets to the poor*. World Bank Institute. Retrieved from <http://siteresources.worldbank.org>
- [17] Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston, BT: Pitman Publishing Ins.
- [18] Raworth, K. (2008). *Gender and climate adaptation*. Oxfam UK Briefing Paper.
- [19] Benoît, C., & Mazijn, B. (2009). *Guidelines for Social Life Cycle Assessment of Products*. the UNEP/SETAC Life Cycle Initiative. Retrieved from <http://www.unep.fr>.
- [20] Tuan, M. T. (2008). *Measuring and/or Estimating Social Value Creation: Insights into Eight Integrated Cost Approaches*. Retrieved from <http://www.gatesfoundation.org>.
- [21] Jensen, M. & Meckling, W. (1976). Theory of the Firm: managerial Behavior, Agency Costs, and Ownership Structure. *Journal of Financial Economics*, 3, 305-360.
- [22] Brigham, E. F. & Ehrhardt, M. C. (2002). *Financial Management: Theory and Practice*. South-Western, SF: John Wiley and Sons.
- [23] Spulber, D. F. (2009). *Economics and Management of Competitive Strategy*. Singapore: World Scientific Publishing Co. Pte. Ltd.
- [24] OECD. (2005). *Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data (3<sup>rd</sup> edition)*. Organization for Economic Cooperation and Development, Paris, France.
- [25] Hitt, M. A., Ireland, R. D. & Hoskisson, R. E. (2011). *Strategic Management Competitiveness & Globalization: Concepts and Cases*. Canada: South Western.
- [26] Alexandra, S., Rose, S., Lal, B., and Shipp, S. (2008) *Measuring Innovation and Intangibles: A Business Perspective*. Washington. Institute for Defense Analysis. Science and Technology Policy Institute.
- [27] Drucker, P. F. (2008). *Management*. USA: Harper Collins Publishers.
- [28] OECD. (1999). *OECD Principles of Corporate Governance*. Organisation for Economic Co-operation and Development. Retrieved from <http://www.oecd.org>.
- [29] Jarboe, K. P. (2007). *Measuring Intangibles: A Summary of Recent Activity*, Alliance for Science and Technology Research in America (ASTRA).
- [30] Moe, E. (2003). An Interpretation of the Asian Financial Crisis Innovation Systems and Economic Performance in a Period of Transformation. *Hawaii ICSS*, 1-39.
- [31] The World Bank. (1993). *East Asia: Recovery and Beyond*. The World Bank,
- [32] Morales, V. J. G., Montes, F. J. L., & Jover, A. J. V. (2007). Influence of personal mastery on organizational performance through organizational learning and innovation in large firms and SMEs. *Technovation*, 27, 547-568.
- [33] Irwin, J.G., Hoffman, J.J., & Lamont, B.T. (1998). The effect of the acquisition of technological innovations on organizational performance: a resource-based view. *Journal of Engineering and Technology Management*, 15, 25-54.
- [34] Hurley, R., & Hult, G. T. (1998). Innovation, market orientation, and organizational learning: An integration and empirical examination. *Journal of Marketing*, 62(3), 42-54.
- [35] Senge, P.M. (1990). *The Fifth Discipline*. New York, NY: Doubleday Publ.

- [36] Kaplan, R. S., & Norton, D. P. (2001). *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Boston, MA: Harvard Business School Press.
- [37] Carroll, A. B. (1991). The pyramid of corporate social responsibility: toward the moral management of organisational stakeholders. *Business Horizons*, 34(4), 39-48.
- [38] Scholtens, B. (2008). A note on the interaction between corporate social responsibility and financial performance. *ECOLOGICAL ECONOMICS*, 68, 46-55.
- [39] Fukukawa, K. (2010). *Corporate Social Responsibility in Asia*. New York, NY: The MPG Books Group.
- [40] Chapple, W., & Moon, J. (2007). Introduction: CSR Agendas for Asia. *Corporate Social Responsibility and Environmental Management*, 14, 183-188, doi: 10.1002/csr.159.
- [41] Kuasirikun, N. (2010). Perceptions of CSR and its adoption by business practice in the Thai context. *Corporate Social Responsibility in Asia*, Routledge, 67-93.
- [42] Husted, B. W. & Allen, D. B. (2007). Strategic Corporate Social Responsibility and Value Creation among Large Firms. *Long Range Planning*, 40, 594-610.
- [43] Hardjono, T. W., & Marrewijk, M. V. (2001). The social dimensions of business excellence. *Corporate Environmental Strategy*, 8, 223-233.
- [44] Anderson, C. L., & Bieniaszewska, R. L. (2005). The role of corporate social responsibility in An oil company's expansion into new territories. *Corporate Social Responsibility and Environmental Management*, 12(1), 1-9.
- [45] Newell, P. & Frynas, G. J. (2007). Beyond CSR? Business, poverty and social justice: an introduction. *Third World Quarterly*, 28(4), 669-681.
- [46] Dobers, P. & Halme, M. (2009). Editorial Corporate Social Responsibility and Developing Countries. *Environment Management*, 16, 237-249. DOI: 10.1002/csr.212.
- [47] Kuznetsov, A., Kuznetsova, O., & Warren, R. (2009). CSR and legitimacy of business in transition economies: The case of Russia. *Scandinavian Journal of Management*, 25(1), 37-45.
- [48] Kandachar, P., & Halme, M. (2008). *Sustainability challenges and solutions at the base of the pyramid*. Greenleaf Publishing: Sheffield.
- [49] UNDP. (2008). *Human Development Report 2007/2008*. Retrieved from <http://www.hdr.undp.org>.
- [50] Hart, S.L., & Christensen, C.M. (2002). The great leap: Driving innovation from the base of The pyramid. *Sloan Management Review*, 44(1), 51-56.
- [51] London, T. (2007). *A Base-of-the-Pyramid Perspective on Poverty Alleviation*. William Davidson Institute: Working paper.
- [52] ADB. (2003). *Vietnam Development Report 2004: Poverty*. Asian Development Bank. Retrieved from <http://www.adb.org>.
- [53] Parkinson, J. E. (1994). *Corporate Power and Responsibility: issues in the theory of company law*. New York, NY: Oxford University Press.
- [54] UNDP. (2002). *UNDP Annual Report 2002*. Retrieved from <http://www.undp.org>.
- [55] Chi, J. D., & Lee, D. S. (2010). The conditional nature of the value of corporate governance. *Journal of Banking & Finance*, 34, 350-361.
- [56] Chen, K.C.W., Chen, Z., Wei, J.K.C. (2009). Legal protection of investors, corporate governance, and the cost of equity capital. *Journal of Corporate Finance*, 15, 273-289.
- [57] Bhagat, S. & Bolton, B. (2008). Corporate governance and firm performance. *Journal of Corporate Finance*, 14, 257-273.
- [58] Denis, D., McConnell, J.J. (2003). International corporate governance. *Journal of Financial and Quantitative Analysis*, 38, 1-36.
- [59] Hontz, E. & Shkolnikov, A. (2009). *Corporate Governance: The Intersection of Public And Private Reform*. CIPE & USAID. Retrieved from <http://www.cipe.org>.