

ROTTERDAM SCHOOL OF MANAGEMENT
ERASMUS UNIVERSITY

MAX HAVELAAR LECTURES

A RESEARCH AGENDA
FOR BUSINESS SCHOOLS



POVERTY AND BUSINESS

FIRST MAX HAVELAAR LECTURE
ROTTERDAM, OCTOBER 31ST, 2007

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RSM



A RESEARCH AGENDA
FOR BUSINESS SCHOOLS



POVERTY AND BUSINESS

FIRST MAX HAVELAAR LECTURE

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Dear reader,

The purpose of this series of lectures jointly organised by the Rotterdam School of Management, Erasmus University, ECSAD and the Max Havelaar Foundation is to encourage the sharing of ideas and knowledge with a view to stimulating critical thought, active debate and practical action on the many issues that make up 'sustainability'.

That corporations have a key role to play in helping create a sustainable future is an understatement. However, it should not be forgotten that corporations are not faceless entities: they are run by people, and, in no small part, it is through the education of business leaders – particularly the leaders of tomorrow – that we can help further the cause and expand the understanding of the sustainability agenda.

RSM is in the business of developing leaders and because of this we have a responsibility – a responsibility to inform and educate those leaders on the issues that impact so powerfully on our world today. Sustainable development is one such issue.

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Over the past 35 years, our school has firmly established its reputation as one of Europe's leading business schools. Long before 'global' became an important descriptor for business education, RSM's students, faculty and staff were already reflecting the diversity of the globalising world.

RSM offers a distinctive intellectual culture. We believe that leadership can be taught through a combination of intellectual and practical challenges. It is through this approach that we seek to develop business executives with the intellect, understanding and foresight to lead their organisations in the drive towards a sustainable future.

Much more than this though, for our responsibilities do not end there. We must also work collaboratively with those leaders in order that we may broaden the dialogue on sustainable development and expand our knowledge of the issues, the problems, the possibilities and the solutions. This series is very much part of that endeavour. I wish you a happy reading.

George S. Yip
Dean
Rotterdam School of Management
Erasmus University



ABOUT THE ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

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RSM is the business school of Erasmus University. RSM aims to be at the leading edge of future management issues by offering a cohesive package of university-level education, research and professional services, and by being attractive to an international market of students, executives and commercial enterprises. The school offers an extensive portfolio of management courses (including BSc in Business Administration / Business Management, MSc in (International) Business Administration, part-time diploma in Business Management, PhD in General Management, (executive) MBA programmes, specialist Masters and in-company training. Most of RSM's research programmes are given at the Erasmus Research Institute of Management (ERIM). The school is a member of several leading international networks, including the Community of European Management Schools (CEMS) and the Partnership in International Management (PIM). RSM has approximately 7,200 students and 400 members of staff. Rsm can boast a triple crown accreditation (AACSB, AMBA and EQUIS), as well as Dutch NVAO and KNAW for ERIM.

Over the past 35 years, Rotterdam School of Management, Erasmus University, has firmly established its reputation as one of Europe's leading business schools. Long before 'global' became an important descriptor for business education, RSM's students, faculty and staff were already reflecting the diversity of the globalising world. Just like our host country, one of the world's renowned international trading nations, RSM has continued to expand and internationalise, cementing its status as one of Europe's most international and innovative business schools. RSM offers a distinctive intellectual culture. We believe that leadership can be taught through a combination of intellectual and practical challenge. We believe that the difficulties encountered working in diverse teams fosters creative new approaches in business. We enjoy a reciprocal, supportive relationship with multinational companies.

And we encourage a flexible, broad and sometimes iconoclastic mindset in matters of business practice and research. This distinct approach has helped RSM to establish a portfolio of top-ranked programmes, as well as one of the largest and most prolific management faculties in the world.

About the B-SM Department at RSM

The Department of Business-Society Management (B-SM) was founded in 1999 as one of the seven departments of the Rotterdam School of Management, Erasmus University. More than 30 researchers and professors work for the Department. They are active in education, research, and also provide external services. Their research is published by many top journals including: Academy of Management Journal, Academy of Management Review, Business Ethics: A European Review, Business & Society, Business & Society Review, European Management Journal, Journal of Business Ethics, Journal of Corporate Citizenship, Journal of Management Studies, Journal of World Business, and Corporate Reputation Review.

Corporations face many challenges. The ever increasing worldwide integration creates an array of opportunities and threats for both business and civil society. All over the world communication has increased, as has income inequality. Technological developments change the corporate environment, governments and societal organisations. Environmental problems lead to creative solutions in some countries, but they also stimulate companies to relocate to countries with less restrictive legislation.

8 | The production of goods that were traditionally labelled 'public goods', such as education, electricity supply, infrastructure development, public transport and telecommunications, are confronted with market principles, deregulation and privatisation policies. Companies are on the one hand expected to operate lean and mean in order to meet international competition, while they are, on the other hand, being held accountable for the consequences and effects of their behaviour on society. It is not clear which strategies are ideal in the long run and which will lead to the best results for both business and society.

The research programme of the Department of B-SM addresses the relationships and communications between companies, stakeholders, governments, international institutions and civil society. These interfaces are studied from several different perspectives, such as a normative, institutional, strategic, and communicative perspective. It is hypothesised that if these interfaces are managed effectively that this will improve the functioning of companies, stakeholder relations, markets, governments, and thus, the functioning of society in general in a considerable manner.

www.rsm.nl/home/faculty/academic_departments/business_society_management



ABOUT THE MAX HAVELAAR FOUNDATION

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The Max Havelaar Foundation strives towards fair and just relations world-wide. Central to its policy is sustainable production, trade and consumption. The foundation offers access to international trade with favourable conditions for farmers and workers in disadvantaged parts of the Third World, so that they can build a better future for themselves. This means consumers and retailers must also pay enough to cover social and environmental costs. This means that products such as coffee, tea, fruit, cocoa, wine and cotton can have the Max Havelaar trademark when they follow the Max Havelaar guidelines. The Max Havelaar initiative has been followed in twenty different countries among which are most European countries, the U.S.A. and Canada. Max Havelaar is not a brand but a trademark for fair trade. This means that products can have the Max Havelaar trademark when they follow the Max Havelaar guidelines.

The foundation co-operates with three other players:

1. The registered producers: co-operatives of small farmers and plantation holders in developing countries.
2. Licence holders: Dutch companies and importers.
3. Consumers.

The foundation owns the Max Havelaar trademark and submits licence holders to close scrutiny. This is because the Max Havelaar Foundation does not sell products itself. Licence holders are Dutch producers or importers of coffee, chocolate, tea, honey, bananas or orange juice. They have to comply with certain conditions of trade and be prepared to submit themselves to checks. The licence holders trade with farmers' co-operatives and plantations that are registered with Max Havelaar to offer their produce.

Where does the name Max Havelaar come from?

More than 130 years ago the author of the book *Max Havelaar: or the coffee auctions of the Dutch Trading-Society*, Eduard Douwes Dekker, was an assistant resident in one of the districts of the former Dutch East Indies, the present Indonesia. Douwes Dekker could not reconcile with the politics of the colonial government who, on a massive scale, forced the countrymen to work for the Dutch coffee plantations. That pressure was so high that the farmers had to neglect the cultivation of food crops and famine was the result. www.maxhavelaar.nl



ABOUT THE MAX HAVELAAR LECTURE

The Max Havelaar Foundation is the world's first Fairtrade labelling organisation. Since 1988, the Max Havelaar certification mark has been used to guarantee consumers, that their products have been traded under fair conditions. From the vision that people can only maintain their families and communities through sufficient income from labour, a strategy was developed that addresses poverty alleviation through entrepreneurship. The standards that have been set support farmers in achieving a better deal for products such as coffee, tea, fruit, cocoa, wine and cotton. The Max Havelaar initiative has been followed in twenty different countries among which are most European countries, the U.S.A. and Canada. Together with these initiatives Max Havelaar founded the international Fairtrade Labelling Organisation (FLO). The Max Havelaar Foundation is set up as a not-for-profit foundation and does not trade, but inspires and stimulates market players to develop a market assortment under Fairtrade conditions.

Fairtrade has been rather successful in the past years. More than a million farmers and their families benefit directly from Fairtrade. Impact studies have shown that development impact through trading cooperatives is significant. Total consumer turnover in 2006 was 1.6 Billion Euros. The Fairtrade initiative has stimulated other actors to develop other sustainability certification schemes, which are welcome. However, none of them has the unique Fairtrade trading conditions that guarantee farmers investment and a price for their products provided that they market under the Fairtrade label.

The lecture

Poverty alleviation constitutes a multi-faceted problem. It is on the one hand extremely local and leads to enormous deprivation for at least half of the world's population. But on the other hand, through the operation of global markets – in particular of resources – and the functioning of value chains, it is an extremely international problem. It has increasingly become acknowledged that the role of corporations and the private sector is vital for sustainable solutions to poverty. Entrepreneurial solutions are often

considered preferable over the traditional approach of development aid and subsidies. Micro-credits and fair trade labels are typical examples of this new development paradigm. At the same time, however, it is clear that the involvement of private (international) corporations is far from undisputed. The claim that the profit maximisation strategies of private corporations can 'solve' poverty requires substantial modifications. It is obvious that some strategies are more effective than other strategies. The integration of developing countries in the international supply chains of multinational corporations can have positive, but also negative repercussions. The new development paradigm therefore is not yet established, let alone undisputed. The Max Havelaar lecture stimulates the thinking on these issues in a balanced manner, without making use of the usual simplifications either in support or against the involvement of firms in development. The Max Havelaar organisation is proof of this approach: it is aiming at a continuous improvement in its strategy towards labelling products – increasingly in a variety of partnerships with NGOs, corporations and governments.

Aims

The Max Havelaar lecture has seven aims:

- Provide a platform for the presentation of state-of-the-art scientific insights in how sustainable business and development cooperation can be combined.
- Discuss the advantages and disadvantages of the involvement of corporations in poverty alleviation in a systematic and non-ideological manner.
- Address the complexities of sustainable development rather than engage in simplifications on poverty, in order to come up with realistic – and attainable – approaches to address in particular poverty (Millennium Development Goal 1).
- Discuss the strengths and weaknesses of specific approaches such as trademarks, codes of conduct, reporting or governance measures.
- Provide an arena in which innovative ideas can be launched.
- Consider development as part of international value chains in which a fair distribution of income, power and knowledge is an issue that affects both developed and developing economies.
- Start a structured dialogue on shaping the preconditions for effective partnerships between public and private parties (including firms and NGOs) for development (Millennium Development Goal 8).

Organisation

The lecture is an annual event. Each year, a leading scholar in the field will be invited to hold the key lecture, which will be made available to a wider audience around the world. The lecture will have an academic standing. It will be held at the Erasmus University Rotterdam, partly as a legacy to Jan Tinbergen, the former Nobel Prize Laureate in economics and leading thinker on sustainable development.

The lecture is financed by the Max Havelaar Foundation as evidence of its commitment to high-quality dialogue on the most effective approaches to poverty alleviation. The lecture will be open to the public and will provide an occasion where policy makers and the scientific community can meet. It is organised in cooperation with the Erasmus Research Institute on Management (ERIM), the Expert Centre on Sustainable Business and Development Cooperation (ECSAD) and the Department of Business-Society Management at the Rotterdam School of Management, Erasmus University. The first Max Havelaar lecture was held in October 2007.



INTRODUCTION

Coen de Ruiter, Director Max Havelaar Foundation

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It feels very special to be here kicking off this first Max Havelaar lecture. For me personally as this year it's exactly 20 years ago that I had my first classes as a student in this enormous room, which at that time I felt to be very impressive – and to be honest, I still do if I look around. But it's even more special for the Max Havelaar Foundation, which has achieved a lot in the 19 years of its existence and is delighted with this new lecture – of which we're expecting to make an annual event.

This Max Havelaar lecture offers a structural means to enhance the deepening of discussion and knowledge around the role of companies and business society in the development of less-developed regions in the world. Questions that lie at the very heart of our organisation and of which we value a broad awareness. The Max Havelaar Foundation is therefore very happy to have found enthusiastic and very capable partners to organise the lecture with.

First, the Rotterdam School of Management, Erasmus University, which tries to emphasise borderless business development in its broad line of curricula in both Bachelor's-Master's and executive education programmes. Secondly, ECSAD, the Expert Centre on Sustainable Business and Development Cooperation, that brings together the expertise in this field of the Maastricht School of Management, the Amsterdam Graduate Business School and the Rotterdam School of Management. In particular I'd like to thank Prof Rob van Tulder for all his efforts and brainpower. Our third partner today is STAR, the body of students that organises this whole Management Week, but has also done a tremendous job in setting up this afternoon with Yoskha Malais as the big driver of all this.

To explain to you why the Max Havelaar Foundation thinks it's so important to set up this lecture, I'd like to take you back 19 years in time; to the year of the founding, 1988. And don't be afraid, I won't take you sequentially back to the present time on a detailed timeline. I'll keep it to this moment of birth. 1988: two Dutch development workers visit a cooperative of small coffee farmers

in Mexico. To keep it simple, let's say they're there to see whether the water well that they financed is indeed there, if it functions and if people are happy with it. The president of the cooperative who receives them, takes them to the well. And so they can see that the well is there, that indeed it functions and that people are using it and are happy with it. Yet they get the feeling, that people are not really happy and that they're not hearing the real story. So they put this question to the president and he answers:

"You're right. We are not happy. We have a cooperative here with a few hundred members; we're trying to establish a professional organisation that is able to become a trustworthy business partner for our customers and enables our members to develop themselves both as farmers and as members of their families and of our community. In this development we have a whole bunch of tens of projects that need to be fulfilled and it's not right that we have to hold our hands to you for every single project. It's not right, because with all respect, who are you to decide whether this is the right project for us when we're facing our circumstances everyday and know what we need? But it's also not right, because it slows us down. Before our project proposal has reached the Netherlands and we've answered your additional questions, we've already lost our position in a competitive environment. Meanwhile we have very good quality Arabica coffee here for which we haven't received a good price in years. The price on the world market very often is below 50% of the costs of sustainable production. Pay us a fair price and we won't need your help anymore. We'll be able to take our future in our own hands."

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And from this question of a Mexican coffee farmer a Certification Mark for Fairtrade, the Max Havelaar label arose. From the beginning set up as a label, not a brand. So the Max Havelaar Foundation is not trading itself. It sets standards for Fairtrade of which a minimum price is key. An independent body does certification. Trading is done by commercial parties who have their expertise in this area. Although the Max Havelaar label is an import label for products from developing countries, we can also be proud of the fact that it is a Dutch export success. The Dutch initiative from 1988 has been followed in 20 other countries and these 21 initiatives together are members of the true multi-stakeholder organisation Fairtrade Labelling Organisations International. The product range has extended from just coffee to a whole assortment of tropical fruits (such as bananas, mangoes, avocados and oranges), sugar, cotton, chocolate, rice, wine and even delicious ice cream. The total sales value in 2006 was around 1.6 billion Euros, and the average growth rate in the past three years was 40% annually.

That sounds impressive, but more important is what happens with this money.

In 2006 1.4 million farmers and workers in 550 organisations in more than 50 countries profited directly from the better trading conditions from Fairtrade. They decided themselves to invest this money in projects for education, business improvement, healthcare, and in general better living conditions. Many impact studies prove the benefits for development. What always strikes me most when I'm travelling are the real good examples of craftsmanship and empowerment. These farmers know what they're doing and they're proud of it.

A good example is that of the Dominican Republic coffee cooperative. Their board told me they're investing in the future and - like in the Netherlands - the youth is the future; investing in the future

means investing in youth, in education. And I noticed that - with my western spectacles on - I was already looking for this white school, hoping there would also be money for books and pens. But... "No," said the president. "We're investing in something different." And while they were still partially living in clay houses they had decided each year to fund several places at universities in the United States for their children. They would come back after four years as economists, business managers and agronomists, bringing the cooperative at once on a much higher professional level. These are the examples that make you feel proud but meanwhile humble.

In the 19 years of our existence we have been fortunate to see many of these good examples, and impressive progress has been made for millions of people. But still, trade under Fairtrade conditions is not even one % of the enormous flow of goods that travels around the world. Fairtrade is good and effective, though not the only means for development. The Max Havelaar Foundation wishes not only to increase the amount of Fairtrade sales, - for which we're this currently organising the Fairtrade week for the first time, with a lot of publicity and promotions in 3,500 stores in the Netherlands - but we also wish to contribute to a broader vision and solution on the very important question of the unequal distribution of wealth. Although we acknowledge that other factors are also necessary, we're convinced that trade is key for development. That's why we organised this lecture. That's why we've invited the speakers to give their view on this subject and debate together.

position paper



POVERTY ALLEVIATION AS A BUSINESS ISSUE?

Rob van Tulder¹, Rotterdam School of Management, Erasmus University

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Introduction: an ambiguous state of affairs

Since the beginning of the 21st century, the potential contribution of corporations to a large number of societal issues has received increasing attention and controversy. This also applies to arguably the biggest global challenge of the moment: alleviating poverty. Until recently, the issue of poverty was largely ignored in management theory and practice (Jain, Vachani, 2006). There are at least three reasons for this. Firstly, because poor people generally do not operate on 'markets' and have limited buying power. Secondly, the issue of poverty itself is complex. Do we consider absolute or relative poverty for instance? What about the so-called 'working poor'? Thirdly, the issue of poverty has many 'issue owners' and it is extremely hard to identify primary responsibilities. Poverty reduction is generally acknowledged to be the most important precondition for worldwide economic growth. Poverty goes together with weak human assets, a high degree of economic vulnerability and chronic malnutrition due to insufficient purchasing power for (good/safe) food and water (FAO 2002). Poverty is associated with forced labour, as well as child labour as children need to complement the insufficient income of their parents. Poverty breeds an unequal distribution of diseases in developed as well as developing countries. Poverty contributes to a lack in education, leads to social and political discontent, triggers migration, and is a breeding ground for terrorism and corruption. Poverty triggers unsustainable agriculture practices and a less than efficient use of other scarce resources.

1) See also: www.ib-sm.org. An earlier version of this paper was written together with Ans Kolk and will appear in the Handbook of 21st century Management, Sage, 2007 (forthcoming); Thanks to Esther Kostwinder for extensive, resourceful and timely research assistance and for Michiel Lenstra for smart summarising.

Management studies at the moment lack the firm specific strategic frameworks, the conceptual tools, as well as the firm specific data to address the poverty issue in all its dimensions. This rather ambiguous state of affairs, however, has not prevented the issue from appearing prominently on the agenda of corporate decision makers. Neither did it prevent business gurus from devising formulas in which poverty is considered an opportunity rather than a threat. Consequently, the mood towards the involvement of firms in general and multi-national enterprises (MNEs) in particular in poverty alleviation is changing. Will this mood-change prove sustainable or is it merely a new management gimmick? What is the influence of other issues like global warming? The answer to this question largely depends on a proper assessment of the involvement of firms in poverty alleviation and the nature of the issue. This paper analyses the development of poverty as a corporate issue, and proposes a number of ways in which firms can engage with this issue. It then goes on to describe the way in which 100 leading companies are actually dealing with this issue, before finally identifying a number of challenges that are still ahead.

The many manifestations of poverty

Poverty includes dimensions like lack of access to markets and basic services, as well as exclusion from political participation. Indeed, only such a broad understanding of poverty will ensure that business strategies aimed at alleviating poverty will be effective. More common conceptions of poverty include: 1) absolute poverty, 2) relative poverty and 3) the working poor.

18 | Conceptions of absolute poverty focus on incomes or consumption levels, often using benchmarks like \$1 or \$2 a day to denote the minimum level needed to meet basic needs. This is also called the “poverty line”. During the 1990s GDP per capita in developing countries grew by 1.6% a year. The proportion of people living on less than \$1 a day fell from 29% to 23% of the world’s population. While the number of people in extreme poverty decreased by 10%, the number of people living on less than \$2 a day in the 1990s, increased to 2.5 billion (World Bank, 2004).

Beyond such basic statistics, the concept of relative poverty is more controversial. It is in particular related to an unequal distribution of income. In the early 19th century income inequality arose mostly within countries, whereas at present more than half of it is found to be due to differences between countries. Income inequality hampers economic growth in particular at per capita income levels below \$2,000 (Barro, 1999; Easterly, 2002). Income disparity (even more than absolute poverty) has been considered the source of many other human problems: sickness, criminality, wars, education, safety. Higher income inequality also breeds higher degrees of corruption (and vice versa). Perhaps most importantly, the experience of poverty is all the more painful when inequality means that others are so much better off. Thus, poverty is not just a problem in poor countries: according to the UN Human Development Report in 1998, 19% of the US and 13.5% of the UK populations were considered to be poor.

A fairly recent conception of poverty involves the working poor. The working poor are working or looking for work in the formal sector (during at least 27 weeks per year in the United States), while earning an income below the poverty line. At the end of 2002, the number of working poor – defined as workers living on \$1 or less a day – was assessed at 550 million. Defining the poverty line at \$2 a day, the number of ‘working poor’ increases to 1.4 billion people (2006 figures). Again, the problem is not limited to developing countries. In 2002, the US Department of Labour registered about 7.4 million ‘working poor’ people, representing around 5% of the work force (US, 2005).

The development of poverty as a corporate issue

Issues are first and foremost societal matters that lack unambiguous legislation (Van Tulder with Van der Zwart, 2006). The issue of 'poverty' is more complex than other issues because it can not be 'regulated away' by national legislation. In ethical terms, poverty alleviation represents a 'positive duty' rather than a 'negative duty' for corporations. Even the issue of 'minimum wages' proved very difficult to regulate. Consequently, there is no government that requires firms to address poverty (or solve it) in any comparable manner as has been the case with environmental or human rights issues.

Issues, however, can also appear as a result of expectational gaps (Wartick and Mahon, 1994). Expectational gaps are created when stakeholders hold different views on what acceptable corporate conduct is and/or should be with regard to societal issues. It concerns the disjunction between the factual and actual interpretation (what is) and the desired interpretation (what should be). In this way, the birth of an issue marks a gap between being and belonging, between perceptions of corporate conduct or performance, and expectations of what it should be. So even if there is no real problem, an issue will develop once it is perceived as such. Poverty became a real issue for firms in the early 21st century in particular due to expectational gaps with a specific number of stakeholders.

The growth of an issue occurs specifically when those first in command fail to address an issue adequately. The discontent grows even further when the issue can be clearly defined, is given a popular name and the media latches onto unsuspecting protagonists. Examples include: 'Frankenstein Food' (introduced by Prince Charles), or 'Global warming' (supported by Nobel Prize Laureate and former vice president Gore). The transition to this phase is often initiated by a triggering event, usually organised by a visible and legitimate stakeholder.

For the poverty-as-business-challenge issue, important triggering events became meetings of international organisations like the World Trade Organisation, the World Bank and the G8 Summits where 'anti-globalisation' campaigners highlighted global inequalities and laid the blame for this squarely with MNEs. Further triggering concepts became: 'The Millennium Development Goals', 'Decent work', 'outsourcing', the 'Wal-Mart effect', and the 'race to the bottom'.

In 2000, the Millennium Development Goals, formulated by 189 countries, served to renew interest in poverty. The prime goal (MDG1) specified halving poverty – defined as those people living on less than a dollar a day - by the year 2015. Perhaps more importantly, an instrumental goal (MDG8) was formulated, in which partnerships with private corporations and a good business climate were considered vital to achieve attention for the involvement of the business sector in the eradication of poverty was also picked up by multilateral organisations such as the World Bank and the IMF. They started to stress the importance of a favourable climate for 'doing business' and the related importance of 'good governance' for development. The issue of poverty reduction has since been kept on the agenda due to a variety of NGO campaigns targeting international government meetings. A good example is the 'Make Poverty History' campaign, marked with a short influential clip in which well-known film stars and musicians snapped their fingers every three seconds to represent a child dying unnecessarily as the result of extreme poverty. The supporting book *The end of Poverty* by MDG architect Jeffrey Sachs (2005) – with a foreword by singer and entrepreneurial activist Bono – highlights the alliance of scholars and activist to keep the issue on the top of the agenda.

Related to the earlier conception of poverty as the 'working poor', an important dilemma on which the poverty-as-business-challenge debate has focused is on working conditions, both in developing

countries and developed countries. With the increasing integration of developing countries into the value chains of western companies since the fall of the Berlin Wall in 1989, and the start of the era of 'globalisation' (two clear triggering events), the issue received renewed attention in particular by western trade unions and NGOs. Thus, 'Fair Labour' and 'Fair Trade' movements have targeted the issue of working poor as a result of the unfair operation of the international trading system and the (perceived) negative consequences of the inclusion of workers in the international supply chains of multinationals. The anti-Nike campaign in the 1990s on the use of child labour was followed by the 'clean clothes' campaign' and a large variety of 'stop child labour' campaigns.

In the United States, Wal-Mart has been accused of unfair labour practices. It was claimed for instance that Wal-Mart sales clerks are paid below the federal poverty lines. The anti Wal-Mart campaign "The high cost of low price" suggested that Wal-Mart employees are also making intensive use of social security. Consequently, the issue of working poor received a name: the 'Wal-Mart effect' (see for instance Business Week, February 6, 2005). Concerns about the 'Wal-Mart effect' have been joined by concerns over outsourcing, whereby western firms 'relocate', 'outsource' or 'offshore' facilities to 'low wage' developing countries. Since the end of the 1990s, many elections in developed countries have had the outsourcing/off-shoring issue as a core point of dispute.

MNEs have been accused of actively stimulating a 'race to the bottom', whereby developing countries – and even developed countries – are played-off against each other and encouraged to relax labour regulation, and lower wages and taxes to attract 'big business'. One response has been the International Labour Office's intensified campaign for 'decent wages'. Already its original Constitution (1919) referred to the "provision of an adequate living wage" as one of the most urgently required reforms. However, the ILO conventions are notorious for their lack of ratification by member states.

Options for business

Once an issue has emerged, it develops when important stakeholders, individually or collectively, demand concrete changes to corporate policies and scholars develop models, approaches and strategies that can solve the issue. In the mature or settlement phase, the issue is addressed by concrete strategies, new legislation and the like, which implies that the expectational gap gets bridged. If corporations do not develop credible strategies in this phase the issue remains controversial – depending on the relative strength of the stakeholders and on the extent to which 'issue fatigue' can also appear. The above triggering events precipitated a large number of initiatives, some of which already existed long before the actual events appeared.

One response has been to try to measure the impact of MNEs activities on poverty alleviation. The Global Reporting Initiative (GRI, 2004) has tried to link the core activities of businesses to the MDGs in the form of concrete reporting guidelines, for example by measuring the creation of jobs in the formal sector, which is considered critical in escaping the poverty trap. However, measuring the direct contribution to poverty alleviation itself has proved too difficult and too politically sensitive. Instead, the 2006 update of the GRI guidelines (G3) has opted for a set of more general social and economic indicators on working conditions.

Labelling represents another way companies can attempt to impact on poverty. Labels enable a company or a group of companies to communicate its commitment to society and provide consumers with information on the quality and contents of products. Especially fair trade labels aim at communicating

the corporate approach to poverty alleviation. For example, in 2002, Tesco, the UK's largest retailer started selling Fair Trade bananas. The label serves as an "independent guarantee that disadvantaged producers in the developing world are getting a better deal" (ie a fair price). However, it remains exceptionally difficult to address poverty by means of a label. The market penetration of fair trade labels is still below 5% in most product markets, and a vital problem with increasing the effectiveness of labels is how to coordinate and monitor labels. Active firms are inclined to adopt an own label as a unique selling point towards customers, but coordination, standardisation and monitoring is required to make the label into an actually effective poverty alleviation strategy.

Codes of conduct, meanwhile, can help corporations to level the playing field and promote standards that can overcome the 'regulatory gap'. A cascade of codes has developed, some of which refer to the issue of relative poverty and working poor, through provision on labour conditions. But not many have dealt directly with poverty alleviation (Kolk et al, 2006). Important developments have been in the form of the Ethical Trading Initiative (ETI, 1998) and the Fair Labour Association (1998). In particular the ETI Base Code has tried to apply a multi-dimensional definition of well-being and poverty for instance by referring to a 'living wage' and 'no excessive working hours' (IDS, 2006). As with labelling, external monitoring and verification, as well as clear sanctions for non-compliance are instrumental in the success of codes of conduct. There is a tendency, however, for companies to prefer a 'light touch' (Kolk and Van Tulder, 2005). At the same time, codes of conduct may not be suitable to address a highly complex issue like poverty.

A more recent response to the poverty issue has come in the form of the 'Bottom of the Pyramid' thesis (BOP), which views the four billion people that live on a per capita income below \$1,500 (PPP) as a potential 'multi-trillion dollar market', especially for basic commodities such as food and clothing. The thesis contends that it should be possible to 'eradicate poverty through profits' (Prahalad, 2005) as companies focus their resources on this market and innovate in order to develop products and services that meet the needs of the poor. Microcredit is perhaps the best known example of such a service.

The Bottom of the Pyramid thesis presents a compelling business case for poverty oriented strategies, but not many contributions have yet examined specific strategies for actually reaching that bottom. Since its inception, the number of critics has also mounted. In case MNEs provide complementary job opportunities and create new markets for cheap products that did not exist (such as mobile phones for instance), the BOP strategy works in alleviating poverty. But part of the 'market' at the bottom of the pyramid is in practice already served by local firms and the informal economy. Multinationals can 'crowd-out' more local firms and local employment than they create. Furthermore, at the real 'bottom' of the pyramid, the purchasing power of the population is much less attractive (and the transaction cost to reach considerably higher); so in practice the BOP strategy has already been redrafted into a "Base of the Pyramid" strategy – a far more modest approach than the original claim. There are therefore basically two types of BOP strategies: a 'narrow BOP' strategy that only focuses on the market opportunities and a 'broad BOP' strategy that takes the wider repercussions and the net effects of the strategy into consideration. Only the latter will turn BOP strategies into a viable business contribution to poverty alleviation.

What is business actually doing?

The above discussion provides an overview of some of the options available to MNEs who are serious about the issue of poverty. But what are companies actually doing? An earlier study explored the

codes of conduct on poverty of a number of frontrunner MNEs (Kolk et al, 2006). Most of these firms were not (yet) very outspoken on poverty alleviation, whereas the compliance likelihood of their codes of conduct relevant for poverty alleviation remained rather limited. Companies tended to address only a few dimensions of poverty, in particular so called content issues that were directly relevant to work conditions. Broader approaches that had the largest potential to help eradicate poverty such as local community development, training and monitoring and relative poverty were hardly ever addressed. Although the approaches of frontrunner firms showed considerable divergence, on a sectoral level a higher level of resemblance could be observed. MNEs appear only willing to state active commitment if others in their sector do as well. We inferred that MNEs might fear that, because of their involvement in poverty alleviation, they might lose out to others that do not have a strong policy (and/or that pretend to be active but fail to enforce it). So, whereas pressure from civil society puts a 'floor' (a minimum level that is expected) on corporate social responsibility in a sector, at the same time, competitors – other MNEs in this sector – can also put a 'ceiling' on CSR when it comes to being involved in alleviating poverty. Factors that seem to shape the inclination of MNEs to show commitment to poverty issues are firstly size and product familiarity for large groups of consumers, and their readiness to put societal pressure on companies. Next, the domestic origins, the home-country institutional context, of MNEs seemed to play a considerable role. Compared to US and Asian companies, European MNEs show a greater tendency to pro-actively approach poverty. Finally, firms with a spread of activities over developed as well as developing countries seem most prone to being involved in the development of poverty-alleviating policies.

To bring the above analysis one step further, a first inventory was made of the overall poverty related strategies of the 100 largest Fortune Global firms in 2006. Codes of conduct, websites, and corporate sustainability reports of each of these firms were analysed. Half of the Global Fortune 100 list of 2006 comprises European firms, around one third is American, whereas one sixth is Asian. Around 58 of these corporations had undertaken some initiative on the issue of poverty. At least four firms (Citigroup, # 14 on the list, Deutsche Bank, #48, Electricité de France, # 68, and Deutsche Post, # 75) explicitly communicated a moral statement that poverty is unacceptable. Some corporations acknowledge the issue of poverty, but link it primarily to economic growth – thus supporting the mainstream approach to poverty alleviation which does not require an active corporate involvement. Matsushita Electric (#47 on the list) for instance argues in its 2006 Global Corporate Citizenship report that “at present, the world has a large number of people living in poverty and needs a level of economic growth sufficient to raise their standards of living”. Other corporations express more explicit concern over issue of poverty and link it to their own corporate responsibilities. For instance BP (#4) in its 2005 sustainability report states that its 'primary means of making a positive impact on poverty is through aligning our own operations with local people's needs'. Petrobras (#86) states in its social and environmental report of 2005 “what motivates us is the ongoing quest to improve the quality of life in the communities in which we operate. Our initiatives are in areas such as job creation, income generation, combating poverty and hunger...”.

One out of five corporations is searching for 'partnerships' with NGOs and international organisations on the issue of poverty. A similar percentage had also developed poverty oriented programmes in their philanthropy activities. The Shell (#3) foundation for instance aims to support sustainable solutions to social problems arising from the links between energy, poverty and environment with a \$250 million endowment. It issued a well received report Enterprise solutions to Poverty. However, intentions and philanthropy activities do not necessarily reveal the implementation of concrete core strategies. So we

considered in more detail to what extent the 100 largest firms in the world at the moment are making their commitment to alleviate poverty more concrete. One out of ten firms on average – in particular American and Japanese firms – consider the provision of ‘affordable products’ as an important contribution to poverty alleviation. One out of four firms on average (24 firms) identified the creation of local employment opportunities as a major issues, half of this group (12) further specified the inclusion of indirect employment at suppliers. Decent wages, however, are only defined by four corporations.

Another way of concretising an ambition is to link to international initiatives and codes. For instance 43 of the 100 largest firms subscribed to the UN’s Global Compact in the 2000-2006 period (36 of which are European corporations). But the Global Compact only provides general and indirect reference to poverty, whilst it is very weak on implementation. Seventeen corporations have expressed general support for the Millennium Development Goals (MDGs). One quarter of the European firms, and less than 7% of the American and Asian firms, support the MDGs. A number of in particular European firms have been very active in further operationalising the MDGs for their business context. Firms like Royal Dutch Shell (#3) and ABN Amro (#82) have explicitly linked their sustainable reporting to each of the eight MDGs. As regards poverty related international codes and labelling initiatives, the most popular initiative up to now has been the ‘Fair Trade’ label, which has been endorsed for a number of products in their product range by at least four international retailers. The Ethical Trading Initiative is supported by three corporations, of which two are American computer and office equipment producers. On average, however, most large companies still tend to favour own labels and own poverty related codes, whilst not endorsing already existing codes or standards – such as the ILO standards.

Finally, two entrepreneurial approaches towards poverty alleviation – micro-credits and the Bottom of the Pyramid (BOP) – were distinguished for which corporations can adopt a narrow and a broad strategy. As regards micro-credits, many firms have embraced the idea. Twenty three firms from a wide variety of industries consider micro-credits an interesting option as complement to their main business strategy. For instance ExxonMobil has a number of partnership projects with USAID on microfinance in areas related to its oil projects (Kazakhstan and Sakhalin). The corporation presents its microfinance activities as “one of many ways ExxonMobil fosters education and increased opportunities for women [...] as part of the company’s community investment initiative” (2005 Corporate Citizenship Report). An additional nine of the 17 banks of the sample present micro-credits as an interesting part for their general business strategy. The Dexia Group (#55) for instance asserts itself as one of the world leaders of the international financial market of microfinance,

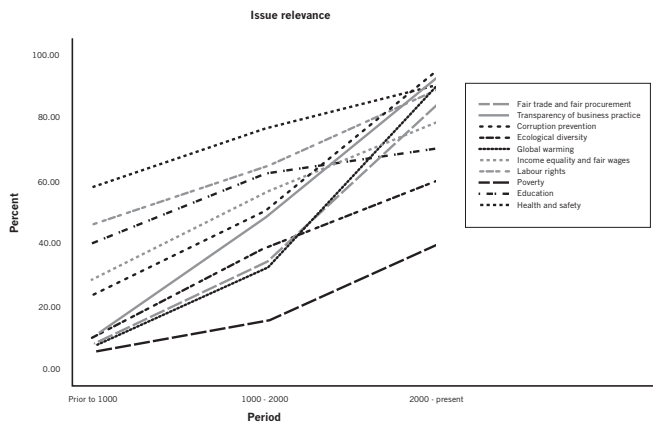


Figure 1 Issue Relevance: 1980s – 2007

with total assets of around US\$89 billion in 2005 (Sustainable development report 2005). Other international banks have followed suit, making micro-credits a mainstream instrument. The actual volume of the efforts, however, remain rather limited which serves as an illustration of the relative difficulty with which this market can be developed. Micro-credits, therefore, are still a relatively marginal activity for most banks.

As regards the BOP, leading firms are still rather ambiguous. Eight of the 100 largest firms have mentioned the BOP as a possibility, but have primarily embraced it as yet another market change to sell products in a poor region. Only two firms (Citigroup, #14; Nestle, #53) have been arguing in favour of a more broad BOP strategy in which they are developing an explicit view on how this strategy actually addresses poverty alleviation as a result of direct and indirect effects.

Poverty as a corporate issue: where next?

Research undertaken by the Rotterdam School of Management, Erasmus University (Kaptein et al, 2007) asked a representative sample of the CEOs of the 200 largest firms in Europe about their issue prioritisation. They could indicate the issue importance on a scale from 1 (not at all) to 5 (very much). The research shows that the issue of poverty has increasingly been seen as important, although still less important than issues like corruption and health and safety (see figure 1 above). Its growing importance suggests that poverty eradication as a business challenge is still in the approximate development phase of its life-cycle. The issue is far from being mature, let alone resolved. Triggering events have resulted in relatively concrete aims and goals; new concepts have been developed that structure the debate; but the issues are not yet resolved, let alone clearly addressed. New concepts are not undisputed, the operationalisations are not always clear and are not well coordinated, whilst the relationship between business strategies and the resolution of the issue at hand are not yet clear either. There is abundant room for 'PR' activities of firms in which a concept (like micro-credits or the BOP) can be embraced only to ward off critical stakeholders. The area is relatively new for firms, stakeholders and researchers alike.

A number of challenges prevent companies from fully embracing the issue of poverty and pro-actively developing solutions. Most importantly, great uncertainty remains about how exactly to approach the problem. Poverty is a global problem and it is therefore logical that general guidelines should be developed. The Millennium Development Goals have triggered the attention of an increasing number of firms, but a clear bottleneck remains the difficulty of operationalising the MDGs in clear measurement, including reporting standards such as the Global Reporting Initiative (GRI). A clear regulatory framework remains absent. More pro-active approaches have not yet been elaborated and operationalised into scientifically sound models and generally acceptable principles and guidelines.

Sector dynamics also play a role. While globally agreed guidelines should be the starting point, details will have to be worked out at a meso-level. Keeping the dialogue at the global level, and treating all MNEs from different sectors the same way (as tried, for example in the UN's Global Compact efforts), focusing on compliance with one and the same standard, will (and does) not work. Different sectors face different problems and are at different stages when it comes to alleviating poverty. So a way forward in this regard might therefore to not approach single, individual (often high profile) MNEs, as some NGOs and international organisations tend to do, but to create an enabling environment that facilitates dialogue and subsequent action at the sector level. Complementary, GRI and other international organisations might develop reporting guidelines and develop specific poverty alleviation indicators per sector.

A final challenge lies in the very dynamics of issue management itself. Issues are always prone to strategic re-assessments of the CEOs. In the aforementioned research among 200 European CEOs (Kaptein et al, 2007), we also asked them to indicate the expected increase in urgency of the ten selected CSR issues. The following ranking (Table 1) was the result of this exercise:

Expected increase in issue urgency	Mean
1. Global warming	4.4
2. Transparency of business practice	3.8
3. Ecological diversity	3.7
4. Fair trade and fair procurement	3.5
5. Corruption prevention	3.5
6. Labour rights	3.4
7. Health and safety	3.4
8. Education	3.2
9. Income equality and fair wages	3.1
10. Poverty	3.0

The issue of poverty will not likely increase in urgency (viz. Figure 1). The attention of corporate CEOs will remain low, but stable for the issue. This is a breach of the trend of increasing attention of the past decade. More importantly a number of poverty-related issues like income equality and fair wages, and education are declining in importance for the European CEOs. This is a remarkable development and is caused by at least two developments that are inherent to 'issue management'. First, the issue of 'global warming' is starting to get most of the attention in the public debate (the Gore effect) as well as with stakeholders and shareholders of large corporations. This 'crowds out' other issues like poverty and poverty-related issues. Secondly, the supporters of the Millennium Development Goals in their 2007 evaluation reports have stressed that in particular MDG 1 (halving poverty) might be reached. In issue management, the relative urgency defines the willingness of managers to address the issue. As soon as policy makers start to emphasise that MDG1 might be reached, the issue loses importance. This poses a problem, since the issue will certainly not be solved. On the contrary, the \$1 a day benchmark has been criticised as relatively low (or not very ambitious), whereas the goal is relatively easily reached through the gigantic economic growth of in particular China and India. It can be anticipated that relative poverty will not decrease and many regions and countries – in particular in Africa - will not reach MDG1.

It can be concluded that the business involvement in addressing the issue of poverty is far from settled. Firstly there is as yet a lack of meaningful benchmarks, approaches and measurement tools. Secondly, a lack of ambition, especially compared to other issues, might also dampen the efforts of the business sector in explicitly addressing poverty. The 2007 Max Havelaar lecturers have been invited to respond to this dual perspective.



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MAX HAVELAAR LECTURE



DEVELOPMENT IS A PRACTICAL CHALLENGE

Jeffrey Sachs, Earth Institute, Columbia University New York

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It is a tremendous honour to be with you at Erasmus University today, and I thank you very much for hosting the Max Havelaar lectures and taking on the challenge of involving business in poverty alleviation. Poverty alleviation is a great challenge for business in general and I am thrilled that you in particular ask about the role to be played by business schools. So, I will try to give some very practical answers in this respect as well.

The Millennium Development Goals are specific

I first want to talk about the Millennium Development Goals (MDGs) and how to achieve them.

I should start by explaining what they are and a bit about what my own role is. In September 2000, about 150 leaders assembled at the United Nations and adopted the Millennium Declaration from which the eight Millennium Development Goals were taken. The Millennium Development Goals are international goals that were adopted by all the world's governments. About a year later UN Secretary-General Kofi Annan asked me to help organise a sustained effort to design and recommend practical approaches to achieving the Millennium Development Goals. The key here is to make them operational.

The Millennium Development Goals indeed present specific time-bound, quantified objectives, which in my view make them extremely important. By the year 2015 we are to reduce by half the rate of extreme income poverty compared to the 1990 baseline – that is the so-called dollar-a-day poverty, measured as a share of the population of each country. Similarly, we measure hunger generally by three indicators: low height for age, low weight for age and low weight for height, which is an extreme form of hunger wasting. By 2015, the goal is to reduce by half the proportion of children that suffer from chronic hunger, compared to the 1990 baseline. By 2015 all children are to be completing

primary education. It is shocking that around 200 million children that ought to be in primary school are out of school, and they will be condemned to a lifetime of poverty as a result, unless we do something about it now. Many of the MDGs relate specifically to health. The mortality rate of children under five (which is the number of children who die before their fifth birthday out of every thousand that are born) is to come down by two thirds by the year 2015. And maternal mortality, which is mothers dying in childbirth, should be reduced by three quarters by 2015. At the same time AIDS, tuberculosis and malaria should be brought under control, and the proportion of people deprived of basic sanitary conditions and safe drinking water should be reduced by half by the year 2015. The eighth goal is the goal of international partnership. It states that the rich countries should barter with the poor countries to achieve these goals.

28 | There is some criticism of these goals. Some people say they cannot be met, or that they are a distraction. Some people say they will be met automatically, so why care? This is a profound misunderstanding – these goals will not be met just by themselves or by global market forces. For example, mothers will die in childbirth – even in countries achieving economic development – unless public sector efforts are made to ensure that there are emergency surgical rooms available for complicated deliveries. For those who say the goals will automatically be met, and are then shown the trends that this is not the case, it is also false to say that these goals cannot be achieved. Even now in 2007, halfway to the 2015 target, many people just write off the goals. They state that Africa cannot meet them. What they are doing is taking a pencil and extrapolating the current trend and saying that we are off the trend to achieve the goals and therefore we should be more realistic. Their definition of realism is: let children die; let mothers die, let people go hungry. But that is not realism at all, it is ignorance. It is also very convenient – especially in the United States – to say “Oh, there’s nothing that can be done”. This is a position of great moral irresponsibility and also of great practical ignorance. Unfortunately my country, especially in Washington, abounds in that right now, and this is a major problem. They seem to know how to spend a lot of money on the military, but not very much goes towards the problems of keeping children alive or addressing hunger or addressing the other targets of the Millennium Development Goals.

Practical pathways and a concrete challenge: Africa

On behalf of Secretary-General Kofi Annan, and now on behalf of Secretary-General Ban Ki-moon, I have been leading an effort to amplify the fact that there are actually extremely practical pathways to success. This is more a specific question: how do we get measles immunisations to poor rural areas; how do we get improved seed varieties to help farmers have higher yields; how do we get anti-malaria bed nets for poor people so that the children are not dying of malaria by the millions. It is a great challenge for a business school because it is so practical and it is so bottom-line.

There is no mysticism about it once you have delved into the timelines, the practicalities and the quantitative targets. In fact there is a great deal of progress being made towards achieving these goals. Many parts of the world will actually achieve the Millennium Development Goals. Children are already nearly 100 per cent enrolled in school in Latin America and in most of Asia. In China poverty rates have plummeted because of the dramatically swift economic growth. Poverty rates in India are now coming down very sharply, even though there are still very large numbers of very poor people.

The epicentre of the challenge is sub-Saharan Africa. In other parts of the world there are certainly big challenges. In India many mothers still die in childbirth because of a lack of access to emergency obstetrical care, and too many children are undernourished in South Asia. Those places are also on a

rapid economic growth path, and if they invest their resources wisely they will make great progress. However, it is in Africa where the biggest challenge lies. Economic growth has been, in some places, meagre or even negative and yet the burden is by far the highest. In Africa it is still the case that for every thousand children that are born, 150 die before their fifth birthday. It is still the case that two thirds of the world's AIDS sufferers are in Africa. It is still the case that millions die of malaria and half a billion people in Africa are afflicted with malaria every year. These are huge challenges. There could be tremendous progress if we get our act together – in a very practical way. There is a role for business, a role for civil society, a role for government to achieve the MDGs, and there is a very important role for business schools as well. So let me do what I hope can be helpful, and first give you a diagnosis, secondly a prescription and then a sense of the relative roles of the different stakeholders in achieving or carrying out the prescription.

Diagnosis and prescription

The problem is that Africa remains a highly rural society and its economies are rural. About 70 to 75% of the population live in villages. More than 90% of African villages still have no electricity, no graded roads; they do not have functioning clinics; often no schools. These are conditions that are almost unimaginable for us in the Netherlands or the United States. Until I began to work in African villages a dozen years ago I had no conception of the extreme nature of the poverty. It sounds impossible to do anything, but the fact is there are tremendous things that can be done, and from one year to the next. What is needed most of all is investment that is targeted in particular areas to empower the villages, the communities or the individuals themselves.

First there needs to be investments in agriculture, and this is an area that has been neglected by the donor community for twenty years. I visited a former Minister of Co-operation of the Netherlands a few years back and when I made the point about investing in agriculture I was told “I’m sorry, we don’t do agriculture in this country, we don’t do agriculture as part of our aid effort”. That was quite a standard attitude in European donor agencies until recently. Now if you look at this year’s World Bank World Development Report you will see that Africa is back on the agenda. In an internal evaluation of the World Bank’s agriculture programme, the World Bank itself admitted twenty-five years of failure, because they failed to invest in agriculture. World Bank staff had argued that the markets would do it, so they left it to the markets. But markets will not solve the low productivity of agriculture in villages without roads and power, and with impoverished people. So the first investment needs to help very poor farmers get the inputs that they need to raise their productivity. African farmers are achieving about 1 ton per hectare of farm output, but with a bag of fertiliser and high-yield seed they can achieve three tons per hectare. The difference is starvation or chronic hunger, on the one hand, and food surplus and an income on the other. In the Netherlands the yields are six, seven or eight tons per hectare, sometimes 10 tons per hectare. The difference is the lack of inputs into African agriculture and the inability of the poor to pay for those improved inputs on their own.

The second investment is in the health sector. We need clinics staffed by community health workers – not necessarily doctors – to address the major killer afflictions, which are malaria, diarrhoeal disease, respiratory infection, vaccine-preventable diseases, worms and micro-nutrient deficiencies. Ten million children die every year before their fifth birthday. Virtually every one of those deaths is easily preventable. These children are dying of poverty because they lack access to the basic inputs of antibiotics, bed nets, immunisations and micronutrients such as zinc and vitamin A. It is all known, quite straightforward, and very inexpensive.

The third investment is in schools and classrooms. We need classrooms with materials, teachers, electricity, and we need school feeding programmes that bring children to school and help them learn.

The fourth investment we need is basic infrastructure – for example paved roads, a power supply, whether off-grid with wind and solar energy, or on-grid, but powered electricity in villages for pumps, illumination, for refrigeration and immunisations, for income generation, bakeries and metalworking shops, furniture making and everything else that we need electricity for.

Those four areas – agriculture, health, education and infrastructure – are the core investment areas. They have been studied repeatedly and assessments have been made of the costs of these investments. Here is the bottom line: if the donor world would do what it has promised – to give at least 0.7% of the Gross National Product as official development aid – these core investments could be funded everywhere and thereby not only save millions of lives each year but also provide a base for market economic activity to take effect in agriculture and agro-processing, to help these economies achieve self-sustaining economic development. A figure of 0.7% of GNP is easily achievable and the Netherlands has of course been achieving this goal for decades. So have Luxembourg, Denmark, Norway and Sweden, but the rest of Europe is not achieving this basic goal. Most donor countries – for example Germany, France, Italy, the United Kingdom, Ireland, Spain, Greece and Portugal – are not achieving this basic commitment. And the United States is the worst of all. The largest economy in the world is investing not 0.7% but 0.17% of GNP. That missing gap is \$70 billion a year of what the United States ought to be investing in development. It is being spent on the Iraq war instead – the most colossal, destructive waste of money on the planet. We are spending \$700 billion on the military in the United States and we are spending \$5 billion on Africa. We will not have peace if we are spending more than 100 times as much on the military as what we are spending on poverty in Africa.

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I will mention one more basic point. There are 300 million sleeping sites in Africa that are in malaria transmission zones, and that need a bed net. As each net costs \$5 and lasts for five years, that is \$1.5 billion needed to protect every sleeping site in Africa for five years. We spend \$1.7 billion every day on the Pentagon, so one day's Pentagon spending would provide mosquito nets for five years for every sleeping site in Africa.

An investment plan

We could invest in agriculture, health, education and infrastructure and achieve the above goals if all the countries would do what the Netherlands has done, which is to spend at least 0.7% of the gross domestic product as aid. This would give us another \$140 billion a year, half of which could go to Africa. Now many people say that aid is a waste of money: aid goes down the drain, aid is stolen and so forth. I found out that many of my critics got a lot of aid themselves: they got scholarships for graduate school. These critics are, in my opinion, pretty much unaware of the truth and they are also hypocritical. But more to the point, there are actually so many cases of aid achieving spectacular results. For example, in the last couple of years some aid was finally given to Malawi to help smallholder farmers get seeds and fertiliser. Malawi went from being a country in extreme hunger to a food-surplus country in two years. The country went from producing 1.5 million metric tons in the 2005 growing season to 3.1 million metric tons this year. They doubled their production because of targeted support for smallholder farmers. Another example is where Kenya was helped to distribute five million mosquito nets. When the epidemiologists went back a few months ago to study the effects, malaria deaths had been reduced by 44 per cent in the districts where these nets were

distributed. Now many other countries are having a similar success, but there is not yet enough money to provide comprehensive coverage. A third example is in Tanzania, where the debts were cancelled a few years ago – after many years of my complaining and many other people’s complaints. Tanzania covered the costs of school fees in order to eliminate them. Millions of children, who had previously been excluded from school because of school fees, came to school.

So, when you are very specific and practical – by building clinics, hiring community health workers, giving immunisations, distributing anti-malaria bed nets, giving vouchers for high-yield seeds and fertilisers, implementing school feeding programmes, installing wells for safe drinking water – the results are spectacular. Why aren’t the poor people doing this themselves? Because they cannot afford it. It is not that they do not know what to do, it is not that the poor are evil or corrupt or lazy or anything else. They are just poor. That is why we have to help just a little bit.

General roles

So what can be done? What are the roles for everybody? For governments, first and foremost, it is to achieve the official development assistance target set in Monterey in 2002, and again agreed at Gleneagles, at the G8 summit, and promised by Europe that all of your countries will achieve 0.7% by 2015. What we need is for Germany, France, the UK and every other country to achieve these targets on time and for Europe to say to the United States – get with it! The United States can afford 0.7%, but we need to hear from Europe that it is time for the rich world to live up to its promises. That is the first thing that a government needs to do – honour its own word. Your Prince, Prince Willem-Alexander, has done an amazing job in directing attention worldwide to the water challenges and goals. But we do not have the funding to accomplish these goals. We need to go to the U.S. government, and others, and say we need the funding for water. It is very straightforward and to the point because it is business planning.

What is the role of civil society? I think that there are at least three different areas. The first is government accountability: hold governments accountable for their promises. The second is service delivery. So many wonderful NGOs actually deliver practical things on the ground – this is very important. The third is innovative systems of delivery: better school feeding programmes, off-grid safe drinking water and energy supplies to the villages, new uses of mobile telephony and IT systems to improve productivity in the countryside. Those are critical roles for civil society.

Role of the business sector

Now what about the business sector? Every business should do something meaningful to support and promote the Millennium Development Goals. Now here is what I would recommend. First, I think every business – on its website and to its employees in its newsletter and so forth – should explain the Millennium Development Goals. As they are global commitments, they involve all of us, and businesses should help everybody to understand these goals. Second, take on the challenge as a business. I am much less interested in the business’s money or philanthropy than I am in the business’s technology. Businesses add value, and they add value typically because they have good technology and good internal management. After all, the key to development is technology. So every business should ask itself what it can do and how it could use its expertise to forward the Millennium Goals. I will give you an example of a great company in the Netherlands: TNT, the logistics company, which has partnered with the World Food Programme in recent years to help with the logistics of humanitarian relief and disaster relief. As I heard Peter Bakker the CEO once say, we used to put heat

cowls on stockcars as our main activity, now we are using our logistics expertise to save lives. It is a core example of putting the expertise to good use. Unilever does the same thing by getting into the very core communities and sourcing agricultural production from them. And especially if they do it the Max Havelaar way: on a fair-trade, high quality standard then you are really bringing jobs, income, technology, and you are bringing a value chain, and that is what Unilever can do best. General Electric is working with us on providing hospital equipment, another company is providing mosquito nets, and Yara in Norway is providing fertilisers. Ericsson is providing cellphone coverage. They have just opened up cellphone and wireless Internet coverage in villages where we are working in Rwanda. Ericsson also sent a representative just a couple of days ago to a camel-herding community in the far North East of Kenya, an extremely arid desert environment next to the Somali border. They are putting in cell power there so that there is going to be cell phone coverage for the camel herders. This is phenomenal as it is bringing pastoralism into the twenty-first century. It will save lives, create incomes, help with education, and so many other positive things.

So my main message to business is: examine your core technologies and deploy them for the sake of the Millennium Development Goals in communities or countries where you work. And if you are not working in the poorest places, take that extra step; they are your customers in the future. I do not believe that businesses are big charities; I believe that they can invest for the future by making their technologies applicable and available for the long term. And that is a win-win proposition.

A research agenda for business schools

What can business schools do? I believe that we need to be activists on these goals because universities are unique repositories of knowledge, they take a long-term view, they are in my opinion unbiased, and they are not out for the immediate result of the foreign policy angle. We can be in the business of helping to apply knowledge. And that is a vital component of this challenge of achieving the Millennium Development Goals.

One of the things Columbia University did was to start working in villages across Africa to help the villages achieve the Millennium Development Goals, and have called it the Millennium Village Project. You can find information at www.millenniumvillages.org. It is a project in twelve ecological zones in ten countries in Africa: Senegal, Mali, Ghana, Nigeria, Ethiopia, Uganda, Kenya, Rwanda, Tanzania and Malawi. For half a million people in these Millennium Villages we have shown that by investing in agriculture, health, education and infrastructure you can tremendously increase wellbeing, reduce mortality and you can help these communities get onto a self-sustaining growth pattern. This is a university initiative because it pulls together our school of public health, medicine, our economics and development thinking, our engineering school, mechanical engineering, our agronomists and our climatologists. We work together in partnership with these communities. They do the work, and we help them with advice and bring them some money for this, and the results are spectacular. The business school can also work with businesses so the businesses come to the schools and ask "What can we do?" The business school can help them design a meaningful way in. I think this would be extraordinarily valuable.

My bottom line is that the Millennium Development Goals are achievable. It is really about business planning, and linking funding with targeted investment so that impoverished parts of the world can become productive and join a modern world economy. If we do this, the improvements will mean millions of lives saved every year and there will be a vastly fairer and safer world for everybody.



THE CORPORATE PERSPECTIVE

Antony Burgmans, former CEO of Unilever

My congratulations to the Rotterdam School of Management, Erasmus University, and to Max Havelaar for picking such an interesting topic, especially for a business school. Many great thinkers come from business schools – my very great friend C.K. Prahalad for instance. He was the inventor of the phrase “the bottom of the pyramid.” There is a lot that business schools can add when they discuss this problem. I want to make four points in the context of what Jeffrey Sachs has said.

Agricultural paradoxes

The first one is the devastating effects of the agricultural policies of the U.S. and Europe on poverty. We should not forget there are about a billion people who have \$1 a day, or less, to spend. And there are about a billion people who are underfed – probably this is the same group. The agricultural subsidies in Europe, the U.S. and Japan, frustrate agricultural development in developing countries. A whole sector – which could be flourishing in the developing world – is being chopped off because we block the access for their products to our markets. For instance, for decades we have in Europe been paying three to four times the world market price of sugar because sugar-producing nations, who do it far more efficiently and effectively and are often much poorer in their economic development than we are, cannot access our markets. And, by the way, who pays for it? You and I: because we have been paying three to four times as much for sugar as we could have been doing. Now, there is modest reform under way, but we are still paying far above normal market prices.

The second thing we do, when there is a functioning agricultural sector in developing countries, is that we sometimes kill it off through our subsidies, since we export to these markets. Jeffrey Sachs gave [in the discussion, ed.] the very good example of cotton. Now a new cynical chapter has been added to the history of agricultural policy: biofuels. What we are doing nowadays – when we well know there are 1 billion people poor and hungry – is that we are putting food in our petrol tanks, in our cars, in order to move around. This is one of the most important factors behind the worldwide rise in food

prices at the moment. There are other factors too, but this is a very important one. With subsidies both in Europe and in the U.S. we are now encouraging farmers to grow corn and then convert it into biofuels. Then we say that this is good for the environment. Well, this is a myth. A recent study published by the Swiss government shows that first-generation biofuels do not have a positive effect on global warming. Now, food prices are going up 20 to 30% at the moment. A World Bank study has shown that a 1 per cent increase in food prices leads to a half % reduction in calorie intake. So while we know there are 1.5 million people going hungry, we still support these policies. To use an old Indian saying: we speak with forked tongue. On the one hand we commit ourselves to the plight of the poor, but on the other hand we enact new policies that are directly adverse to the plight of these people.

Development aid and the role of business

The second point I want to make is on the whole issue of development aid. I agree completely with Jeffrey Sachs that we have to step up our game here in the western world. However, this in itself is far from enough. Many countries have received billions and billions of dollars over the last 25 years, many times the size of their GDP, and they have nothing to show for. So there is an issue here. Throwing money at the problem is not the only answer. Yes, we need the funds, but we need to improve the absorption capacity of these countries to take on aid. The second problem we have with development aid at the moment is that 55% of all development aid never reaches its destination. Somewhere before that it is swallowed up by consultants, bureaucracy and government bodies. According to World Bank estimations, 55% of development aid never gets in the targeted country. So I think the efficiency and effectiveness of development aid are things that really need to be considered, and I think business schools can play an important role here.

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The third point I want to make is on the specific role of business in poverty alleviation. Now, the best thing business can do for a poor country is being there and doing business. Oxfam, together with Unilever, studied the effects of Unilever's presence Indonesia. I know that country very well. I lived there for seven years. Oxfam started this study and anticipated it would confirm its suspicions that most of the added value reached the multinational and not the locals in the community. I have lived there and I knew beforehand that the conclusion was going to be completely different – and so it was. Three quarters of the added value that Unilever generates in Indonesia stays in the country. How? Through paying taxes; by paying people decent wages; by organising training – not just for our own people but for our suppliers, our customers and our distribution base. We provide jobs for over 10,000 people just in our distribution base, we train these people and many more things. If you go through this with a fine tooth-comb you will find the vast majority of the added value stays in Indonesia. Business schools can carry out studies to document the positive effect of multinationals on these countries.

So, as I have said, the best thing that businesses can do is to be there doing business. However, you need an environment there in which you can do business. What should the host government do? I very much agree with Jeffrey Sachs – it is back to basics. We need roads to transport our products; we need infrastructure; we do need people with a decent education, and we need people to be healthy, otherwise they cannot work. Healthcare is very important. It is these basics that a country needs. Sometimes it is as basic as safety and sanitation. We used to have a great business in Congo, but unfortunately we had to leave because we could no longer guarantee the safety of our own employees. And that is when it all stops. So we need basic infrastructure to do business. Witnessing in how many countries – more than 125 - not only Unilever, but other companies, can operate, and you can see firms do not need much. Most of important of all is a reliable judicial system.

Appropriate business models

The final point: is there anything more that business can do? Of course there is more, and here I would like to come back to a point Jeffrey Sachs made. In the pursuit of earnings, a decent return for our owners - our shareholders - we develop skills and competences and technologies. Very often if you apply these skills with relatively little effort in the communities with which you are surrounded you can make dramatic changes. Let me give an example – which has also been documented by business schools. I wrote a case history when I was on the student council – and I know Harvard has written a case history on Shakti. Shakti is a project in India. We have a great company in India. Shakti is a programme that employs women in deeply rural communities in India. They help us in our distribution chain. If you live at the bottom of the pyramid and you are very poor you cannot step into your car and drive 20 kilometres to go to the supermarket to buy your shampoo or your washing powder – you have not got the money for it. What we do in India, in Indonesia and Brazil, is that we practically deliver the products to the consumers' doorsteps, because these people cannot travel more than half a mile. We need to have our distribution points very finely located in the rural areas of India. What we did was select women in those rural areas and train them. Then, through a micro credit bank, we asked them to invest \$200 to buy our Unilever products and they then set forth and started selling their stock, the products – with a mark-up of course – to little shops in the area and to consumers, door to door. We have tested this in two states in India and currently we do not employ them – they are entrepreneurs – but we guide them and we train them. We make sure they have the necessary micro finance, and we currently employ 20,000 women there. On average they can improve their monthly wage of about \$20 to about \$40 - \$50 on average. That is the difference between life and death in these communities. Fifty dollars a month is a large amount of money in that community. What we have done there is de facto an integral part of our business model. We know everything about distribution, we know everything about training people, this is part of the skills we have in doing business. We are applying that with relatively little effort in these two states. We are already helping 20,000 women, so if we do this across India we could easily be talking about 200,000 women. I have been to these villages, and I have seen what happens to these ladies. All of a sudden they become more assertive, better mothers, better managers of their households. It has a radiating effect.

The point that I would like to leave you with for the business school is that these things become more effective if businesses can find ways in which to build these sorts of efforts into their business models.



THE CIVIL SOCIETY PERSPECTIVE

Peter Gortzak, Chairman of FNV Mondiaal, vice-chairman FNV

FNV Mondiaal stands for the development department of the Dutch trade union FNV. We are trying to bring aid to colleagues in poor countries to help them organise themselves. We have funds from three sources: firstly, from the Dutch government, which has a special programme to enable us to do this; secondly, part of the contributions from our members is intended to help colleagues in poor countries; and thirdly, when we are going into collective bargaining, when we make collective agreements, we can sometimes ensure that employers in the Netherlands reserve some money for this goal.

Role of trade unions in MDGs under globalisation

As regards the contribution the trade unions make towards the Millennium Development Goals, I think that poverty and the continuing existence of poverty is directly connected with four opportunities for generating and obtaining decent employment: good governance, aid and equal opportunities, and the strengthening of participation, be it in nations or in companies. The trade union movement plays an important role in poverty reduction, in creating equal opportunities, in education and, for example poverty prevention by combating the consequences of HIV/Aids.

Contrary to what some might believe, the trade union movement does not just represent the interests of a minority of employees, mostly men, who are well-off already. International solidarity and equality form the basis of trade union work. Unions from countries where union freedom is guaranteed support colleagues who have to do their work under more difficult circumstances; employees from multinationals form networks with colleagues who work in other countries. Unions, national and global unions, finance and support educational projects, projects aimed at the inclusion of women, equal opportunities and the prevention of and dealing with the social consequences of HIV/Aids. In particular since the mid-1990s, we have been actively organising people who work in the informal sector, especially in Africa, Latin America and Asia, but also in the developed countries. The international work of the trade unions is not well known and also often not well understood.

Even some of our own members in the Netherlands, when first confronted with international solidarity, questioned the need for it. In recent years, however, this has become increasingly easy to explain, and thus to gain support for our support of other unions and workers across the world. Dutch companies, or divisions of companies, are being sold to foreign companies. Large parts of production are being moved to other countries. Employees see their colleagues being replaced by temporary workers, people who work for third parties, like agencies. The strategy of outsourcing and increasing flexibility is creating a feeling of insecurity; not least because workers and unions are informed of the changes at the very last moment. The situation makes it clear, also to our members, that international trade union solidarity is a must. Companies are operating according to a global strategy, and so therefore should unions and workers. In a world where companies are in a race with each other in the name of economic growth, or shareholder value, trade unions should join forces in demanding the globalisation of workers' rights, equal opportunities and decent wages.

Economic growth is not a magic tool for the creation of jobs and the eradication of poverty. Statistics show that profits stemming from economic growth are concentrated in the hands of the few and do not benefit the many. For example, over the last two years, there is not one country in Latin America that has seen its exports decrease. Between 2005 and 2006 the increase in exports was between 2 and 21%. However, this growth has hardly led to an improvement in the poverty rate. It has led to a growth of 36% in the wealth of people who were on the 2006 list of the wealthiest people in Latin America, though. Economic growth does not automatically lead to the creation of more and stable high quality jobs for a larger part of the population. Even in developing countries. If more jobs are being created they are often either temporary jobs or lower quality jobs further down the supply chain of the multinational companies.

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Critics of the concept of globalisation and of the right to a decent salary claim that higher salaries lead to fewer investments. This seems to me to be a false assumption. ILO research shows that companies' decisions on investments are based primarily on the size of the local market and the possibilities of growth in market share and political and social stability – not on the cost of labour. Also, companies know that operating in a socially unstable or non-democratic country can have a negative impact on a company's operations. Countries with healthy democratic systems have better and more stable markets. Companies benefit from stability, but so do employees and the communities they live in. Decent work, good governance and respect for international labour standards all form part of the solution to a poverty crisis.

Trade unionism is a means for workers to liberate themselves from poverty and social exclusion. Workers use trade unions as their representative voice to demand their rights and improve their living and working conditions. The formation of trade unions was and continues to be a reaction against low pay, long working hours, child labour and generally appalling working conditions. Trade unionism has proven an effective tool for workers to escape poverty, exploitation and the violation of their basic human dignity. Labour standards, those in particular dealing with freedom of association and collective bargaining, are crucial in securing decent working conditions and social progress. The trade union movement has a unique role to fulfil in ensuring the fair distribution of the benefits of economic growth and productivity, and in making sure that in times of crisis the burden is evenly shared.

However, organising workers and defending their rights remains a dangerous business. In too many countries trade unions and trade unionists remain under attack by governments and/or employers.

Unfortunately trade unionists are often killed because of the work they do. For instance in Columbia, between January 1991 and December 2006, 2,245 trade unionists were killed, 3,400 were threatened and 138 simply disappeared under suspicious circumstances. Freedom of association and the right to collective bargaining are signs of democracy, and restrictions result in undermining equality and the fair distribution of incomes. Social dialogue cannot exist without respect for freedom of association and without independent trade unions and employees' organisations. Social dialogue is important in the fight against poverty. In countries where there is no culture of dialogue there is no industrial peace – any peace for that matter – and civil conflicts destroy lives and employment. Social dialogue will thrive where there is democracy, good governance and political will. Solidarity and the fair redistribution of wealth are essential.

Towards a pro-active approach of business

The answer to the question as to how companies could take a more pro-active approach to poverty alleviation is by assuming real responsibility. Outsourcing and the 'flexibilisation' of the workforce are at the core of companies' global strategy. Decent, stable jobs are becoming scarcer. Fifty years ago a company director and even managers were committed to the company and its employees. These days, employees seem to be just one of the disposable parts of the company. Multinational companies do not seem to feel real responsibility for their employees, for the individual and his or her family. In our view, the responsibility of companies surpasses the responsibility for employees while they are still employees.

In countries like the Netherlands, companies are slowly becoming aware of the responsibility they have for their employees – even after the termination of their employment contract. When a company is laying people off or when it is selling off a division to another company, our unions negotiate jobs and training possibilities or lend support to finding new positions elsewhere. Unions negotiate the continuation of salary levels, benefits and pensions for employees whose company or department is being sold to another company. If there is really no other possibility, we make sure employees receive decent financial compensation when they are made redundant. But this is the Netherlands.

In comparison to people in India, China and Brazil, the Dutch are better equipped. We have social security, educational opportunities for everyone and a good standard of living. Still, the measures I mentioned above are considered absolutely necessary, so why do they not apply to other countries? Why can an employee in Brazil be sent off with one month's wages and, if (s)he is lucky, payment of the health plan for another three months? Why can employees in Mexico lose their jobs overnight and be hired again by the same company with a different name the next day, and be paid lower wages? Why are migrant workers in China hired inflexibly when it is unclear whether these people can actually survive on their wages? In other words, why, in this age of globalisation, can social rights and social responsibilities not be globalised as well?

The answer that companies often give us is: because of national legislation and local customs. We think this is too simple an explanation. In our view, the social responsibility of companies extends beyond painting the walls of a local hospital or funding the local soccer team. Many multinationals, at least their head offices, understand that much, but the fact that social responsibility also means that companies can do more than what is demanded by local legislation is not yet understood. Companies should engage in meaningful discussion and negotiation with trade unions. Trade unions are a vital part of the democratic structure of countries and societies, and if companies are serious about working

together to achieve the Millennium Development Goals they should also engage with the trade unions. Unilever, for example, is currently going through a worldwide process of restructuring. The commitment to society the company shows in its partnership with the World Food Programme cannot be found when it comes to the way in which it deals with its employees. People all over the world were told they would lose their jobs and nowhere did the company engage with the representatives of these employees – the trade unions. It made strikes necessary to make them do so. As Jeffrey Sachs says in his book (Sachs, 2006), multinationals often go well beyond their market demands to maximise shareholder wealth subject to the market rules of the game and instead expend substantial efforts – often under the table – to make up the rules of the game themselves. Economic reasoning justifies market-based behaviour by companies if the rules of the game are sound. There is nothing according to economic reasoning to justify letting the companies themselves set the rules of the game through lobbying, campaign financing and dominance of their policies.

An action and research agenda

So, what should companies do? Let companies go beyond the legislative demands by ensuring decent wages and showing responsibility for their workers and their families, even after a restructuring process or after relocating to another country. Companies should take real responsibility, respect trade union rights, promote trade union activity, and engage with trade unions representing employees and the civil organisations that represent the communities where the company is based. Companies should invest in their employees and in the community. Not just with the benefits to the company in mind, but also with their responsibility to the community. Stop window dressing. To quote Sachs again – the end to poverty must start in the villages, in the communities themselves. A global network of connections is needed to reach those communities and to connect them to the centres of power and wealth, and back again. We, the trade unions, are committed to helping to make these connections.

What should the research agenda for a business school on the issue of poverty and business be for the next five years? I would like everyone – researchers, companies and trade unions – to move away from looking at the social responsibility of companies as an add-on value, like an extra curricula activity that students can earn extra points for. It is not an add-on value, it should be an integral part of a company's philosophy and business strategy; companies should not receive extra points for doing this. Companies should not be praised for taking responsibility; companies that do not take responsibility should be the odd ones out. In line with Sachs's comment I quoted earlier – when it comes to really combating poverty and achieving the Millennium Development Goals I would like us to stop thinking about companies, communities and trade unions as opposing entities. The only way to achieve the Millennium Development Goals is by joining forces. Dialogue is the only way forward. We cannot do well for the poor unless we involve the poor on an equal basis. There are a number of issues that would need to be researched. I am glad to see that the Rotterdam School of Management is already undertaking research in many areas that we, as trade unions, are interested in, such as corporate integrity and accountability, transparency in stakeholders' relationships. Based on my contribution I would like to encourage students to look into the trends of outsourcing and flexibilisation, and to try to see what the consequences are of this trend for workers and their communities, both in developed and developing countries.



THE SOCIETAL PERSPECTIVE

Alexander Rinnooy Kan, Chair Social and Economic Council (SER)

It is a special experience for me to be back in Rotterdam, on this stage where I have spent so many happy hours in the past, maybe even before many of you were born. It is a real pleasure to return to this building and to do so on this important occasion. In fact my first appointment was in Rotterdam; I started teaching in the economics department back in 1977! My previous job was at the School of Management, then located in Delft, and I realise now that I had just left that institution when the student organisation that is now celebrating its 30th anniversary was founded. It is good to be here! I am conscious of our both having survived those 30 years, and I think the student organisation has done at least as well as I have. So, I am happy to be here, happy to be part of this illustrious event – your life, your future, your day. That sounds like something of an anti-climax, nevertheless it is a significant sequence. I am reminded of the story of the three bakers who lived next door to each other in the same street. The first one put a big sign on his store saying ‘Best Baker in the Country’; the second baker thought about this for a few days, then put a big sign on his store saying ‘Best Baker in the World’; the third baker was at first really nervous, but after a few days he erected a big sign which read ‘Best Baker in the Street’.

The Complexities of Globalisation

It is my task to reflect on some of the topics that have been addressed at this conference. I think I should start my contribution with the topic of globalisation because it has played such a prominent role, especially in the last debate we witnessed here, and to be frank globalisation is rather too complex a topic to deal with in a few minutes. If anything, I would perhaps recommend also returning to it on a future occasion. Let me first of all acknowledge the positive effects of globalisation. We are all fans of globalisation – it is hard not to be. We are all, to some extent, addicted to globalisation and we all witness its positive effects on many occasions. Millions of people are benefiting from the international division of labour and there are a lot of impressive statistics to share, especially from China and from

India. As far as India is concerned, one statistic really struck me – that a quarter of a billion people in India can now be properly considered as having a middle-class income – 250 million of them; that’s a very large number.

At the same time let us acknowledge the complexity of this development, because Mr Gortzak has a point. With regard to poverty statistics, the story is a bit more complex than we would perhaps like to believe. If you look at global poverty statistics, global aggregate poverty statistics, and ask yourself the question “Has poverty declined?” – the answer is ‘Yes’ without a doubt. But, as he pointed out, if you remove the figures for China from these global statistics then all of a sudden the answer is much more immediate, because China is an extremely big country and it makes an extremely big difference. That is no reason to back away from globalisation – even if we could. But it is a reason to be more careful, especially in an academic setting, to know exactly what the benefits are, where the risks are and where the flip side exists because of course, as we all know equally well, there is a flip side. And even that flip side is complex. For instance, if you look at the issue of child labour – the one that is most eagerly quoted by people worried about that flip side – it is far too easy to just take the moral high ground regarding child labour and condemn it upfront as something that is utterly immoral, which should not be accepted at any price. Because if you think about it, and especially if you talk about it to people from India for instance, they acknowledge, and obviously cannot ignore, the negative side effects. However, they also point out that if a law against child labour were to be passed then in most cases these children would move on to even worse jobs, in child prostitution and the like. The right answer is more complex, and points to a need for companies that work in that part of the world to perhaps accept children working and at the same time ensure that these children spend part of their time receiving an education, in that sense building their own life and developing their own future in a positive way. Again, I believe that the situation is sometimes more complex than is convenient for us to accept.

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Mr Gortzak is absolutely right about many employees being denied fundamental rights, and I think we should support trade unions in their struggle to ensure improvement in this area and to make sure that wherever there are micro pains as a result of macro changes, these micro pains are properly acknowledged. And frankly, if I may say so, I think we should appreciate the fact that the Dutch trade unions, unlike many of their colleagues in other countries, have always been on the right side of this debate. They have always supported free trade, they have always supported the lifting of trade barriers, and they have always come out against protectionism. And in this they are quite rare and pretty exceptional. Indeed they have always accepted outsourcing as an inevitable side effect of globalisation. There is nothing new here. The industrial make-up of this country has changed many, many times – it is how we manage that change that turns us into a fundamentally different country from those that employ very rough tactics to ensure that change proceeds. A civilised country can deal with change in a civilised manner. That is what we have to do. Of course there are other side effects of globalisation that worry us – and that are worthy of your attention. For instance, the way in which it affects the environment we live in, the way it affects the rough and raw exploitation of the resources we have, especially sources of energy. Look at the way in which China is now moving through Africa hunting out its natural resources. Again, these developments are worthy of more serious and deliberate attention than I can possibly give them today.

But we can absolutely agree on one thing, and I am sure that many of you must have been as impressed by Jeffrey Sachs and his views as I was. The Millennium Development Goals are worthy goals to go for: the eradication of extreme poverty and hunger; achieving universal primary education; promoting

general equality and empowerment of women; reducing child mortality; improving maternal health; combating diseases such as HIV/AIDS, malaria, etc.; ensuring environmental sustainability. With our global partnerships for development these are excellent and worthy targets, targets worth fighting for. Targets that deserve our full support, and the full support of our politicians. I strongly agree with Mr Sachs that this is not something we should easily give up on. We have had many examples in the past of goals that seemed excessively ambitious but, with hindsight, were eminently achievable. These are big goals – but certainly goals to keep firmly in sight and goals worth fighting for.

Corporate Social Responsibility...

The question I suppose that links this whole topic to the topic of today is the role or roles that companies can play in contributing to those major targets in the age of globalisation; the role of enterprises in alleviating poverty. Poverty is perhaps the overriding concern accompanying these aid targets. And there I think the paper that I have seen and which I recommend to you – included in the introduction to this booklet by Professor Van Tulder – gives us a very interesting framework within which to discuss these issues.

But first, I should also say that I agree with Mr Burgmans when he said that direct investment by foreign private enterprise is the best possible form of development aid. That is absolutely true, and of course if only companies do this on the largest possible scale they can perhaps play the best possible role. However, at the same time we all realise that that role is not enough, that we should do more; that companies should do more. But in what sense should we do more and in what sense should we expect them to do more? I think this is where the introduction to this booklet also makes a very useful contribution. Again, I don't wish to quote it in too much detail, but I think it indicates very clearly that on the one hand the majority of multinational enterprises recognise the message, but on the other hand many of them are still uncomfortable with it and many of them find it difficult to work with it. It is interesting to note that European companies are doing reasonably well in this domain, or comparatively well. About a quarter of European firms now say that they fully support the Millennium Development Goals. Companies like Royal Dutch Shell and ABN AMRO have explicitly linked their sustainable growth to these millennium aid development goals. I was happy to see that banks are doing very well indeed. Another recent publication shows that, of the large international banks, Dutch banks come out very well. The Rabobank has a very good track record in this area. ING, I am relieved to see, also has an excellent track record. There is progress here and we should appreciate and be grateful for that progress.

The question of course is, can we now take this notion, this fashionable notion of corporate social responsibility, that so many companies say they subscribe to, and stretch it to include poverty alleviation as a corporate objective? That is not as far-fetched as it sounds and certainly not far-fetched if you take it as an extension of what Mr Burgmans was saying earlier. Let me talk briefly about the public debate on corporate social responsibility. I am happy to say that the debate in the Netherlands is largely based on a report which the Social and Economic Council, of which I am currently Chairman, issued in the year 2000 – entitled 'Profiting from Values' (or *De winst van waarden*, as it is called in Dutch). I think it is fair to say that Dutch government policy in this area is based largely on what that report recommends, and on the analysis it provides. The report basically starts from the assumption, which I hope will not require a lot of proof or backing up, that business is about more than just making a profit. So the concept that we advocated, that the Social Economic Council advocated, is that corporate social responsibility goes beyond the classic notion that the only responsibility of companies is to survive, and that the only way to survive is to generate profit.

Typically in the Netherlands we have a tradition that is special – although not unique – of viewing companies as partnerships of stakeholders, not just as the exclusive property of shareholders or owners. Employees also belong to this partnership and there is a wider circle of stakeholders that to some extent and in some sense can also claim to be properly involved: customers, suppliers, competitors even, government agencies, society at large, consumer organisations, environmental organisations, human rights organisations, the media. A company, especially a large company, is a part of society. It cannot ignore the many complex ways in which it is linked to that society and has to derive some implications from that complex structure. The basic observation of the report to which I refer is that, to serve these stakeholders well and faithfully, companies should take an active or proactive approach to their corporate social responsibility, the wider responsibility of the company.

44 | One thing to emphasise in this debate, right from the start, is that this is not about charity. In fact, if anything, corporate responsibility is more often the result of enlightened self-interest; it is a strategy that companies employ freely to bring market focus and market potential, which are crucial ingredients, into line with the requirements imposed by the environment in which they operate. And it is precisely because they want to continue to do that, because they need that 'licence to operate', in those well-known words of Shell, that they engage in that wider social responsibility. Enlightened self-interest, I think, is the motive to keep in mind here. Because when properly executed, corporate social responsibility has a great many positive side effects: it improves the company's reputation, its good name, its positive image, its goodwill; it increases its sales potential and recruiting power. Look at the way in which these characteristics resonate when companies are ranked according to their recruitment potential. Future employees look at the image of a company and its social image when deciding where they want to work. Enlightened self-interest is also the way in which corporate social responsibility motivates employees. People want to be proud of the company they work for; this is the way to make them proud. Corporate social responsibility as enlightened self-interest also enhances the company's insight into its own market opportunities. It creates a long-term perspective; it creates a long-term alliance that also works for the company in the long run. At the end of the day, corporate social responsibility enhances risk management; it demonstrably reduces the chance of scandal or accident or even a court case.

For a while people thought that corporate social responsibility was a lot of hype, something that would come and go, but I think it is fair to say that it is here to stay, and it should be. The good news of course is that it is nothing new. Corporate social responsibility is really part of an evolution, not a revolution, because as a phenomenon it is as old as companies themselves. In the nineteenth century many companies, especially in the domain of manufacturing, quite privately and independent of any Government involvement, felt a sense of responsibility; they set up savings funds for their employees and funds to support them when they were ill or sick, or for when employees' widows needed financial support – way before pensions even existed. That was corporate social responsibility more than a hundred years ago. And it was certainly not just a Dutch phenomenon either. I wish I could claim that, but I cannot. It has been widely seen all over the globe, and as many of you may know it is properly reflected in the OECD guidelines for multinational enterprises published as long ago as 1976 – before the Social and Economic Council even existed. Corporate social responsibility has been around for a long time, and it has a long and proud history.

...in the global village

The globalisation of the economy that I referred to earlier and the opportunities created by technology, especially by information technology, most especially by the Internet, have turned the world into what

can properly be called the global village - a very great and inspiring concept. What is more, the global village has demonstrated all sorts of surprising side effects. One thing that we are all witnessing is that the powers that used to be are in retreat, governments are in retreat: their powers are waning. Whether they like it or not, companies, together with certain civil society organisations, have inherited a great deal of that power; a great deal of that visibility; a great deal of the knowledge and, unfortunately perhaps for them, many of the responsibilities. Whether we like it or not, the world that we live in sees that ethical and moral spotlights have been switched away from churches, switched away from governments, and are now shining on the civil society and business. So whether they like it or not, enterprises will be increasingly asked to account for that corporate social responsibility – by numerous stakeholders, by numerous external parties: consumers, citizens, interest groups and NGOs. We all know the famous examples – not necessarily cases we would be proud of. Take the Brent Spar case and Shell. In retrospect Shell was ready to do what was environmentally right and nevertheless for whatever reason was put under so much pressure that it had to back down from that original decision. Look at recent cases where child labour in the production of shoes and clothing has been attacked, and successfully attacked, and look also at the way in which companies are now responding. It is very encouraging. In farming, for instance, where farmers realise they will not survive commercially if their methods do not meet with public approval. A very recent case that really struck me was that there are now pig farmers who install cameras in their sheds to convince customers, via the Internet, of their good intentions. This is an amazing example of how companies can be forced to adapt their behaviour under public pressure. So basically, and I share this view with Mr Burgmans, I am optimistic here. I am optimistic that we are making progress; that this corporate social responsibility is a natural response that comes to companies more and more naturally over time. This is one of the two big trends that form part of this story.

The role of managers and management schools in the knowledge economy

There is another trend that I wish to address and I can be brief about this because I think you will recognise it quite easily from the classes you take and the books that you read. It is the role of the manager in this new world that we live in - the world of the global economy - that is also increasingly dominated by knowledge as a production factor. We live, especially in countries like the Netherlands, in knowledge economies, where knowledge is crucial, and knowledge economies require different leadership styles, very different leadership styles: less authoritarian, less patronising, more initiating, and more inspiring. This is a second fundamental trend. I don't want to go into this at too much length because I am sure you recognise the ingredients, but let me just summarise them very briefly. These knowledge economies that we are part of are truly and crucially network economies that consist of many interlinked networks. Organisational boundaries blur – it becomes less and less clear where one organisation ends and another one begins – and innovation becomes the key to corporate survival. As innovation takes place via co-operation with others and more frequently in an open innovation setting, the edges continue to blur. Instead of the hierarchical systems with which many of us grew up, we see these networks, these partnerships, emerging with shared interests being the key, and with reputation and trust as a crucial cultural ingredient.

What do managers need in order to survive and to prosper, to make careers in this kind of setting? What does management literature say about this? You probably know this much better than I do. Let me just quote a few ingredients that seem to make sense to me and that seem to be important. First of all, management has to remain open to change and people must act accordingly. Innovation again is the key, and it should be a key that follows naturally from what companies are setting out to do in accordance with their mission and their vision. There is a crucial need to communicate

this clearly, to all the stakeholders, especially to employees, and to provide them with the proper instruments. Instruments, for instance, like setting up internal innovation targets, measured in whatever fashion. Making sure that you have the right mix between what needs to be done on a short-term basis and what you need to accomplish in the long term: the difference between exploitation and exploration.

In a knowledge economy we need knowledgeable managers. Managers need to know a great deal more than they used to know. Different categories of knowledge: technological knowledge; market knowledge; product knowledge; distribution knowledge. You must have the ability to spot new information, and to recognise whether it is relevant. Managers need to be outward looking, ready to learn, ready to listen, ready to participate in their own networks, ready to recognise opportunities, ready to recognise threats, ready to process that information and ready to pass it on effectively. The knowledge economy, of which we are part and which we should be happy to be part of, is an exciting kind of institutional arrangement that requires a very different way of managing employees. I have already referred to that briefly, but of course one of the main and most visible trends is the movement away from centralisation – decentralised management styles, delegation to decentralised levels, and the evolution of new structures and new working relations. The one lesson that both large and small companies are learning is that there is an enormous amount of expertise and creativity embedded in their own organisations, in the minds of the people who work for them, which is seriously under-explored. To explore that knowledge, that eagerness to change, that ability to create, is one of the crucial roles of managers in the future. Companies that do it well will survive and prosper in the knowledge economy that we are building. To find the right people, to make sure that you exploit their talents to the full, to make sure that they can exploit their own talents and build on them and go forward is one of the crucial roles that managers will have. Indeed, they are making sure that that the lifelong learning process that we have already been theorising about for so long becomes a reality. That is one of the big challenges for the economy as a whole.

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When all is said and done, the challenge of diversity is to make sure that that the base of people that you work with and build on is a properly diverse base. I believe that this is perhaps one of the big messages from the private to the public sector of this country. In my opinion, the Netherlands right now shows all the signs of being a part of the world where we dwell too much on the negative effects of diversity. We see the distrust it can generate, we see the anger it can create, we see the suspicion it can sow and we simply under-explore the positive effects of that diversity. Large companies know from experience that diversity also generates creativity, that it generates opportunities for growth and creativity. It seems to me that currently in the Netherlands we are not getting that balance right at all.

Perhaps this is where the private sector can lead the way, as it has done so often in the past. Here we have, if you will, the two big trends that ultimately transform companies into knowledge networks that operate within a global economy and, at the end of my presentation, let me just bring them together and show how they ultimately interact at the level of the future manager. Because I am sure that is what many of you are, or want to be – senior business students looking forward to a management career that will start in a few years' time and that may well span your entire professional life. However well-prepared you will be by then for such a career, if only from attending such wonderful conferences as this, there is no doubt that the role you are seeking to play will demand a combination of capabilities that is extremely broad and very challenging.

First and foremost, and this in the first place is where globalisation comes in, the global marketplace in which all of you will have to find your way will force you, whether you like it or not, to work with and also to compete against a huge global army of talent, a global army of talent that is claiming its fair share of the wealth and the opportunities that the world offers, a global army of talent that will not easily take 'No' for an answer. It's a tough world out there and that global marketplace is, as I said before, not something that we can ignore; it is not something for us to use selectively. It is there; it extends right into our own backyard. The companies that you will either create – and I hope you will create companies – or work for, whether they are big multinational enterprises – the Unilever's of this world – or the small start-ups, will not wish to ignore, and cannot afford to ignore, the temptations of the global marketplace. But at the same time these companies, large or small, cannot remain deaf to the insistent demand that they do more in return for those opportunities than just add to the personal wealth of their owners and their employees. Again, corporate social responsibility is not charity; it is a prerequisite on the basis of which companies can exercise their licence to operate that would otherwise sooner or later surely be denied to them. As future managers you will be asked to excel in recognising both the needs of the people that work for you and the needs of the people that your company works for. The people that work for you will give you their loyalty conditional on your ability to allow them to grow and develop as individual employees, and the people your company works for will give your company their loyalty conditional on its ability to enrich their lives and conditional on its contribution to the future of this small planet that we all live on.

The irony of the global village is that the smaller and more compact it gets, and it gets smaller and more compact by the day, the less it allows anyone to escape. As future managers, you will ultimately be accountable to both internal and external forums. You will not succeed if you cannot accommodate these two forums simultaneously. The more senior you become as a manager, the more people will expect you to act as an effective intermediary between these two. Effective intermediaries have to ensure on the one hand that the external shareholders and the external stakeholders of your company are effectively in touch with that company. And conversely, that the company itself is properly represented externally in the global debate in which we are all required to participate. This is not a choice – we are not invited, we are forced - we are required to be accountable to that big external world. The corporate social responsibility of companies can only be effective if it is an extension of your personal responsibility as a manager who wants to be and has to be a global citizen. The future of our economy will depend greatly on your ability to exercise these two joint responsibilities wisely.

Personalia

Jeffrey David Sachs is well known for his work as an economic advisor to governments in Latin America, Eastern Europe, the former Yugoslavia, the former Soviet Union, Asia, and Africa. He is currently director of the Earth Institute at Columbia University and special advisor to United Nations Secretary-General Ban Ki-moon. From 2002 to 2006, he was special advisor to United Nations Secretary-General Kofi Annan and Director of the UN Millennium Project. He is the only academic to have been repeatedly ranked among the world's most influential people by Time magazine. His latest books are entitled *The End of Poverty: Economic Possibilities for Our Time* and *Common Wealth: Economics for a Crowded Planet*.

Antony Burgmans until recently has been non-executive chairman of Unilever, a company he joined in 1972 as marketing assistant. Number 59 according to De Volkskrant's ranking of the most 'powerful' people in the Netherlands. According to Unilever's own website: "he is a keen supporter of the planet's wildlife and set up an initiative between Unilever and the World Wildlife Fund, resulting in the Marine Stewardship Council". He is also a member of the supervisory board of AkzoNobel, a member of the international advisory board of Allianz AG and non-executive director of BP. He is co-chairman of the Global Commerce Initiative (GCI) and chairman of the supervisory board of the Mauritshuis Museum in The Hague.

Peter Gortzak is vice chairman and general secretary of the biggest trade union in the Netherlands. He is also chairman of FNV Mondiaal. Gortzak comes from the public sector union (AbvaKabo) where he became member of the daily board in 2000. He also trained as a lawyer. He has been actively engaged in understanding and addressing the challenges of globalisation, not only from the perspective of the Netherlands, but also from that of developing countries. For instance, in 2006 he helped explore the possibilities to organise a social dialogue along the Dutch 'poldermodel' example in several Latin American countries including Bolivia.

Alexander Rinnooy Kan is chairman of the Social Economic Council. Ranked Number One among the most powerful people in the Netherlands, according to De Volkskrant, he has been professor and rector at Erasmus University; has published on operations research among other subjects; became chair of the employers' organisation VNO-NCW in the early 1990s, and member of the board of directors of ING Group in the period 1996-2006. Since 2006, he has been chairman of the Social Economic Council. He has initiated a discussion on globalisation through the SER, and stimulates volunteers work and worldwide studying.

Coen de Ruiter is director of the Max Havelaar Foundation, the Dutch branch of the Fair trade Labelling Organisations (FLO). Max Havelaar enhances trade under fair conditions in developing countries for farmers and their organisations with the aim of alleviating poverty and stimulating development and empowerment. De Ruiter studied at Erasmus University and has a background in business economics. He worked for eleven years in commercial jobs at Unilever before deciding he wanted to work on the edge of commerce and ideals. His thorough belief that trade has a very important role to play in development brought him to the fair trade movement.

Rob van Tulder is professor of International Business-Society Management, Rotterdam School of Management, Erasmus University. Van Tulder acted as consultant for various international organisations, non-governmental organisations (NGOs), ministries and companies. He is the coordinator of the research project on "International Business-Society Management", the SCOPE databank project (that compiles the lists of the largest transnational firms in the world together with UNCTAD) and co-founder of the Expert Centre on Sustainable Business and Development Cooperation (www.ecsad.nl) that coordinates research on development issues of five business schools in the Netherlands. Van Tulder's latest books include *International Business-Society Management: linking corporate responsibility and globalisation* (Routledge, 2006: www.ib-sm.org) and *Skill Sheets: an integrated approach to research, study and management* (Pearson international, 2007: www.skillsheets.com).

MAX HAVELAAR LECTURES

The Max Havelaar lecture is a recurring annual event. It serves five interrelated goals:

- Provide a platform for the presentation of state-of-the-art scientific insights in how sustainable business and development cooperation can be combined;
- Discuss the advantages and disadvantages of the involvement of corporations in poverty alleviation in a systematic and non-ideological manner;
- Address the complexities of sustainable development rather than engage in simplifications, in order to come up with realistic – and obtainable – approaches to addressing in particular Millennium Development Goals;
- Discuss the strengths and weaknesses of specific approaches such as trade marks, codes of conduct, reporting or governance measures;
- Provide an arena in which innovative ideas and structured dialogues can be launched.

Each year, a leading scholar is invited to hold the key lecture which is accompanied by statements from leaders of the business community, civil society and government. The lecture is held at the Erasmus University Rotterdam, as a legacy to Jan Tinbergen, the former Nobel Prize Laureate in economics and leading thinker on sustainable development. The lecture is open to the public.

The Max Havelaar lecture is organised as a cooperative effort between three institutes: The Max Havelaar Foundation (www.maxhavelaar.nl), Rotterdam School of Management, Erasmus University (in particular the department of Business-Society Management; www.bsm.org) and the Expert Centre on Sustainable Business and Development Cooperation (ECSAD; www.ecsad.nl). The first Max Havelaar lecture was held in October 2007. More information on present and future lectures can be found on www.maxhavelaarlecture.org

