WITH GREAT POWER COMES GREAT RESPONSIBILITY

FOURTH MAX HAVELAAR LECTURE

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ABOUT ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

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, (full-time and 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, believing that leadership can be taught through a combination of intellectual and practical challenges. 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. RSM encourages 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 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. 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.

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. It is hypothesised that if these interfaces are managed effectively this will considerably improve the functioning of companies, stakeholder relations, markets, governments, and thus, the functioning of society in general.

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

ABOUT THE PARTNERSHIPS RESOURCE CENTRE

The Partnerships Resource Centre is an open centre where academics, practitioners and students can create, retrieve and share knowledge on cross sector partnerships for sustainable development. The centre (carries out and commissions) fundamental research, develops tools and knowledge sharing protocols as well as web-based learning modules and executive training. Most of these activities are open to the general public and are aimed at enhancing the effectiveness of partnerships around the world. The centre’s ambitions are to have a high societal as well as scientific impact (resulting in citation scores in academic as well as popular media). It should function as a source of validated information regarding cross sector partnerships, a platform for exchange of information and a source of inspiration for practitioners around the world.

The Partnerships Resource Centre contains four different tracks of research and activities: portfolio development, global value chains development, effective public goods provision and issue management. The tracks have been identified as the most promising, but also the most difficult, complementary areas for further progress in partnerships research and management. They are aimed at bringing together supply and demand in a ‘researchable’ format, while also making sure that knowledge can be effectively disseminated to policy makers and practitioners alike. The tracks are organised as learning networks with the ultimate aim to link them to actual (decentralised) partnership processes in developing countries in order to guarantee application of the generated knowledge in favour of poverty eradication and sustainable development.

Each track focuses on a particular type of partnership:
1 from the perspective of individual actors: *Partnership Portfolio development*
2a bi-partite partnerships primarily between profit and non-profit parties: in *global value chains*
2b bi-partite partnerships primarily between public and private parties: in the effective *provision of public goods*
2c tri-partite partnerships to *approach and solve issues.*

Four complementary levels of analysis/approach are therefore represented in the Resource Centre: actor, chain, nation, issue.

For more information: www.partnershipsresourcecentre.nl

ABOUT THE MAX HAVELAAR FOUNDATION

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 20 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 as it 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?
The author Eduard Douwes Dekker was an assistant resident in one of the districts of the former Dutch East Indies, the present Indonesia in the 1850s. Douwes Dekker could not reconcile himself with the politics of the colonial government who forced the countrymen to work for the Dutch coffee plantations on a massive scale to the extent that they had to neglect the cultivation of food crops, resulting in famine. Douwe Dekkers published a novel: *'Max Havelaar: Or The Coffee Houses Of The Dutch Trading Society'*, in 1860. ***www.maxhavelaar.nl***

ABOUT THE
MAX HAVELAAR LECTURE

Max Havelaar is the world's first Fairtrade labeling 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 20 different countries among which most European countries, the U.S.A. and Canada. Together with these initiatives Max Havelaar founded the international Fairtrade Labelling Organization (FLO). Max Havelaar is set up as a not-for-profit foundation and does not trade, but inspires and stimulates market actors 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 co-operatives 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 guarantees farmers a price and investment covering price for their products, provided that they find market under the label.

The lecture

Poverty alleviation constitutes a multi-faceted problem. It is on the one hand extremely local and leads to enormous deprivation of at least half of the world's population. But on the other hand, it is an extremely international problem as well through the operation of global markets – in particular of resources – and the functioning of value chains. 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 to 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 others. The integration of developing countries in the international supply chains of multinational corporations can have positive and 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 of 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 labeling 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 into 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 obtainable – approaches to address in particular poverty (Millennium Development Goal 1)
- 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 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 (Millenium Development Goal 8)

Organisation

The lecture is an annual event. Each year, a leading scholar in the field is invited to hold the key lecture which will be made available to a wider audience around the world. The 45-minute lecture will have an academic standing and is hosted at Erasmus University Rotterdam, partly as a legacy to Jan Tinbergen, the former Nobel Prize Laureate in economics and a leading thinker on sustainable development. The second and third lecture were financed by the Max Havelaar Foundation and the Triodos Bank as evidence of its commitment to high quality dialogue on the most effective approaches to poverty alleviation. The lecture is open to the public and provides an occasion where policy makers and the scientific community can meet. It is organised in co-operation with the Erasmus Research Institute of Management (ERIM), the Expert Centre for Sustainable Business and Development Co-operation (ECSAD), the Department of Business-Society Management at RSM and the Parntherships Resource Centre (PRC). The first Max Havelaar lecture was held in October 2007.

INTRODUCTION
THE POWER OF SIMPLICITY

Peter d'Angremond, Director Max Havelaar Foundation

This particular lecture is part of a sequence of activities taking place in the context of the Fairtrade week. The Fairtrade week, this time has the theme Fair Wissel in Dutch, and in English it is called the Big Swap. What we actually do is invite you all, as consumers, to make a swap; to literally swap your regular products for Fairtrade products. In front of you you will see some Fairtrade products that will enable you to make this swap. Please taste the products and take them home and use them. This is a gesture from us as an organiser of this lecture and also the brand owners to help you a little bit in making your swap. To elaborate a little bit more on the Fairtrade week – it was initiated by Max Havelaar, and this year is actually a very special year because this is the first year that the Fairtrade week is organised as a promotional platform by three organisations: Fair Trade Original; Landelijke Vereniging van Wereldwinkels and the Max Havelaar Foundation. This partnership of three organisations enables us to really make the Fairtrade week bigger than ever before. We very much welcome this co-operation, which is also made possible by the Nationale Postcode Loterij.

For this introduction I would like to take you to Colombia. Some six weeks ago I went to Colombia, together with some of our partners. We visited banana plantations and smallholders. Plantation size: 400-500 hectares; smallholder size: between 1-3 hectares of land. Especially regarding the small-holder, we visited some projects that were carried out to increase the yield of these farm owners. This bunch of bananas that Rob van Tulder just referred to does not actually grow on the banana plant like this, it grows in large stems, and the big plantations have the financial means to invest in a sort of railway system, a sort of cable car system, to transport these big stems that weigh up to 60 kgs. from the field to the banana packing stations. The smallholders, the people who live from 1-3 hectares of land do not have the funds to invest in such a cable car system, so what they do is carry this huge stem weighing 60 kgs. on their shoulders to the packing station. On their way to the packing station approximately 20 per cent of these bananas get damaged so much that no-one will buy them. What is the project on hand there in this Fairtrade co-operation? They actually portion the bananas on the field and dry the bananas on the field. It is very important to dry the bananas because as soon as you cut the banana latex pours out of the wound, and this damages the bananas. The latex dries black on the bananas, and you do not want to buy black bananas in the supermarket. They dry the bananas in the field and then put them on a sort of carrying tray and walk to the packing station. As a result of that very simple technique they gain 20 per cent more in sellable bananas. Their yield increases by 20 per cent – that is a huge advantage. Another huge advantage of this very simple technique is that because they dry the bananas on the field there is no need to use bucket loads of water to actually wash the bananas. To give you an idea: to wash one box containing 18 kgs. of bananas they use approximately 140 litres of water. In areas where there is a water shortage this is a huge environmental problem.

I am now coming to a point I would like to make – referring also to power – to me this is really the power of simplicity. It is a very simple technique that can be used by all smallholders to increase their yield by 20 per cent., and to contribute to a better environment. It is also the power of organisation. These smallholders are organised in co-operations – something which Fairtrade really stimulates – and because they operate in co-operations they can share this technique and make sure that actually this new technique spreads out amongst all the smallholders so they can all increase their yields. That is, I think, a fantastic example of how Fairtrade works.

INTRODUCTION
THE POWER OF FINANCE

Koert Jansen, Fund Manager, Triodos Sustainable Trade Fund

Triodos Sustainable Trade Fund is providing trade finance to co-operatives in developing countries which are exporting their Fairtrade and their organic products to Europe and to the United States. Last year I addressed the concerns Triodos bank had had about the increasing volume of institutional money flowing into the agricultural commodity market, and the damaging effect that has on the forming of price. I will not go into those details again but, because we are talking about the power of finance today – at least in my speech – I would like to give you an update on where we are. I am focussing on coffee again: since we are here with Max Havelaar I think coffee should be in the forefront. The coffee harvest outlook for the coming crop year, which is starting now, is good.

The projection is that 135 million bags will be produced, compared to 119 million bags last year. This is a good crop. This is the supply side; on the demand side we see that demand is growing in a stable pattern of around 2 per cent annually – nothing shocking there. However, if we look at the New York exchange coffee prices, we see that coffee prices have passed through the 200 cents per pound barrier, which is a huge price. We are facing the highest price for fifteen years. Comparing these two things – the high price, and the fundamentals of the market – something seems strange, and in our opinion there is certainly some power of finance in there. To make it a bit more precise: if you look at the New York coffee market exchange you will find today that 20 per cent of the positions held there are held by actors from the coffee sector, so the real people who are doing the work, I would say: trading coffee, roasting coffee. Only 20 per cent. Today, 30 per cent is held by institutional investors, large investment funds who have nothing to do with the coffee sector as such, they just speculate on the price of it. And not just the price of coffee, but they invest in baskets of various commodities together. Almost 40 per cent is held by other financial institutions who are servicing either the sector or the speculative players. So today, almost 70 per cent of the coffee market is in the hands of financial players making it *de facto* more a financial market than a commodity market. This is a concern, because people along the chain, starting with the farmers, the co-operatives, the traders and the roasters, anybody in the chain, is making day-to-day investment and trading decisions using the New York prices as a reference. So, if this no longer reflects reality you can imagine what happens.

Last year I ended my introduction by saying that investors who are interested in investing in commodities had better do that on the ground, not in the air, on the commodity exchange. Doing that, you will bring about real and tasty products like the fair trade cashew nuts you find on your desks, which were prefinanced by us in Ghana and Burkina Faso.

POSITION PAPER

WITH GREAT POWER, COMES GREAT RESPONSIBILITY

Rob van Tulder*, Rotterdam School of Management, Erasmus University, Partnerships Resource Centre

'With great power, comes great responsibility'. This is the motto of the struggling hero Spiderman (alias for Peter Parker). The continuous struggle of Spiderman with grasping the exact nature of his powers as well as linking this to his responsibilities not only provides an exciting comic and movie sequel, but also a strong metaphor for the struggle of big corporations around the world when confronted with the challenges of sustainability. Society contains immense power asymmetries, but does that also imply power abuse and unfairness? Should corporate power always be contained or can corporate power also be a force for good (defined as sustainable development)? And if so, under what conditions? This paper argues that corporations need to overcome two types of hurdles for finding the right mix of power and responsibility: firstly, to move from an inactive to an active attitude towards applying their positive powers; secondly to move from a reactive to a proactive approach in which stakeholders are not seen as adversaries, but as partners.

1. Introduction: Managing with Power

Society grants considerable degrees of freedom to corporations. Corporate leaders also ask for large degrees of freedom and the removal of regulation by governments. This makes corporations often the staunchest supporters of liberalism. But freedom to do what? With freedom comes power, and the need to channel that correctly. Power to do what? Power is a complex issue. What is power, who has it and who not?, Can power be used for good causes or is it only something that needs to be

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*) *Timely input for this position paper was provided for by Romy Kraemer, Anne van Lakerveld (VBDO), Bastian Buck (GRI), Wendy Schouten, Amara Goeree, Anne Wijnbergen, and Damian Orth-Soane. The responsibility of the paper remains with the author. Please note that this version is a draft. Comments and suggestions are welcome.*

treated with great suspicion and consequently be contained? Is there a trade-off between power and responsibility?

The scientific debate on the exertion of power by companies has traditionally been framed in a rather negative sense: how to contain (potential) power abuse of companies through either regulation or countervailing powers. In neo-classical economic thinking, the monopoly power of firms for instance is supposed to go together with high prices, which is against the interests of consumers. But size also makes innovation possible, which is in the longer term interest of consumers and society. As a result, relevant questions on corporate power have to deal both with how to restrict abuse while at the same time unleashing its potential in a world filled with power unbalances and power exertion, not taking power into account is in any case a naïve position. Firms and society have to be able and willing to 'Manage with Power' (Pfeffer, 1994).
This challenge gets a new meaning with the increasing importance of sustainability. More and more powerful corporate actors (multinational corporations in particular) seem to embrace the sustainability agenda. This brings about many questions in particular by critical citizens organised in NGOs and political parties around the world: should corporate be taken seriously; to what extent do they use this power to consolidate their position or for real change; to what extent should and can corporations be disciplined to minimize power abuse?

This paper discusses the question which responsibility comes with what kind of corporate power. Can power be used 'for good' – interpreted primarily as sustainable economic and social development. This requires first that the specific dimensions of power exertion by corporations are understood. Secondly, some of these dimensions are in more detail regulated than others, which gives room for more or less power abuse. This is in particular the case for multinational corporations that operated between and above different regulatory regimes. Thirdly, society and corporations at the moment are faced with a balancing act between 'hard' and 'soft' powers. Sustainability needs forceful support of corporations, otherwise the transition will probably take very long. But what type of business model does this require? In case corporations decide to use their power base to support the transition towards more sustainability, what options are available and what progress has been made? Does a reactive approach of companies prevail – in which power is often considered negative – or do we see the first steps towards a more active approach – in which positive or soft power is used. This paper takes the (Dutch) retail industry and supply chain relations as an example, and zooms in on the issue of human rights. The media play an important role in channeling and framing power battles between important stakeholders. This paper therefore, introduces a number of graphs based on media analysis. Google News Archive Search was used to illustrate the appearance and timing of specific combinations of keywords on corporations and power for the last century in newspapers around the world (1900-2010).[1]

1) Some caveats have to be mentioned with using Google news Archive. One is that the vertical scale – registering the number of hits per year – is not specified. So only the relative importance over time of a trend can be observed (which is therefore the prime aim of this technique). Another problem is the number of journals covered changes over time, which implies that the absolute level is only relevant per time period, which implies that we use decades of more or less comparable samples. The third limitation in this particular source is the use of English keywords only, whilst some topics – like human rights – would require a multi-language search. See the graphs therefore as illustration, not as definite trends. The periodisation of the trends helped to identify important articles and events that triggered the international attention on the specific topic, which will be referred to in the main text.

2. Four dimensions of corporate powers

Power in social sciences, generally refers to the ability of individuals to exert their will over others. Pfeffer and Salancik (1974) define the ability of powerful actors 'to bring about the outcomes they desire'. There is also a social factor in power, because people tend to compare their power with the power of others, which creates pressure to change power differences towards greater conformity and independence (Van Dijke, 2002). The issue of corporate power adds two specific dimensions to the general discussion: (1) a resource base perspective, (2) a stakeholder perspective, which also involves the question of countervailing powers.

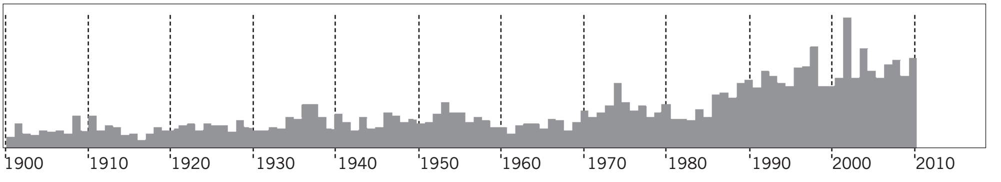
Resources: power basis

In economics and business studies the definition of corporate power generally refers to some form of *power basis*, which includes size, money, access to resources, ownership, force, but also position and knowledge. The more the bases of power are spread over many actors, the less influence can be exerted by individual actors. There is purchasing power (for customers to influence the production of particular goods), bargaining power (skills and abilities to influence the outcome of a game), monopoly power (ability of a company to set prices or wages) or managerial power (influence over employees). Power thus is often framed in a negative manner, i.e. to influence other actors in directions they would normally (without the exertion of power) not choose for. Questions of market power are an area of industrial economics and industrial organisation research, questions of other forms of power exertion are area of research for political economics, business and international relations. Research in these fields focuses on the appropriate mix of competition and collaboration in markets for creating wealth.

Interaction: power process

The second dimension of corporate power exertion is not necessarily directly related to power bases, but to the actual *process* of influencing another party. This can be done either under relatively quiet circumstances or in the presence of conflicts (power / interest battles). Corporate power in this context is related to the stakeholder theory of the firm in which primary as well as secondary stakeholders can be discerned. Primary stakeholders – such as suppliers, buyers, employees, capital providers – are directly influenced by the actions of the corporation, but can also exert influence on the corporation. Secondary stakeholders – the media, society at large, Non-Governmental Organisations – are not necessarily directly affected by the actions of the corporation, but can nevertheless exert substantial influence on its actions. When used smartly even seemingly powerless stakeholders can exert tremendous influence. Social media for instance have given NGOs new means of influence over the sustainability strategies of MNEs. The more power bases are concentrated, the bigger the influence – for better or for worse. Power, in a stakeholder perspective, can first be used to influence the actual interests of another party in the presence of a conflict (Hardy, 1985; Lukes, 1986). Conflict can appear autonomously, but can also be created by actors. Secondly, firms can have agenda-setting powers in which they influence the inclusion or exclusion of issues or actors from the discussion or decision-making process. The third dimension of corporate power is used to prevent people from having interests at all, also known as 'unobtrusive power' which is used in attempts to create legitimacy and justification for certain arrangements, actions and outcomes so that they are never questioned" (Hardy, 1985:389). The power base in the third dimension has also been labeled 'symbolic power', which implies that political language, framing, symbols and rituals become important tools.

Countervailing power
Corporate power can be limited by the power of other actors. In 1952 Galbraith introduced the concept of 'countervailing power', which suggested that the market power of one group can be balanced of by that of another group. This approach is also known as the theory of political modification of markets, and states that the (vertical) market power of manufacturers for instance can be balanced by the (horizontal) market power of retailers and vice versa. In case of insufficient countervailing power within economic networks, regulators have a function to guard for power abuse.
Graph 1 illustrates the relationship between 'power' and 'abuse' as covered in the media. Power abuse over time has been primarily related to governments and authorities – such as policemen using excessive force towards citizens – but also increasingly on how to regulate corporate power abuse. The stream of media attention for the abuse of corporate power steadily increased over time. In the 1990s, news media started to report on UK and European Union laws that were introduced to impose fines upon companies that abuse their power position.[2]



Graph 1 - Power & abuse in the media throughout the ages (1900-2010)
Source: based on Google News Archive Search

An increasingly long list of high profile corporate power disasters since the early 21st century – Enron (fraud), BP (safety regulation in deep sea drilling), financial sector (securitization) – has made the traditional plea for self-regulation by corporations more suspicious. A 2008 Friends of the Earth International, campaign statement, is typical of the sentiment towards multinationals: "Big companies such as Shell, Monsanto and Newmont have enormous economic and political power, while ordinary people and parliaments have increasingly little to say. The financial crisis has proven once again that corporations are incapable of regulating themselves." The problem with this statement is that it is too general to understand the exact nature of corporate power, which results in ideological rather than price statements. This section zooms in on four dimensions of power that can be considered specifically relevant for the position of corporations in society: ownership, relative size of the company, positioning power, innovation and agenda-setting powers.

2.1 The power of ownership

Property rights have "been embraced by capitalist around the world, as the single most individual right and freedom that evolved out of the theory of human rights of Locke and other enlightened thinkers" (Kinley, 2010: 8). Society grants substantial amounts of freedom and power to corporations and their owners. Whereas democratic or voting rules apply in almost all countries in the world for political processes, governance structures of companies are generally organized at a much lower level of co-determination by the members of the company – in particular employees. The idea of workers

2) *Fagan, M., 1 December 1992. Companies that abuse power could be fined. The Independent*

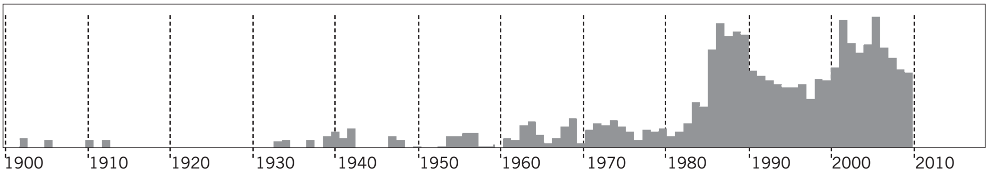
self-governance has not really materialised in the world. Boards of directors and CEOs are selected on the basis of cooptation, and firms are often organised hierarchically to increase efficiency. This gives the corporate leadership sizable powers. This is the case in public corporations, but even more so in family (privately) owned corporations were the CEO / owner is selected on the basis of family / kin. Why do firms and their leaders get so much freedom to exert power over their organisation? The basic idea behind this is that this kind of freedom provides ‘entrepreneurs’ with the room to take risk and invest in innovation, which they otherwise would do much less, and as such provide value added and benefits to society. In theoretical writing this is the domain of the ‘theory of the firm’ which for instance tries to establish the optimal size of organisations and which transactions can be performed internally and which should be negotiated through the market in order to add as much value as possible to society. Internal and often informal transactions are prone to a very specific type of power relationships.

Fiduciary duty

The extent to which the manager of a corporation acts in the interest – and to the benefit – of another actor, is part of a so called *fiduciary relationship.* The fiduciary duty of a corporation consequently contains the *trust* that the company (agent) will act in the interest of a number of stakeholders (principal). The more trustworthy the fiduciary relationship is, the lower the transaction costs. Fiduciary duty (often informally) regulates confidence, faith, reliance and trust between actors. Fiduciary duty thus also gets linked to the question of the legitimacy of corporations. In the banking industry, the fiduciary duty discussion has been linked to what can be considered ‘primary responsibilities” of banks: bankers have a fiduciary responsibility to their customers to not engage in pyramid games (repacking of subprime mortgages), sell products they don’t understand or make customers addicted to debt, even when they do not have the intention to be fraudulent (Stiglitz, 2010: 94). Nowadays, the legitimacy of big companies is under serious threat, partly because of blatant power abuse, which has decreased their license to operate and seriously affected their room of maneuver.

Narrowly defined, the fiduciary duty of a company relates to the agency relationships between a capital provider (shareholder) and the manager. More broadly defined, fiduciary duty relates to the relationship between society as a whole (all relevant stakeholders) and the management of the company. In most countries, governance laws try to make sure that fiduciary duty is not breached. This applies for instance to insider trading, legal malpractice or fraud. These are hard nuts to crack from a regulatory perspective, because strict regulation goes at the expense of entrepreneurship. Graph 2 illustrates that insider trading for instance proofs a recurring issue over the last hundred years, partly because it is such a difficult dimension of the fiduciary duty of managers to regulate. The recent peak of media attention for insider trading appeared in the second half of the 1980s which led to strengthened regulation in this period. For instance in Japan, where before 1988, there was no law prohibiting insider training.[3] A number of scandals in the 21st century made clear that the abuse of corporate power through insider trading had not disappeared. A new wave of regulation appeared, but the phenomenon is only likely to disappear in case stock markets will be more heavily regulated.

3) Sanger, D.E., 20 August 1988. Insider Trades, The Japanese Way No One Goes To Jail Until Now. The New York Times p.9



Graph 2 Insider trading and Power (1900-2010)
Source: based on Google news Archive Search

Power hierarchy
The relative hierarchy of decision-making – and the lack of control on its effects – has become disputed. First, the use of discretionary powers in particular by corporate Chief Executive Officers (CEOs). Bonuses of CEOs have become part of the discourse on fiduciary duty abuse. But the discussion remains confused: whereas CEOs that attribute to themselves big bonuses might not abuse their narrowly defined fiduciary duty (because the owners / shareholders do not object), they do breach fiduciary duty allotted to them by society at large (stakeholders / employees do object). With issues like sexual harassment or the position of whistleblowers, the corporate hierarchy often prevails over the interests of the employees. Generally, laws only contain requirements on a rather narrow approach towards fiduciary duty and modestly regulate internal corporate affairs. In areas such as sustainability the fiduciary duty represents a much broader trade-off of interests between stakeholders and thus can also lead to conflicts between fiduciary duties, which in turn affect the legitimacy and the license to operate of corporations.

2.2 The Power of size, the challenge of Multinationals

What is particularly threatening for citizens and governments about (alleged) corporate power is their increased size. The largest companies in the world have become even larger, whilst the number of large companies has also increased. Some measure size on the basis of sales / revenues, others on the basis of market capitalization, all studies conclude that size indeed matters.

General suspicion towards corporate power, in the 1970s started to become further equated with suspicion towards the specific power of Multinational Corporations (Graph 3). Multinationals operate in international areas in which regulation is often absent or at most uncoordinated. The 2008 FoE statement echoes reports of the United Nations Centre on Transnational Corporations, already issued in the early 1970s which stated for instance stating that “multinational corporations are strong enough to challenge national sovereignty and wield enough economic power to precipitate a currency crisis at will.”[4] In 1974 the New York Times featured an influential article stating that multinationals undermine the ability of the American government to control inflation and stabilize the business environment.[5] The media also triggered the first debate – following the publication of an UNCTAD report in 1976 stating that the FDI of multinationals rose by 40% in 1995 – that multinationals must be held accountable for their actions worldwide.[6] With the coming of age of Japanese and European multinationals in the 1980s and early 1990s – and thus the appearance of a countervailing power towards the leading American MNEs – the public attention for the power of multinationals gradually declined, to reach new heights only after the turn of the century.

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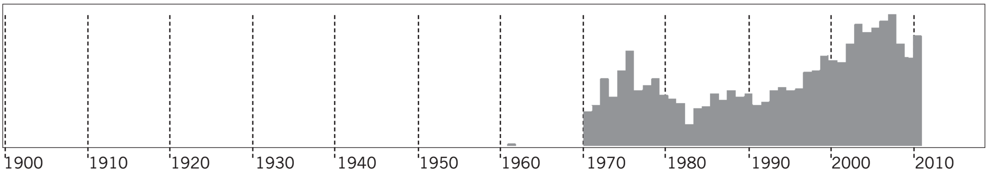
4) Chicago Tribune, 13 August 1973. U.N. reports on multinationals. Chicago Tribune p.C7, s.3
5) Golden, S., 31 December 1974. Grappling With Multinational Corporations; Special to The New York Times The Problem of Coping With Global Companies. The New York Times. P.27
6) Crane, D., 26 September 1996. Multinationals must be held accountable. Toronto Star. P. D2



Graph 3 Power and Multinationals (1900-2010)
Source: based on Google News Archive Search

Corporate size in issues of sustainability is increasingly related to the existence of Multinational Enterprises (MNEs). They are the focal firms of sustainability and are considered 'agents of change' and influence the pace of transition by either stimulating progress or creating barriers. The Fortune Global 500 list – which is organised on the basis of sales / revenues as a measure of size – contains no national producers. They have been treated with great suspicion in particular because of their size and related power base. The intellectual protagonists of the Anti-globalist movement habitually frame this problem like this: many of the world's largest economies are nowadays corporations instead of nation states. David Korten ('When Corporations Rule the World"), Joshua Karliner ("The Corporate Planet"), Noreena Hertz ("The Silent Takeover") – in varying words – compare companies to countries as indications of the power and impact of the former. The death of democracy is illustrated by the following statement that "of the world's 100 largest economies, 51 are now corporations, only 49 are nation states. The sales of General Motors and Ford are greater than the GDP of the whole of Sub-Saharan Africa, and Wal-Mart, the US supermarket retailer, now has a turnover higher than the revenues of most of the states of Eastern Europe" (Hertz, 2001). This statement in particular is copied time and again, due to its implicit suggestion that companies now have more power than states. A cursory check of internet reveals more than a thousand literal quotes of Hertz's exact sentence, even ten years after its first appearance. Think tanks like the Institute for Policy studies, readily quote these data as the first indicator of the 'rise of corporate global power'. A number of international business textbooks have also taken over the quote.

The statement proofs flawed, however. The Gross Domestic Product (GDP) of a country cannot be compared to the sales of a company; neither can states 'revenues'. The GDP measures the accumulated *value added* produced by domestic companies. Value added can considerably differ from revenues / sales. In particular retail organisations thus blur the macro picture. Their sales volumes – positioned at the apex of the supply chain – are extremely high, but their value added can be rather low. The difference between value added and revenues can amount to a factor '10'. Besides, the "sales" of financial services companies – also indicated as "assets" – are incomparable to the revenues of industrial companies. Estimations that considered the actual value added of companies (cf. de Grauwe and Camerman, 2002; Van Tulder et al, 2001) show that the picture needs to be adjusted downward with a factor two (in Europe) to three (in the United States and Japan). Of the world's 100 largest economies, therefore, about twenty to thirty would be companies – if adjusted for value added – and mostly ranked in the second half of the list. Corporate sales / revenues represent power, but not exactly in the way portrayed in the dispute.

Too big to fail

The question of relative size of corporations received another dimension in the recent global financial crisis. Troubled banks were considered 'too big to fail'. Their size forced governments to support them, even involuntary. The stability of the whole system was at risk. This is also known as the 'moral hazard' problem, since banks (or other firms for that matter) will take excessive risks because they know that they will always be rescued. Weakness and loss-making becomes a source of power, i.e. helps to exert influence over others, as long as the corporations are big enough to have a major impact on the whole economy. Other firms like Toyota that derived their power from a strategic position in regional supply networks have had comparable influence (cf. Ruigrok and Van Tulder, 1995). Hirschman refers to this as the 'strength of weak ties'. Power is therefore relative and depends on the position of other actors in the surrounding network.

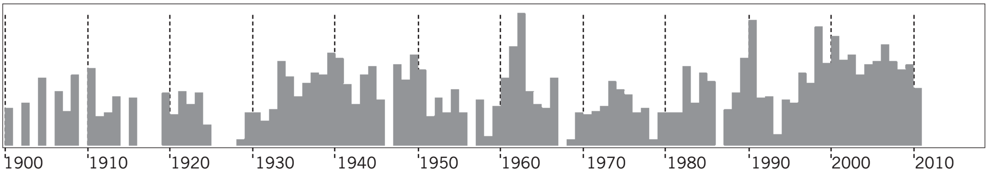
2.3 The Power of Position

Firms operate in society and in value chains. They can exert power over their employees and other firms by strategically positioning themselves in these chains, either in terms of horizontal or vertical power. Positioning power creates barriers to entry for newcomers, but also barriers to exit for existing players.

Horizontal power

The degree of concentration in particular product markets is also known as 'horizontal power', industrial or market power. It entails the working of oligopolies or monopolies. High degrees of concentration are the result of the Merger and Acquisition (M&A) boom that started in the early 1990s, and has not yet stopped. Most of mergers and acquisitions still take place within national economies. Both in value and in number, around 25% of M&As have been cross-border. In the 1996-2007 period, the value of cross border M&As grew tenfold from U$ 42 billion to U$ 456 billion (UNCTAD, cross border M&A database, 2010). The economic crisis lowered the number to approximately U$ 106 bn. The financial crisis has further stimulated concentration ratios in certain industries. The wave of mergers and acquisitions has resulted in ever greater concentration in a large number of markets. A few recent examples: in the car industry the C10 ration (share of the top10 manufacturers in the global market) is more than 80%, in the pharmaceutical industry the C10 ratio is around 50% and rapidly increasing, despite a large number smaller and medium sized new entrant. Such diverse sectors as telecommunication (86%), pesticides (85%), computers (70%), media (four), accountancy (four firms) or credit raters (three dominate the market) share extremely high C10 ratios.

Too high degrees of horizontal concentration associated with abuse of power, monopolistic practices or collusion practices – cartels, price setting or market agreements – are subject to regulation by anti-trust or competition policy authorities. But regulation is not co-ordinated around the world, and consequently monopolistic practices are differently defined. With the increasing number of M&A cases, the number of complaints of anti-competitive behavior rose as well. The issue has received repeated and continuous attention throughout the decades (Graph 4). In the post-war period, collusion in the American steel industry (1962), oil, wholesale and retail (early 1990s), and the US justice department suit against Microsoft in the late 1990s, formed three temporary peaks in the global attention for anti-competitive behavior of corporations. The Microsoft case still continues to be disputed, but now as a struggle between the company and the competition policy authorities of the European Union. Some countries in the world do not have well functioning competition policies in place. Prominent example is China. The first decade of the 21st century shows a sustained and intense attention for collusion and the regulatory challenges related to this.



Graph 4 Corporate power, antitrust and anti collusion (1900-2010)
Source: based on Google news Archive Search

Chain / vertical power
Vertical power relates to the corporate grip over the value chain. In the 2009s Max Havelaar lecture, vertical power was related to the existence of so called ‘leader’ or ‘core’ firms that were able to ‘govern’ whole global value chains through their strategic position upstream or downstream.
A minimum measure of corporate chain power is the part of the value chain it has internalised through in-sourcing. Despite the proclaimed trend of increased outsourcing, we measured a slight increase of vertical integration over the 1995-1998 period for the five largest industrial companies in the Netherlands, the UK, France and the United States. The largest firms in Europe have a higher level of value added (45 – 50 %) than the largest firms in the United States (30%) and Japan. In telecommunications, the vertical power over the supply chain in Europe is very high (80 – 90%). This is comparable for other service oriented industries. Car manufacturers are somewhere in the middle (40-50%), whereas the biggest whole traders in Europe still have shares of value added of 20-30%. The degree of vertical integration, combined with the number of sectors / branches a firm spreads / diversifies its activities represent the general structural / systemic and economic power of a firm.

Entry / Exit
Ulrich Beck (2006:53), discussing power in the global age, sketches the ‘meta- power’ which global corporations have in relation to nation states as based in particular on the ‘exit option’. This refers to the actual or threatened exclusion of states from the world market, as represented by multinational enterprises. In practice, the use of the exit option influences the bargaining relationships between governments and firms to the advantage of the latter. In the international business literature this phenomenon has been primarily related to the entry decision process. Raymond Vernon (1971) dubbed this the ‘obsolescing’ bargain in which the power base of the MNE compared to the host government declines over time: from big before-entry to much more weak after-entry. Sunk cost would prevent the MNE to use its exit option. The bargaining position of the MNE however, depends first on the nature of the sector. The more ‘footloose’ the industry is (such as textile) the more persuasive the exit option as a bargaining chip. Secondly, firms in such strategic industries as oil, keep a much more dominant position than firms in less strategic industries, such as textiles. Thirdly, the size of the MNE matters and fourthly, the ability to frame the issue by the corporation – in relationship with societal actors – strongly influences the game. Often, therefore, the exit threat is only used as a ‘voice’ strategy to influence the actions of the government (Hirschman, 1970). Both exit and voice are part of power

exertion, sometimes with hidden agendas. Other areas that are influenced by exit / entry and related lobbying strategies of multinationals include tax regulation, which could lead to corruption and bribery; safety and health regulations, which could lead to lacks implementation of laws and international conventions; relationships to trade-union, even leading to outright trade-union bashing and the denial of labor rights.

The increased power of retailers

The power of position, is perhaps most apparent with retailers around the world. They form the last link in the value chain towards consumers. It provides them with a potentially powerful vertical position, also known as 'channel control'. The actual power in the retail industry is then based on horizontal concentration, size, degree of diversification, own brand penetration and some specific product and relationship characteristics (Collins, 2002). As a result, competition in retail industries is primarily about size, positioning and – related to this – location. In the Dutch grocery retail industry, for instance, the four leading retailers in 2008 (Albert Heijn, C1000, Aldi, Super de Boer) dominated 60% of the market (Bleijenbergh, 2010). Market share and size – in terms of sales – of companies are the measures of success in the marketplace. Retailers strive for large size and market shares as this allows for economies of scale, while striving for achieving higher sales density per square meter. This lowers unit costs raises net margins, and ultimately spurs growth of the company (Burt and Sparks, 2003). The emergence of large retail chains and concentration of retail markets has led to the rise of dominant chains (Burt and Sparks, 2003) that use their power to manage competition in two directions: vertically towards manufacturers (supply chain management) and horizontally (achieved by raising rivals' costs and creating barriers to entry).

As a result of the horizontal power concentration many of the world's largest brands also depend on a few large retailers. For example the large supplier Procter & Gamble derives around fifteen percent of their total sales from Wal-Mart alone (Planetretail, 2007). The only way for smaller retailers to also profit from these benefits associated with scale is when they join buying groups, or search for niche markets in which they can have a unique selling point (USP). But the power of the big retailers is also contested, primarily because the producing market is strongly concentrated, with large multinationals, which acts as countervailing power. The extension of vertical power of retailers is achieved through backward integration into the chain through a variety of measures: (1) retailer-owned distribution centres and warehouses which take over the role of traditional wholesaling; (2) a growing number of private label which have been produced by or on behalf of retailers and sold under the retailer's own name or specific trademark through the retailer's own outlet. The use of own-label in particular leads to much higher revenues for retailers, and is also considered to be important in enhancing the company's image and customer loyalty. The power battle here is in particular fought between the retailers and the producers of A-brands. Regularly A-brand producers are forced to comply with the private labeling strategies of the retailers, through relabeling their own products, which makes them less visible towards consumers, and influences their marketing strategy by limiting their downstream channel control.

2.4 The Power of Framing: Innovation and Agenda-setting

The power of corporations is, finally, related to their innovation and agenda-setting powers. Through their societal position corporations are able to 'frame' societal issues by influencing the so called 'choice architecture' available to citizens and governments (Thaler, Sunstein, 2009). Firms can use the information asymmetries that exist in markets to their own advantage. Consumer autonomy under such circumstances remains limited and is strongly influenced by the offerings of companies – the 'default option'. Whether this is in the interest of them and contributes to sustainability, however, remains to be seen (ibid). Through their innovation decisions, corporate have additional framing powers, for instance by offering a particular type of technical solution to a particular problem.

Innovation powers
The technology intensity of industries is often considered to be a prime source of bargaining power. The relative power of big corporations in innovation has increased over time. In the past, governments were largely responsible for investing in Research and Development (R&D) expenditures. This accelerated technological advancement in health, infrastructure, but also in military technology. Most governments have lost their lead in steering R&D trajectories through large-scale funding of government-owned laboratories and/or universities. Firms now occupy more than two thirds of global expenditures on R&D, according to OECD figures, and the figure is concentrated with a few hundred multinational companies, which dominate more than 80% of the R&D landscape (Van Tulder with Van der Zwart, 2006). This makes these companies the prime directors of technological change around the world. The rise of the directive powers of these corporations is not necessarily harmful, provided they do not bar the diffusion of these technologies and their applications in other sectors. The market sector can be a more efficient allocation mechanism than (bureaucratic) government funds. In the present phase of technological and economic development, technological advance, the diffusion and application of fundamental inventions is more important. But, if the demand for specific technologies is not accompanied by great purchasing power, it becomes difficult to stimulate companies to focus their R&D efforts on for instance curing tropical diseases. The same applies to the problem of technology that is boarded up with patents. Patents are vital for safeguarding future innovation, but the legitimacy of protection becomes questionable in case companies take countries to court that breach patent laws in case of a national emergency – as the pharmaceutical industry experienced in 2001/2002 when developing countries allowed generic anti-retroviral drugs for HIV / AIDS treatment to be produced.

The commercialisation of technological development also carries the risk of creating unrealistic and constructed expectations: optimistic reports on technological breakthroughs that are (almost) exclusively aimed at raising money on capital markets. The growing influence and commercialisation of technology is accompanied by higher expectations with respect to the ability of companies to bring about changes in the social and ecological sphere. Multinationals are increasingly acknowledged – especially in developing countries – as source of knowledge, capital and technology transfer (Dicken, 1998: 248). As a result, companies are expected – rightly or wrongly – to take on ever-greater responsibilities. Companies will take these responsibilities if it fits in their strategic vision and plans. The latter, however, are strongly influenced by earlier decisions in R&D investment and thus represent a considerable 'sunk cost'. As a result the societal discussion on issues is strongly influenced by the sunk cost of powerful corporations. The debate, however, is rarely framed as such.

The power of agenda-setting

Fairhurst (2010) calls agenda-setting powers the ‘language of leadership’. The agenda-setting power of firms is linked to their relationships with stakeholders. In the discourse with stakeholders, some claims can get more legitimacy or ‘discursive power’ (Fuchs, 2005) than other claims. If agenda setting power shapes the issues that are discussed and the actors that take part in a discussion, then discursive power determines who of the actors that take part in a discourse on a particular issue are able to influence its direction. This applies both to collaboration processes between and within organisations. Hardy and Philips (1998) for instance find no empirical evidence for powerful actors providing room for less powerful ones to take part in shaping the – intra-organisational – discourse. Thus, less powerful actors – even if they make it over the first hurdle of getting their issue on the agenda and are allowed to take part in a discourse – lack agency in defining a discursive domain. The phrase of Markuse of ‘repressive tolerance’ in this case applies to processes of participation and dialogue. Although firms are said to determine the issues raised, the alliances formed and the definition of successes in their relation to stakeholders (Dolan & Opondo, 2005), the use of agenda setting, unobtrusive, and discursive power is rarely covered in the literature on firm stakeholder relationships. Rather, management literature long portrayed organisational arrangements as structures of legitimate power that are employed to prevent illegitimate claims and resistance for example by employees or communities (Hardy et al., 2006).

Experiments by Kahneman and Tversky (1984) offer many examples of the **power of framing**. The frame as offered by a company determines whether most people notice and how they understand and remember a problem, as well as how they evaluate and choose to act upon it. The frame therefore also simultaneously directs attention away from other aspects or problems. Abuse of framing power is most clear in case of product offerings and advertisement campaigns that are either misleading or address weak target groups such as children. Many products offerings in the past ‘locked-in’ buyers in so called ‘customer loyalty’ programmes, that in fact made it very difficult to change suppliers, or even created various forms of addiction: from cigarettes, fast food, alcohol to nowadays debt through deceptive credit card practices (Stiglitz, 2010). The recent literature on behavioral economics provides promising venues of insight into the softer and more positive side of power exertion, whereas the study of behavioral business ethics (De Cremer, Van Dijke et al, 2010) operationalises this for the area of corporate responsibilities. Both areas have come up with suggestions on new types of governance that can help frame choice processes of actors towards more informed and freer choices. Thaller and Sunstein (2009) call this ‘libertarian paternalism’. The double challenge is for instance to regulate the relatively weak governance structures towards abuse of advertisements (paternalism) in order to offer more freedom for informed choices (libertarian) by customers.

2.5 Conclusion: corporate power and regulation

It goes without saying, that the powers of corporations in the world are sizable and increasing vis-à-vis citizens and governments. They are strongly related to the information advantages that stem from ownership, size, position and innovation (Table 1). Power exertion often goes together with sustained information asymmetries, which in turn provide a source of power abuse. The powers of multinational corporations are even bigger, because of lacking extra-territoriality of the legal framework. The issue of corporate power abuse is largely dealt with on a national level and with considerable divergence in laws. Competition policy in Europe for instance is quite different from anti-trust regulation in the

United States or even non-existent in China. As regards governance, accountability or transparency different regimes exist. Due diligence procedures – in which prior to signing a contract, actors are ensured to abide to a certain standard of care – are often vaguely elaborated which leads to considerable problems in particular with M&A procedures. Trademarks hardly ever surpass borders, which gives room to substantial information asymmetries around the world. Financial and non-financial reporting is poorly coordinated, with some exceptions such as the Global Reporting Initiative (GRI) guidelines. Most regulatory regimes on corporate power still diverge, not in the least because governments see the competitive position of their national industries enhanced by a particular approach to the fiduciary duties of firms (see Braithwait and Drahos, 2001; Van Tulder with Van der Zwart, 2006). In most of the core areas of corporate power hardly any international coordination exists, primarily guidelines that invite for voluntary support on more 'soft sides' of corporate control.

Table 1 Dimensions of Corporate Power and regulation

Power dimensions	**How to 'abuse' it...**	**Topic of national regulation**	**Nature of international regulation**
1. Ownership	Breach of fiduciary duty, breach of trust, pollution of land; abuse of de-jure standards, counterfeit; standardisation; Insider trading Hierarchy: sexual harassment, pyramid games (repackaging), whistleblowers; expropriate local communities	Governance laws differ per country for the extent to which individual board member can be held accountable; sometimes strong laws on abuse of information in stock market	Some guidelines on accountability; personal accountability of CEOs; no international co-ordination; ILO and UN conventions, only partly ratified; no co-ordination; divergent accounting standards (IFRS)
2. Size and multinationality	Lower costs, moral hazard: 'too big to fail'; entry barriers for newcomers; abuse of de-facto standards	Modest regulation on risk profiles; no regulation on de-facto standards;	Modest international co-ordination tried (e.g. Basel-III)
3. Position: horizontal and vertical	Collusion, cartel, bonus, monopoly profits, squeeze of suppliers and customers, entry / exit, crowding out, union bashing, private labeling; corruption, bribery, lower safety and security measures, lobbying	Anti-trust and competition policy for horizontal power; not for vertical power; Food safety laws; national laws on lobbying (transparency in contributions)	No co-ordination, some convergence, but important exemptions (e.g. in EU regulation); voluntary standards – such as ISO – prevail
4. Framing: innovation and information	Offer limited choices to consumers; pushing away responsibility; label in power battle, customer loyalty programmes; window-dressing; use information asymmetry; technological solutions for non-existing problems; limited due diligence	IPR laws (de-jure protection); privacy laws; due diligence is not well regulated; modest laws on advertisements, weak regimes on certification	Only guidelines, no international certification body; TRIPS agreement with important exemptions

As a result a variety of gaps exist on a global level all involving corporations:

- An accountability gap: who holds who accountable for what?
- A governance gap: who regulates, where and when?
- An expectational gap: what can be expected from whom?

There exists a considerable institutional void for companies operating across borders in which power abuse is not well regulated. In this void, corporate leaders are confronted with issues with a 'global public good' nature like Human Rights, Environment, security, regulation, education. Countervailing powers can be found in competitors along the value chain, critical stakeholders, regulators, labeling organisations and the like, but they have only limited effect not in the least because of fragmentation at an international level. Regulatory voids can create opportunities, but also pose corporations for enormous challenges in balancing powers and responsibilities.

3. Transforming power: breaking through the hard power barrier

With great power comes great responsibility, but how to interpret the own power and how to operationalise responsibilities is far from clear. The challenge for corporation that clearly have sizable and increasing powers as compared to other societal actors becomes not how abstain from using it, but how to use it effectively for good, i.e. for sustainable causes. It is unlikely that big corporations will voluntarily give away their power basis, but will this consequently result in increasing power battles? And what will the result of that be? The societal fight over corporate power is as much a battle over interest as one over ideas. Countervailing powers of multinationals can in many instances claim that they have a less unsustainable 'story', but can they also claim to have a more sustainable story in which the interests of citizens, corporations and governments are more balanced? Can powers related to ownership, size, position and information advantages also be used for sustainability?

In case corporations wait until 'corrected' by society – either by critical stakeholders or through the threat of regulation that often never materializes – a so-called 'negative duties' approach prevails. The prime trigger for sustainability is then related to liabilities. Regulation is not always implemented or relevant and countervailing powers are not clearly defined, which gives substantial room for maneuver. Many issues of sustainability are poorly regulated not in the least because sustainability is not a matter of regulation alone. Progress in these areas thus depends on the ability of corporations to define and implement a more (pro)active approach towards sustainability. The hard (countervailing) powers of competition and positioning might have to be complemented by soft powers of co-operation and responsibility. New measures of corporate power exertion thus have to be introduced, combined with new concepts, such as 'license to operate', 'corporate citizenship', 'codes of conduct', sustainability labels, and accountability. Most of these concepts are based on a basic notion of ethics and intended to move in the direction of a 'positive duties' approach. In this transition trajectory, companies face a number of dilemmas since change affects their traditional power bases. Power without ethics might perhaps be worthless; ethics without power is in any case powerless.

> "Power without ethics is worthless
> Ethics without power is powerless"[7]

7) Also found on the internet, of unclear origins though: "Power without ethics is disaster, ethics without power is useless".

3.1 Transition and transformation

Linking ethics and power requires a transformation in attitude (resource base) as well as an interaction with stakeholders. An inactive approach to CSR aims at self-responsibilities and the application of hard powers, whereas a more active approach to CSR generally aims at social responsibilities and the application of more soft powers. Elsewhere this distinction has been elaborately grounded in ethical theory (van Tulder, 2009). Companies can make use of the power of their resource bases in an inactive or active manner and interact with their stakeholders in a reactive or proactive mode (Figure 1). The way in which corporations see these two trade-offs depends on their ambition towards CSR practices. In dealing with the complex problems of sustainability, the interplay between the two dimensions is vital. Lasting change requires both dimensions and a large number of transitions:

- From limiting power abuse to using power for good
- From applying ‘hard’ power to (also) using ‘soft’ power
- From a low trust society to a high(er) trust society
- From incentives based on sticks to carrots
- From liability and risk orientation to responsibility orientation
- From a negative duty towards a positive duty approach
- From countervailing powers towards collaborative powers
- From profit-oriented corporate stories, to sustainability oriented stories
- From defensive framing to strategic issues management
- From corporate social responsiveness to corporate societal responsibility

Figure 1 **Breaking through the Hard Power barrier**

Use of power base	INACTIVE		ACTIVE	
Stakeholder approach		REACTIVE		PRO-ACTIVE
CSR approach	Corporate self Responsibility	Corporate Social Responsiveness	Corporate Social Responsibility	Corporate Societal / Sust. Responsibility
Ethical orientation	Indifferent	Negative / fiduciary duty (towards owner / shareholder), Compliance	Positive fiduciary duty (towards stakeholders)	Discourse ethics; procedural justice
Power approach	Power base approach: money, size, hierarchy, position	Countervailing power: codes, standards, indices, regulation, due diligence	Power of initiative: framing, knowledge	Collaborative / discursive power: stakeholder dialogue, partnering
Regulatory approach	Self-regulation	Anti-trust; IPR; fraud rules	Corporate codes	Joint regulation / rule-setting
TRADE-OFFS				
Hard / soft	‘Hard Power’		‘Soft Power’	
Trust / legitimacy	Low trust / legitimacy		High(er) Trust / legitimacy	
Incentive	Stick / liability		Carrot / legitimacy	
Rights / response	Rights, Risks and Rules		Responsibilities and Sustainability	
Competition / cooperation	Competition, Confrontation, Control		Coalition, Co-opetition, Co-operation	

Breaking through the barrier of negative power exertion, can be qualified as the transition from an inactive / reactive to an active / proactive approach towards the use of corporate powers (Figure 1). The conditions under which this transition can (and does) materialize are increasing topic of research, but not yet really well understood. In transition theory (Grin, Rotmans, Schot, 2010), at the moment power is primarily related to what is called the politics and the governance of transition. Transition moves from innovative practices based on relational power, via regime change (based on dispositional power) to structural change (based on structural power). The insights from this line of research are still generally abstract and have largely been applied to 'sustainable development' defined narrowly as technological, environmental and regional economic transition. Besides, the study of transition management is focused on long term transformative change, whereas the actual power battle over sustainability is taking place at the moment. The more detailed and actor oriented elaboration of corporate power as identified in this position paper, might come at hand. One conclusion of this work seems particularly relevant in this context: in order to foster change, building power, trust and legitimacy at the same time is relevant (ibid: 283). In reality, however, power abuse limits trust and legitimacy; whereas legitimacy has to be 'proven' first to raise trust. This poses a concrete transition problem for corporations willing to engage in sustainable development.

An in-active or re-active approach represent a negative duty approach towards power, which tends to consider risk, rights and rules (i.e. countervailing powers) over responsibilities and sustainability (i.e. positive power exertion). The negative duty approach is either pragmatic or realistic and strongly aimed at regulation and codes aimed at control. It wants to facilitate competition, but guard for power abuse. In the positive duty approach, however, the aim is to facilitate co-operation in order to use the innovative and financial powers of the corporation for sustainability aims. Codes get a more open character and are aimed at solving problems rather than lowering liabilities. The difference between the two approaches become clear with provisions on for instance property rights, whistleblower procedures, and other codes of conduct. They are often formulated defensively ('Thou shall not....”), but in practice this often leads to relatively weak implementation practices and low compliance. It was found in the United States that stricter codes and high sanctions in case of (proven) non-compliance hardly encourage real reflection on ethics in the business environment. Empirical research shows that the strict codes and national guidelines have not led to a significant reduction in violations (McKendall, DeMarr and Jones-Rikkers, 2002). Hard power exertion leads to evasive and defensive behaviour, which often does not even help in establishing some minimum level of compliance to the general ideas behind competition policy or human rights regulation. The latter is often reinforced by the weak co-ordination of relevant regulation around the world.

A more pro-active approach towards power builds on integrity as a resource and discourse ethics as an interaction principle. Discourse ethics is related to discursive power and implies dilemma sharing and a procedure of stakeholder involvement in which the actual process and the legitimation of this process is considered most important (cf. Van Tulder with Van der Zwart, 2006; for further elaborations). In ethical terms: in case 'procedural justice' is safeguarded, the outcome will be good as well. Moving the power perspective from an in-active to a pro-active orientation implies that the CSR abbreviation gets a different meaning: from Corporate Self Responsibility, via Corporate Social Responsiveness / Responsibility, towards Corporate Societal / Sustainability Responsibility.

3.2 Limiting power abuse: a negative duty approach towards power and sustainability

The negative duty approach is easiest to apply for the abuse of a company's positioning power. Companies have started to openly report on collusion or on the bribes they pay. The Global Reporting Initiative (GRI) provides thereby an increasingly ambitious benchmark for reporting. From a relatively inactive approach of reporting in its G1 version in early 2000, GRI has moved into the formulation of more active indicators (G3) of sustainability. G3 includes coverage for expenditures on fines for noncompliance with laws and regulation, corruption and lobbying expenditures. In particular the S07 category provides the basis self-reporting effort of companies on anticompetitive behavior. Checking for this category therefore provides some modest – minimum – performance measure as regards anti-collusion measures of companies. Combined with the level of external compliance (as covered by C (lowest) and A+ (highest) scores), the S07 scores give an indication of the way corporations handle their position power. At the highest level of transparency, the score can be considered 'active', unless companies provide more detailed information on how they share power and position.

No general statistics are available yet on the reporting of companies on this indicator. We checked for the reporting scores for a representative group of frontrunner companies. Frontrunners can be expected to define the state-of-art in this particular area. The so called "Global super sector leaders" of the Dow Jones Sustainability Index (DJSI, 2010 / 2011) provides an appropriate sample for this exercise. The DSJI index scores companies on their relative performance in sustainability. The DJSI specifies the leading companies for 19 'super sectors' (Table 2).

No American companies are amongst the leaders. There is a power perspective to this finding. The American regime has been portrayed as an extreme case of a 'negative duties' approach, in which negative considerations for sustainability prevail due the legal context in which companies have to operate. This implies a risk and liabilities orientation of American companies that make it difficult to move into a more active position. Table 2 further illustrates that all leading companies apply the GRI reporting guidelines, but to varying degrees. At least 11 have an A level ambition, while 11 are also externally assured. On closer scrutiny we found 10 of these frontrunner companies to have included S07 scores in their reporting.

A leading position in the DJSI does not necessarily relate to active strategies relating to power abuse. A number of the sector leaders report anti-trust cases against them in 2009. Examples are Nokia, AkzoNobel and Unilever. Anti-trust considerations do not play a prominent role in including or excluding firms from the DJSI. DANONE / Numico is an example of a more explicit approach towards collusion: in its annual report a 'business conduct policy' prohibits anti-competition measures by managers, followed by a competition memo explaining the practicalities of the competition rules that have to be followed. AkzoNobel formulated a 'comprehensive competition law compliance programme' next to its Code of Conduct. Both strategies can be interpreted as a re-active response to the investigations and/or fines imposed upon these companies by the European Union for anti-competitive behavior. No major initiatives on strengthening (the operation of) anti-trust regulation have been taken by these leader companies. Aegon states that the company is committed to 'fair competition', while also stating that they want to build long-term relationships with customers, business partners and regulators. On the whole, the median score of leading companies in the DSJI as well as in the Netherlands on their dealings with power abuse can be considered as primarily reactive.

Table 2	Global Super sector leaders in the DJSI: ....how do they deal with power abuse (2010/2011)[8]					
Company	**Sector**	**Country**	**GRI**	**GRI Score ***	**SO7**	**Approach**
BMW	Automobile & parts	Germany	X	A	Yes	reactive
Australia & New Zealand Banking Group Ltd	Banks	Australia	X	A+ (GRI)	Yes	(re)active
Xstrata Plc.	Basic resources	UK	X	A+ (3rd party)	Yes	active
AkzoNobel	Chemicals	Netherlands	X	C+	Yes	in/reactive
Siam Cement	Construction	Thailand	X	A+ (Self + 3rdart)	Yes	active
Itau	Financial services	Brazil	X	C (GRI)	No	reactive
Unilever	Food & beverages	Netherlands	X	B+	Yes	reactive
Roche Holding AG	Health Care	Switzerland	X	A+ (GRI)	Yes	reactive
TNT N.V.	Ind. Goods / services	Netherlands	X	A+	No	reactive
Swiss Re	Insurance	Switzerland	X	N/A	No	inactive
Pearson Plc.	Media	UK	n.a.	n.a.	No	-
Sasol	Oil & Gas	S-Africa	X	N/A	Yes	reactive
Philips Electronics	Pers. & Household	Netherlands	X	A+	No	reactive
GPT Group	Real Estate	Australia	X	A+ (3rd party)	Yes	active
Lotte Shopping	Retail	S-Korea	X	n.a.	No	inactive
Nokia Corporation	Technology	Finland	X	A+ (3rd)	Yes	reactive
Telefonica, S.A.	Telecom	Spain	X	n.a.	No	inactive
Air France KLM	Travel & Leisure	France	X	A (GRI)	No	reactive
EDP	Utilities	Portugal	X	A+ (GRI)	No	reactive

Source: DJSI, CSR reports and websites

The role of Dutch multinationals in this ranking is noteworthy. In 2010 Dutch companies scored highest in four categories (AkzoNobel, Philips, TNT, Unilever). A total of 13 Dutch firms were represented on the DJS. Randstad, Reed TNT, ING, Ahold and DSM also take a prominent – though not leading – position. Shell, Aegon and Heineken, high scorers in previous years, were skipped from the Index in 2010. The reasons are not revealed, but after some media pressure Shell had to admit that it was removed from the index for its presence in Nigeria, i.e. due to continued oil spills and the problematic human rights situation. Both problems are strongly related to the company's positioning powers. The decision to remove the company from the DJSI is the more painful for the Board of Directors of Shell, because they recently decided to make their executive bonus dependent on the position on the DJSI. This illustrates the increasing countervailing power of global indices.

8) Source: http://www.sustainability-index.com/07_htmle/indexes/djsiworld_supersectorleaders_10.html, 10 October 2010

Social Responsible Investors largely apply a negative duty approach
Investors are influential – powerful – stakeholders for public companies. In theory they are owners of the company, but the share of their ownership is often small. Big investors such as pension funds and other investment funds have increasingly started to check companies on their sustainability efforts. In this identity they form an important (countervailing) power for more traditional groups of investors – in particular hedge funds and small investors – that are primarily interested in short term profits and risk minimization. Hedge funds trigger an inactive approach towards CSR. The highest performing stocks are still in so called 'vice funds': polluting industries, tobacco and the arms industry. Institutional investors, on the other hand, are more interested in longer term profits which in theory give opportunities for the transition towards sustainability initiatives through Social Responsible Investing (SRI). Critical investment groups like the VBDO (see box) are active in stimulating firms to use their powers to adopt for instance sustainable purchasing strategies. They use a number of indicators in order to make progress transparent. VBDO has agenda-setting powers witnessing the considerable attention its rankings attract from the media. The real influence on the actual CSR strategy of firms, however, comes from mainstream investors, in particular the large pension funds and a number of specialized large institutional investors. The latter operate in particular in Anglo-Saxon countries, where the share and thus the influence of SRI is also by far the highest in the world. The power of institutional investors was sometimes enhanced by legal measures, such as in Canada where the 2001 Canada Business Corporation Act was amended to expand the power of shareholders to enact resolutions on ethical issues in the shareholders meeting, or in 2000 where the UK government required pension funds to disclose how they take account of social environmental and ethical factors in their investment decisions. In the United States, the Quakers were the first group to implement SRI principles through a process of 'negative screening' in order to avoid investment in the armaments and tobacco. 'Corporate governance' – another negative duty oriented indicator – represents an important screening measure of SRI Funds in Anglo-Saxon countries.

VBDO's angle on power and responsibility

VBDO, the Association of Investors for Sustainable Development, tries to work towards a more sustainable capital market. By taking the investor perspective VBDO aims at triggering companies to align their strategies with sustainable developments. An important tool is active engagement, for example by being present and asking questions at Annual General Meetings of Shareholders of publicly listed companies. At these AGMs VBDO representatives ask Boards of Directors and Supervisors directly to take responsibility for their policies and actions. In 2006, VBDO started to focus on responsible supply chain management as a way of deepening the CSR policies of public companies. Responsible supply chain management refers to management systems that enable companies to ensure suppliers fulfill the same social and environmental standards as the companies pose on themselves. Transparency is a necessary, but not sufficient condition for real sustainability. In theory companies can be open about the fact that they pay no or very limited attention to sustainability. VBDO realised that some companies reached the end of the ‘transparency challenge’, which basically lead to a reactive CSR stance. To keep the frontrunners in this area sharp VBDO decided to (also) focus on responsible supply chain management.

Responsible supply chain management implies that companies integrate certain environmental and social aspects, such as responsible energy use and respecting the universal declaration of human rights, not just in the own business but also in the relationships with their suppliers in distant countries where certain social and environmental standards are not always regulated. Through integrating these aspects in the supplier relations, companies can use their procurement activities to improve the social and environmental situation elsewhere. Responsibility in supply chains is often related to the power companies have within a chain, which in turn depends on the governance type of the supply chain, the position of a company in the supply chain and the type of product produced (Gereffi et al 2003). In analysing company behavior, VBDO takes a stakeholder perspective. The company activities need to be aimed at creating long-term value for all stakeholders. Incorporating CSR strategies in the overall activities, helps companies to better manage (reputation) risks and create long-term value. Warren Buffet, leading American investor and philanthropist, argues that it takes 20 years to make a reputation and only five minutes to break it. Risk and reputation management are therefore related triggers for companies to implement responsible supply chain management systems. These systems have been easier to achieve due to the existence of internationally accepted norms and standards, including well-established compliance checks through audits. Sustainability, therefore, can be part and parcel of the business model of companies, provided they are willing to use their positive (soft) power in their own supply chains. The counterargument provided by companies is that they lack size, are not influential enough to impose sustainability norms upon suppliers, or are confronted with too many different suppliers. VBDO does not agree and argues that every company needs to be aware of possible misconducts in their supply chain and have systems in place that can prevent this from happening. All companies have the responsibility towards their stakeholders to act responsibly.

Human rights

This point of view is closely related to John Ruggies appeal that companies act with *due diligence* to avoid infringing on human rights (UN General Assembly 2010; see section 3.4). Ruggie argues vis-a-vis the supply chain, that companies need to determine whether the supplier where they expect human rights abuses is a crucial partner and whether they have leverage. He also refers to this as ‘spheres of influence’ another word for positioning power. In case the supplier is a crucial power and they have leverage they need to mitigate the abuse. If the company lacks the leverage, it needs to seek to increase this in order to be able to mitigate the abuse (Ruggie 2010, 5). VBDO agrees that companies need to take appropriate measures to alleviate social and environmental misconducts in the supply chain, possibly by cooperating with other companies to increase leverage with certain suppliers. This could create problems with competition policy provisions. In 2010 VBDO specifically addressed the extent to which companies paid attention to human rights in their supply chain. The number of firms that are active in human rights is increasing. Twenty six of the 59 largest Dutch publicly listed companies explicitly mentioned their efforts to ensure human rights in their business practices. Seventeen incorporated respect for human rights in their contracts with suppliers. This is an increase compared to 2009 when only fourteen companies explicitly mentioned to respect human rights. So, although an issue like human rights is gaining more attention, the challenge remains to indeed conduct due diligence and look beyond the direct suppliers for human right abuses further down the supply chain. VBDO would like companies to take their responsibility and work together with different actors in the supply chain to improve the human rights situation around the world. The latter would represent a more (pro)active approach which is still lacking.

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Mainstream institutional investors in frontrunner European countries, like the Netherlands or Norway, have also started to become more vocal in their plea for more sustainability in the companies they invest in. The market share for sustainable investment in the Netherlands is around 4% (VBDO, 2010). However, investment funds apply primarily negative criteria as well for their own investment portfolio. A prominent example is the Norwegian government pension fund – Global. The fund's Advisory Council on Ethics was established in November 2004, following a new regulation that required the management of this government fund to include also ethical guidelines. Within five years, the fund has excluded around 42 major multinational enterprises, including such well known companies as Wal-Mart, Altria, BAT, Honeywell, Northrop, Philip Morris and Rio Tinto. The reasons for divestments are slightly broader than in the Anglo-Saxon countries, which has made Global a force towards a more active sustainability approach of companies. On the whole, however, the prime reasons for divestment remain tobacco (17/42); military including production of cluster ammunition (18/42); 5 environmental damage (5/42) and human rights violations (4/42).

On 19 January 2010 the Ministry of Finance announced that 17 tobacco companies had been excluded from the fund. The total divestment from these companies was USD 2bn (NOK 14.2bn), making it the largest divestment caused by ethical recommendations in the history of the fund. Three previously excluded companies (because of environmental damage and cluster ammunition) were reinstated due to changed strategies. More than 80% of the screening thus is primarily based on the sector companies are in, not on other positioning and strategic decisions. Comparable discussion appeared in other countries. When pension funds in the Netherlands were accused of investing in companies that produced 'cluster bombs' they withdrew their investments. But in other areas they remain relatively inactive, without an opinion – neither critical nor supportive – of transition trajectories towards more sustainable business practices, which re-inforces the negative duty approach of public companies.

4. Using power: from limiting abuse to enhancing sustainability

It proofs easier for stakeholders to correct companies than to stimulate them towards a more positive duty approach. An intrinsic motivation of companies towards sustainability is therefore a requirement. The application of soft power for sustainability, however, provides a difficult to implement ambition. This applies also to the scientific literature on the issue, which is very modest. This section discusses the extent to which the four dimensions of power (ownership, size, position and framing) have been analysed as factors for sustainability. Science and media show strong parallels.

4.1 Ownership and size

Size and ownership matter as factors in adopting CSR strategies. Being publicly traded and big influences the necessity to publish financial as well as sustainability reports to investors, which in turn has an impact on CSR strategies. There is abundant evidence that in particularly publicly listed (big) companies that are in the Business-to-Consumer sector have made most progress in adopting CSR strategies. Clear patterns exist with regard to the biggest companies, in which the national context – the CSR regime – plays an important role in the adoption of more or less active strategies. In case of more corporatist bargaining structures, as in Europe, it was found that big corporations tend to be more open to use their 'soft power' to proceed towards a more active CSR strategy.

In more adversarial environments, such as in Anglo-Saxon countries, big corporations tend to lean more towards the use of 'hard powers' which in turn creates rather re-active approaches towards CSR. Whether big firms are state-owned or family owned, does not seem to make a large difference in this case. Their size makes them focal companies in the public domain and as such influences their CSR strategies. Their impact on networks of SMEs for instance makes the impact of their CSR strategies on society also more clear and thus reinforces the need for more transparency and increases the willingness to engage in stakeholder dialogues, which is the precondition for a more active CSR strategy. There is actually not much systematic research done on the influence of the other types of ownership on firm's CSR orientation; most of the international comparative research builds on publicly listed companies.

Where big firms can use their related powers (money, investment, lobbying power) to initiate more active CSR strategies, smaller and medium sized firms (SMEs) are in a much more vulnerable and dependent position (Hoefnagels, 2010). Whereas individual entrepreneurs might find it easier to adopt an active CSR attitude from the start, the lack of resources makes it more difficult to implement it if a number of systemic preconditions are not available. Preconditions include: availability of standards, sufficient interest of customers in sustainability. Moreover, many SMEs operate in the supply chains of larger firms, which through their positioning power set the preconditions under which they can adopt more active strategies. Murillo and Lozano (2006) conclude that the owner / manager's own values are a key factor for successful CSR implementation in SMEs. SMEs feel sometimes uncomfortable with the CSR concept because it is perceived as linked to the (image) concerns of large companies, or as linked to actions beyond SME owners' / managers' reach. SMEs lack resource and information, and suffer from the diversity of instruments available to them which leads to confusion.

There are three main reasons for SMEs to engage in CSR: the management's value and belief system, legal obligations and strategic reasons in particular the use of CSR as an entry strategy. From the manager's values and beliefs and related entry strategies, SMEs can obtain independent power. The second – legal – reason is the prime reason why so many SMEs have adopted a relatively in-active or re-active stance towards CSR (Cambra-Fierra et al., 2008). The third motive explains for the finding of Udayasankar (2008) that 'both very small and very large firms are likely to participate more in CSR initiatives, whereas mid-sized firms will have the least participation'. He proposes that the combination of three attributes (firm visibility, resource access and scale of operations) has the particular U-shaped impact on CSR engagement.

The 'business case' for CSR with SMEs is difficult to make, because of their more limited influence over the external environment and stakeholders (Hoefnagels, 2010). On a case to case basis authors have found business cases, but they are difficult to generalise (Singh et al. 2005; Moore and Manring, 2009). Successful business for SMEs has been linked to the use CSR as an entry strategy: by appealing to customers, they can break through the powerful position of dominant players in particular markets. The instant success of the Body Shop, Ben& Jerry's ice cream or of trade marks like as Max Havelaar can be explained by their ability to appeal to this niche market that wants to pay a premium for more sustainable products. The power of entry furthermore puts pressure on existing producers. The entry strategy, however, is often niche market strategy. It proofs difficult to surpass the 5% market position. The latter seems only possible with the active backing of already powerful actors in the supply chain. The Body Shop and Benn&Jerry's were ultimately taken over by more powerful core companies in their respective chains (L'Oreal and Unilever). Whether their impact on sustainability has increased or decreased after they lost their independence remains to be seen. SMEs, finally, are standard takers, not standard setters / makers. Codifications are important factors in the spread of CSR, which imposes a particular type of dependency on SMEs that is different from bigger companies. Paradoxically, however, this can also have positive effects on the transition towards sustainability. SME's owners / managers might be inactive, but can be forced by the big players in the field (i.e. MNEs) to do business in a socially responsible way. For example, regarding ISO 9000 and ISO 14001 standards, 'many influential organisations adopted the standard, despite the fact that ISO 9000/14000 are voluntary and not a mandatory directive. This in turn forced others (directly or indirectly) to adopt ISO standards' (Brunsson and Jacobsson, 2000). 'Research into the diffusion of ISO 9000/14000 standard demonstrates that the role of multinational networks here is crucial (…). The diffusion mechanisms usually involve contractual requirements imposed by multinationals, the industry or key players in the value chain' (Castka and Balzarova, 2007b). And 'big corporations (…) are urging suppliers to adopt ISO 9000 standards' (Henkoff, 1993, cited in Ragothaman and Korte, 1999).

4.2 Positioning power

There exists limited systematic research on the relationship between the horizontal positioning strategy of companies and the consequences for their CSR strategy. This is particularly surprising for the retail industry, since strategy and format in this industry is all about positioning (Bleijenbergh, 2010). Only Hughes (2005) notes, that retailers aimed at the middle or lower end of the market are less active in their membership of the Ethical Trading Initiative (ETI) and are less willing to invest time and money in relationships with their suppliers. He assumes that their customer base is apparently lacking interest in CSR so they have adopted a very low key approach towards CSR. Retailers serving the middle end of the market with focus on value for money are found to follow the guidelines set by ETI, as he assumes that they do acknowledge the increased pressure exerted on them to trade ethically. Ingenbleek et al (2004) linked the retailer's cost strategy and customer value strategy to the consideration of animal welfare. In their report the issue of animal welfare is equal with CSR in general. It is assumed that retailers aiming at low costs will be less active in considering animal welfare. However, if competitors are making steps and taking the lion share of the cost to implement changes, than these low-cost companies are likely to follow. Also it is argued that customers in the high end segment are more interested in CSR and as such companies with high customer value strategies are more likely to actively promote animal welfare. Research on the differentiation of retail assortments and its effect on CSR strategy hardly exist. It can be supposed, that having a wide assortment influences the corporate CSR policy in various ways. First, some product groups are more susceptible for sustainability issues than others, partly because of emotional value attached to these products. The latter is the case for instance for animal welfare in the food industry, or for deforestation in the furniture industry. Safety issues are relatively easy to address, because there exist often clear minimum standards, which makes it easier for producers to distinguish themselves from their direct competitors – and thus gain a competitive advantage by having stricter safety rules than legally required. In commodity markets, ecology plays an important – and relatively easy to manage – role. The biggest challenge remains with applying social and economic sustainability criteria to the product portfolio of companies. The latter applies in particular to the food and beverages industry that have global sourcing strategies and thus are constantly confronted with bad working conditions and environmental degradation (c.f. Kolk, 2005). Retailers selling primarily non-food products, have been susceptible to other campaigns of NGO's such as in clothes (Clean Clothes Campaign) or electronics (MakeITFair). Retailers with extreme horizontal diversification find it more difficult to employ a coherent and active sustainable purchasing policy (Bleijenbergh, 2010).

Vertical positioning

Much more is known on how companies use their (vertical) purchasing power to influence sustainability throughout the supply chain (See also Max Havelaar lecture of 2009). It is recognized that this can be a force for good – or trigger a 'race to the top' as some would call it – but there is also serious criticism. The considerable buying power of retailers for instance is criticized for its supposed negative effects on suppliers. Supermarkets – provided they have a regional monopoly as is often the case – are unilaterally able to dictate terms and prices to their suppliers, which could lead to longer working hours, a faster pace and worsening working conditions and job security. Research after Dutch supermarkets has shown that customers pay higher prices for the same products in regions where supermarkets can exert more monopoly power. The impact on the sustainability of the product portfolio has not yet been researched.

Firms use their sustainable purchasing strategies to further discipline their suppliers and increase dependencies. The transfer of costs and risks in regular purchasing also spreads to some of the CSR practices and code, which leaves suppliers with higher transaction costs, lower margins, and higher switching costs to deliver to other chains. Fox and Vorley (2004) observe that there is evidence of the transfer of costs and risks involved with these codes up the chain as an 'unfunded mandate'. As such they also argue there is a difference between 'standard takers' and 'standard makers'. A clear example of this is described by Ahmed Al Ahmin (2006) who shows that when Wal-Mart decided to roll out a 'green rating system' for all of its packages, this was done at the expense of the supplier. The result, however, is the same: an increase in part of the sustainability of the chain. In this case the increased ecological sustainability of the chain is directly linked to a decreased social sustainability of the chain. In case large and well-positioned companies claim to have a positive CSR influence on their sector and suppliers, both ecological and social / economic dimensions should have to be taken into consideration as well. Wal-Mart's strategy, therefore, remains largely re-active and in defense of its powerful economic chain position which results in rather skewed distributions of profits. Interesting alliances, however, have appeared between frontrunner supermarkets and a number of NGOs. Fox and Vorley (2004) state "some of these groups clearly see supermarket power as an advantage for achieving their goals of improving social and environmental conditions (…) because they only have to deal with a very limited number of gatekeepers to the agrifood system with capacity to dictate conditions of market entry" (p.6). Moreover, Jones et al (2007) argue that (large) retailers have "a very active role in driving production and in stimulating and shaping customer demand" (p.21). Fulponi (2006) acknowledges that food safety standards have developed and harmonised and due to the buying power of retailers this might also occur for other voluntary standards and codes. As such large retailers that are motivated to integrate CSR could use their power to stimulate producers and customers towards more sustainable products. However, these positive results of increased concentration and power are rarely mentioned and lack strong empirical or theoretical foundations in retail literature. Finally, it must be noted that according to Lavorate and Pontier (2005) the greater a firm's size, the greater the expectations of the retailer's ethical outlook. Therefore, large firms should acknowledge, that they will have to be more ethically involved, than smaller firms.

Constructive competition policy

More active sustainability strategies require certain forms of collaboration. Established competition policy regimes are primarily aimed at preventing power abuse through collusion, which can become a barrier to further progress if applied to restrictively. This is the tension, for instance, that exists in the horizontal agreements made in support of higher prices for MSC (Marine Stewardship) certified fish (Parlevliet, 2010). The Dutch competition policy authority NMA grants exemption for certain types of collaboration that can lead to improvements in production or distribution. In the past only material welfare (of consumers) was used as the benchmark for effective completion, It is expected that in the future also social and other non-material welfare dimensions will be included, in the reasons for exemption. The NMA at the moment acknowledges this already, but requires that the agreements provides advantages for consumers, is limited in scope and sustains sufficient competition.
The European Competition Policy authorities seem to be more restrictive in this area. Nevertheless, the actual implementation of exemption rules remain strongly contested, not only by hard-line neo-liberals, but also by scholars (like Parlevliet) who doubt that horizontal price agreements are a necessary condition for sustainability in chains. Many of them argue that in case government takes up an active role – which in the case of fish is for instance the effective organization of fish quota – no MSC labeling is required.

Labeling: private versus independent labels?

Labelling initiatives for fairtrade and sustainability are running the risk of becoming cannon fodder in the power struggle between retailers and A-brands. The struggle concentrates on the use of private labels by retailers and its exact meaning for sustainability versus the use of labels by large food multinationals (A-Brands) to make their sustainability efforts known to consumers. The transparency of the mark has not really been served by these initiatives in which consumers cannot see the forest through the trees. Governments are not willing or not able to provide more transparency in the labeling market. Independent, non-profit oriented, trade marks for sustainability like MaxHavelaar, Utz Certified or Rainforest alliances were in the past successful in supporting the birth of the fair-trade movement. They are now increasingly party in the battle for market dominance between A-brands and retailers. The discussion on effectiveness, related to philosophy and 'purity' of the label intensives. Because of their origins, each of these brands have a different philosophy on how to make the transition to fair-trade, which also resulted in a slightly different portfolio of alliances with the industry.

The Max Havelaar fair-trade label represents the most normative / idealist approach, for instance by introducing a minimum price and guaranteeing 100% content in products carrying its label. It adopted a business-to-consumer approach and was particularly helpful in the early phases of the fair-trade movement to give particular firms an entry advantage. Slowly, Max Havelaar has been embraced by A-brands. Increasingly, these brands are willing to align themselves with the 'fairtrade' claim. More important, Max Havelaar / Fairtrade is now also an alliance partner for retailers like Albert Heijn who want to base their private label ('puur en eerlijk') on – as they say it themselves – a 'best in class' formula.

Utz Certified adopted a business-to-business strategy, and a more business-like / realist approach to fair-trade (see Figure 2 for an explanation of the distinction between idealism and realism). Utz does not apply a system of minimum prices, because it argues that this takes away the trigger for increased productivity and quality improvement. Utz allied in particular with A-brands like Douwe Egberts / Sara Lee and does not hold 100% fairtrade as entry requirement. There can be a gap between what the label suggests and the reality. The label is intended to stimulate corporations to move quickly towards sustainability, rather than as a reward for already obtained sustainability. Rainforest alliance, finally, is least strict in its provisions on sustainability and is primarily aimed at ecological issues. Producers can get the label if they promise to become sustainable within four years, but exceptions remain possible. This makes the label the least reliable of the three in terms of clear communication and undisputed claims towards consumers. Rainforest Alliances has primarily allied with A-brands like Unilever (Lipton) or Chiquita bananas.

There is scientific debate on the question which of these labeling initiatives is most conducive to fairness in commodity chains. But no final conclusions can be drawn, not in the least because of major methodological difficulties. Each formula has its own logic, its own drawbacks and risks. The discussion, however, also feeds into the power battle over market share, including legal suits against municipalities by Sara Lee for breaching European procurement rules. Until now the A-brand lost all cases, but the European Commission has taken over.

In terms of actual power relationships, there is no doubt that the different alliance strategies of these three labeling initiatives have had impact on their individual diffusion. All three are successful and experienced growth of up to 40% in 2009. It can be argued, that the 'competition' amongst them can be considered healthy. In terms of Figure 1, the nature of labeling competition can be called 'co-opetition' for a joint diffusion strategy aimed at obtaining ever higher shares of commodity markets. It provides the consumer with choice and the market an incentive to move beyond the marginal and reactive approach on fair-trade. But this competition can also lead to confusion with consumers and therefore to stagnation, if this competition gets entangled in a search for market dominance over the already existing niche market. In this case, the competition between fair-trade labeling initiatives becomes a 'hard power' game as seems to be happening in the Netherlands. The challenge for each of the three fair-trade labeling initiatives is in any case how to influence the A-brands and the retailers towards a complete fair-trade product range, instead of a segmented strategy in which the adoption of this label is an excuse for not making the whole product portfolio sustainable. Finally, the relative success of the fair labeling movement remains remarkable: with regard to other issues, the industry has initiated many own labeling initiatives (‘my choice / ik kies bewust’; ‘groene weide’ etc.); with regard to fair-trade however most major manufacturers in the world have chosen to ally with independent fair labeling organisations such as fair-trade, fair-wear, fair-food.

Status-quo

The introduction of labels, business models and investment pressure has pushed most organisations in the Netherlands away from an inactive purchasing approach. But sustainable purchasing practice in the Netherlands remains on average (still) rather modest and fragmented, while the transition towards a more active attitude is slow also compared to other countries in Europe (Bleijenbergh, 2010). According to VBDO research, on a scale of 100, average scores of Dutch AEX companies were 32 in 2009. Positive outliers are companies like Philips and AkzoNobel, which moved from 62 to 90%, resp. 36% to 87% over the period 2006-2009. Negative outliers are CSM or Oce, which either stagnated or had limited progress on a very low level of sustainability (below 20%) over the same period (VBDO, 2009). Intermediary evaluations of the Social Economic Council (SER), based on the Transparency benchmarks (2008), show the following relative picture. On a scale from 0 to 10 for sustainability, 170 companies scored least (below 2) on chain responsibility, stakeholders and verification (Ministry of Economic Affairs, 2009). There is a considerable gap between vision and strategy in which companies score highest (around 4). These are all indicators of a more active or proactive vertical positioning strategy. Large differences exist within Dutch Companies, whereas on average the scores remain relatively low.

4.3 Framing and agenda setting

In particular NGOs have habitually tried to use their countervailing (agenda-setting) powers to force specific companies to step up their CSR efforts. Examples for the sustainability agenda include the Kitkat campaign of Greenpeace against Nestle, framing the deforestation involved in palm oil production as murder of Orangutangs; the anti-Dove campaign of the same NGO on the same topic (palm oil) against Unilever; the ‘Green Sint Nicolaas’ Campaign of Oxfam-Novib against retailers not selling fair-trade chocolate; the Wakker Dier campaign against C1000 framing animal welfare as an issue of ‘kiloknallers’ or ‘plofkippen’ (exploding chicken). More and more NGOs, thereby not only apply a ‘name and shame’ campaign, which is typical for a confrontational approach, but they also follow-up with a ‘name and fame ‘approach, which is typical for a cooperative approach. An increasing number of NGOs acknowledge that a ‘negative duty’ approach does not suffice. They are searching for a more positive duty approach, but this requires the active collaboration of corporations as well.

Corporations can also make the transition towards a more active CSR strategy by using their agenda-setting power, instead of waiting for society to use its countervailing powers. One technique is through advertisements in which they address a problem. Many examples exist of companies that use so-called cause-related advertisement / marketing campaigns in which corporations draw attention to specific sustainability problems: proctor and gamble (pampers) with Unicef for child mortality (linking the sales of diapers with vaccination programmes), Tena Lady with Oxfam Novib on maternity health.

The product Red – initiative of activist and singer Bono – provides a recent example of cause-related marketing, which is also a brand on its own. The brand serves as an entry strategy. As can be expected the size of this company remains yet limited. In most of these examples, the advertisement power of companies for an issue is used at best in a reactive manner. More broad cause-related marketing campaigns would include an explanation of the corporate vision towards the issue and how the company aims at including this in its core business.

A more (pro)active type of corporate campaign is based on *'issue advertisement'*. A whole issue is addressed as a problem, followed by the suggestion of the company that they are willing to collaborate on this. Examples are the climate change campaign by Nuon, or the 'waar zijn we nu mee bezig' campaign on pensions of Achmea in the Netherlands. In both campaigns the issue is explained in more detail, but also linked to the core business of the company. Other campaigns of multinationals related to climate changes have been part of an organized stakeholder dialogue. The more this is the case, the more the issue campaign becomes a means in a proactive strategy to involve people to joint solutions to an issue. The campaign in which hunger is treated as a distribution problem, followed by pictures of the alliance between TNT and the World Food Programme is an interesting case for debate: to what extent is this only a cause-related marketing campaign for feel-good motives, or a step towards a joint solution of the issue at stake. Key to these questions is whether the framing campaign can be related to the core business of a company. In that case, the power involved will not only be used for good for the duration of the campaign, but is likely to be continued long after that.

Codification: from narrow to broad

Big corporations are leaders in the formulation and implementation of corporate codes of conducts. By doing this, they create institutions, or 'rules of the game' which create frames for channeling power across borders. This is an important tool that potentially can help firms move from a reactive approach in which they respond and adapt to national regimes, towards a more proactive approach in which they set their own standards. In case these standards are higher in CSR orientation than most of the countries they operate in, in particular multinational enterprises can have a positive effect on the spread of CSR. Corporate codes have been studied in some detail for a variety of topics (cf. Kaptein, 2009; Van Tulder with Van der Zwart, 2006). Most codes share a relatively low 'compliance likelihood', i.e. are still rather reactive and vaguely formulated or monitored. Formulated or framed like this, codes perform primarily a controlling function to prevent power abuse within the company and within supply chains. The transition towards more a more active use of codes is facilitate by broader formulations in which topics are less restrictive formulated and external stakeholders can get involved in the codification practice.

The philosophy behind a code of conduct is influences the way it is used in practice as framing opportunity. A relatively vague code does not provide much guidance to actual problems. The argumentation behind the vague code of Levi Strauss – one of the first companies to introduce a code of conduct after societal upheaval – illustrates this position:

> *"A code of conduct is a statement of principles, which should be supported by implementation policies in the factories from which the company sources. Therefore, not everything is detailed in a code of conduct, as often the solutions to situations are on a case-by-case basis, depending on what is the most suitable form of support."*

Reactive codes specify concrete ways of 'solving' an issue for the company, not necessarily for the people involved. Sometimes, they deny responsibility or specify that the main responsibility lies with other actors. For instance C&A's code of conduct on child labour, reads like this:

> *"Including additional measures in codes of conduct creates expectations. Providing alternatives to children should not be taken for granted. A company has a responsibility to help think about a solution, but suppose suitable schooling facilities do not exist, should a company establish them? In theory, education is not the responsibility of business, but of the state."*

An excellent example of a reactive code is also provide by Nike, whichover the course of ten years, specified ever higher minimum ages for its factory workers, in order to circumvent any allegations of child labor. By applying this codification strategy, the company does not contribute to child labour, but does not solve the issue either. Finally, more active codes can also be formulated. They frame issues differently along the lines of a sustainable corporate story. An example is the code of conduct of H&M on child labour:

> *"H & M does not accept child labour. (...) We acknowledge the fact that child labour does exist and can't be eradicated with rules or inspections, as long as the children's social situation is not improved. We want to actively work with factories and with NGOs in third world countries, to try to improve the situation for the children affected by our ban on child labour. If a child is found working in any of the factories producing our garments, we will request the factory to make sure that the measures taken are in the child's best interest. We will, in co-operation with the factory, seek to find a satisfactory solution, taking into consideration the child's age, social situation, education etc. We will not ask a factory to dismiss a child without a discussion about the child's future. Any measures taken should always aim to improve, not worsen, each individual child's situation. Any costs for education, etc. have to be paid by the factory."*

Codes of conduct are no panacea for preventing problems of power abuse from appearing, but they proof a reasonable framework in which firms and societal actors can approach particular issues, such as human rights. More active codes also provide firms with procedures to deal with issues in a more soft and constructive manner. Correction from society then becomes a carrot for improvement, rather than a stick for punishment. As an illustration of how such processes work in practice: in September 2010, C&A and H&M were accused of human rights violations towards young women in their Indian suppliers. C&A initially denied that it could be involved in these activities and immediately threatened to remove them from their supply network, H&M took a more active stance and first wanted to research the claims.[9]

The search for a sustainable corporate story

The sustainability strategies of corporations are increasingly framed in terms of 'corporate stories', narratives through which the strategic challenges the company can be portrayed and the operational choices in support of the transition can be legitimised. A corporate story has the function to align internal as well as external stakeholders. A pro-active storyline in which external stakeholders can be involved (and can recognize themselves) is also dubbed a 'sustainable corporate story'. It consists of: (1) vision / mission statement, (2) identification of the most important issues that company is faced with, (3) a realistic implementation plan. A 'good' corporate story applies a particular type of 'choice architecture' in which it is tries to align the interests of the corporation and society. Behavioral econo-

9) As it turned out, the case proved more complicated than published, but the difference in the initial responses is noteworthy.

mics (Thaler and Sunstein, 2009) would portray this as the move from a libertarian / liberal, via a paternalistic towards a libertarian paternalistic frame. The default option in this case is defined by sustainability, which in practice at the moment will probably have to be more portrayed of a pathway towards sustainable ends. This leaves open a large number of possible elaborations, and makes the path open for 'procedural justice'.

What does this imply in practice? In the past twenty years, many public corporations abstained from the formulation of any sophisticated mission statement. Being first or second in a market, or maximization of profits- or shareholder value, were considered sufficiently concrete goals to frame the future of the company. As soon as the crisis hit the world economy, it turned out that companies without a mission had less resilience, were less able to motivate their employees and adjust to the crisis than companies that had a vision. In most instances, the vision was related to an idea of the societal value of the company, which strongly relates to the topic of sustainability. Even Jack Welch, manager of the 21st century and former CEO of General Electric recognizes that shareholder value is a means towards an (in the case of GE unspecified) goal; maximizing profits is a 'dumb idea'. Nowadays, GE is actively searching for inspiration, which it calls 'ecomagination' explicitly aimed at solving the world's toughest problems. A trend can be observed with other leading companies in this respect. They come up with motto's and plans that can all be considered steps towards an active reframing of issues in which they want to take the lead. Nestle for instance adopted a 'creating shared values' strategy, in which the company involves stakeholders in the creation of new food systems. Shell formulates its corporate story as a search for supplying energy to help support economic growth and development. Toyota aims at 'zero emissions', which helps the company to align with a large community around the world that shares this ambition. There is even a movement 'beyond zero' emissions, which thus stimulates companies like Toyota to move beyond their original aims.

The fact that corporations try to build stories on the basis of their own competencies should not be a reason for criticism. Whether they actually provide a *sophisticated* approach to the problems addressed, however, can be point of discussion. If framed pro-actively, companies will try to include critical stakeholders in a strategic dialogue. Consequently, the motto chosen asks from the stakeholders takes the step from (1) 'trust me' (narrow fiduciary duty approach, which is likely to be violated from time to time for various reasons), via (2) 'show me" (in case of alleged or actual power abuse), and (3) 'join me' (when corporate leaders search for other actors that share their vision), to (4) 'involve me' (which is aimed at power sharing arrangements in order to solve societal issues). The more companies move into the fourth frame, the more we can speak about a sophisticated corporate story. More and more these stories and missions are developed in collaboration with groups in society. Corporate stories become collective stories.

5. Human Rights: making the transition from rights to responsibilities

How to balance corporate Rights and Responsibilities, deal with the potential of abuse and use of power of corporations, is arguably most relevant for the issue of human rights. Theoretically, governments are held primary responsible for the protection of human rights. Consequently, international human rights regulations were aimed at protecting individuals from state abuse of human rights (Mena et al., 2009). With the proliferation of globalisation, in particular multinational companies are increasingly (visibly) getting involved in direct or indirect violations of human rights.

Firms – or economic non-state actors as they are referred to – are an increasing topic of political and legal discourse: 'the tussle over the human rights responsibilities of economic non-state actors marks out one of the most important and dynamic frontiers in international human rights law today" (Kinley, 2009: 13). The four dimensions of corporate power, as identified in section 3, have all relevance for the issue of human rights. Firstly, the position power of firms is linked to almost all basic questions of human rights violations in global value chains. The question in this respect is related to what John Ruggie, the special UN representative on human rights and transnational corporations, has identified as the 'sphere of influence' of a corporation, but also concluded that this concept was unfit to determine the degree of corporate responsibility. Secondly, the ownership power of firms is linked to the issue of property rights. Companies that primarily focus on property rights, tend to adopt an inactive CSR approach. Thirdly, the size and hierarchy power of firms is linked to civil and political rights, but also to economic rights such as the rights to work (as contained in the 1998 ILO core conventions). Finally, the framing power of corporations, finally, has amongst others an impact on the freedom of speech. Human rights' abuses by corporations have proven to be manifold and multi-dimensional. Based on a review of more than 300 (alleged) human rights abuses by corporations Ruggie (2008:52) concluded that 'there are few if any internationally recognised rights business cannot impact – or be perceived to impact – in some manner". According to Kinley (2010:148), however, the most prevalent interrelated rights affected by corporations are: labor rights, health related rights, free speech rights, right to fair trial and to an effective remedy, physical security; rights to land, housing and living standards; and the rights of indigenous peoples.

There is no global system in place to hold companies liable for human rights abuses. For instance the OECD included general human rights provisions in its revised text of the OECD Guidelines on Multinational Enterprises, in 2000. In practice, however, the National Contact Points (NCPs) that were initiated to channel complaints by NGOs, proved poorly equipped and weakly mandated to actually deal with the issue, notwithstanding the fact that a majority of the cases brought to the NCPs related to human rights (Somo, 2010). The International Commission of Jurists (ICJ) formulated the problem as follows in 2008: whereas the private sector increasingly accepts its social and moral responsibilities", sustained work over a longer period of time is needed to establish effective mechanisms of accountability" in order to come to a further elaboration of the scope and content of business responsibilities in the immediate agenda. Amnesty International refers to this void as the 'accountability gap'.

The most elaborate effort under way, to fill the international regulatory void on corporate power and human rights, was presented by John Ruggie. In 2009 he presented the 'protect, respect and remedy' policy framework which was unanimously welcomed by the Human Rights Council. Ruggie's framework rests on three pillars: 'the state duty to protect against human rights abuses by third parties, including business, through appropriate policies, regulation, and adjudication; the corporate responsibility to respect human rights, which means to act with due diligence to avoid infringing on the rights of others; and greater access by victims to effective remedy, judicial and non-judicial'. The way in which he implemented his mandate created momentum for the issue of business' responsibility to respect human rights. As Ruggie advised the Human Rights Council: 'there is no single silver bullet solution to the institutional misalignments in the business and human rights domain. Instead, all social actors – states, businesses, and civil society – must learn to do many things differently'. Ruggie has taken steps to operationalize the 'protect, respect and remedy' framework. His final conclusions will be publicized mid-2011. In terms of the analytical framework of this position paper, the Ruggie framework can help firms to move from a reactive (remedy) to a more active (protect) approach. But there it stops. There are no elaborations of a more proactive, approach for example with regard to risk mitigation; strategic concepts for companies to address human rights and other international standards in a systematic way; informing local communities and involving them in decision-making procedures; and company grievance mechanisms. The search for a more (pro)active approach towards business and human rights, represents the search for a new business model.

5.1 In search of proactive business models

Mena and De Leede (2009) have delineated the strategic orientation of such a business model. First, they acknowledge that human rights abuses – in particular of western multinationals – are 'rarely driven by the intention to do harm. The abuses often results from a lack of moral imagination, expertise, and geopolitical knowledge, as well as from the conviction that human rights protection is the responsibility of governments rather than business."(ibid: 3). They state that the 'due diligence' standard as developed by Ruggie and others is 'insufficient to uphold human rights on a global scale. Our complex society requires that companies play a more active role."(ibid) The direction they propose, in going beyond the strictly legal realm, is by stressing the role of empowerment. There is a need for innovative combinations of legal, economic, and social empowerment in order to make universal human rights conventions and declarations concrete. "By empowering people, corporations may also gain legitimacy and increase their accountability towards stakeholders." The resulting stability in particular in weaker (fragile) states and towards weaker groups in society (the bottom of the pyramid) can enhance stability through emancipation. By 'focusing on the empowerment of relevant stakeholders, such as women or workers, MNEs may play an active role in closing the human rights vacuum between communities and governments."(ibid:4). This potentially represents a naïve position in the debate on corporate powers and human rights, which will not take away the cynics who – rightfully – point at the many instances of corporate power abuse and the related legitimacy problems. So there is need for a further elaboration of the empowerment approach beyond mere idealism. This can be found in pro-active techniques such as stakeholder dialogues and constructive engagement. The authors describe this as an innovative 'co-creation strategy', for which there is increasing interest in mainstream business literature as well.

After studying a number of cases of empowerment on the issue of child labor (e.g. the partnership of IKEA, UNICEF and local government of Utar Pradesh in India), Mena and De Leede come to a number of 'do's' and 'don'ts' for corporations:

- Accept responsibility for human rights abuses (be transparent in your power exertion)
- Be pro-active: mainstream human rights in your internal business strategy
- Empower local communities as a competent counterpart (create countervailing powers)
- Continue dialogue with all relevant stakeholders (not just a selection of them)

Recently, Schouten (2010) has tried to operationalise this from the perspective of one multinational enterprise (Shell). She calls this 'embedding' human rights. She comes to the conclusion that a multinational enterprises that would like to address the manifold dilemmas associated with human rights, need to strike a delicate balance between the footloose nature of a multinationals and local footprint of a company in communities. Linking business and human rights in her approach is a way to re-embed business into the existing social relations. The business case for a pro-active approach towards human rights makes the human rights strategy part of a sophisticated International Human Resources strategy. The first challenge is to operationalise this within the firm itself. For MNCs this implies taking into account a large number of internal dilemmas and control questions related to the spread of activities over fragile states. The second challenge is to involve external stakeholders, including suppliers and distributors (in the value chain), but also governments, local communities and the like. These transition processes are full of dilemmas and require internal and external ‘alignment’ of stakeholders. There is not much knowledge on how to actually manage these transition processes with MNCs. One dimension that has been introduced to operationalise the process has been the concept of ‘distance’ (Schouten following Van Tulder, 2010). Firms operating in different human rights regimes, have to overcome a variety of distances as part of their business model. The development of proactive business models should enable firms and societal actors to move beyond the present stage of prevention and sanctioning of abuse (human rights and responsibilities for firms) into one of sustainable development (human rights as investment opportunity).

The growing need for a more active approach has also been acknowledge by ten leading Dutch Multinationals, all member of the Global Compact Network Netherlands (GCNL, 2010). They present a guidance tool for companies on how to do business with respect for human rights, and explicitly frame this as an effort to move ‘from reactive to proactive’. In applying the basic definitions of reactive / proactive of this paper, however, the statement is not completely correct. The effort as proposed by GCNN remains solidly linked to the due diligence process of Ruggie and focuses primarily on making an assessment of the risks to human rights, whilst trying to mitigate the risks. Risk mapping, impact and compliance assessments are the prime techniques proposed in the guide book. This remains re-active or at best active. This is illustrated by the notion that in case corporate stakeholder / community relations are discussed it is primarily as being involved in ‘consultation’ with neighbors, communities, etc. On all accounts, this largely represents a (re-)active approach towards human rights.

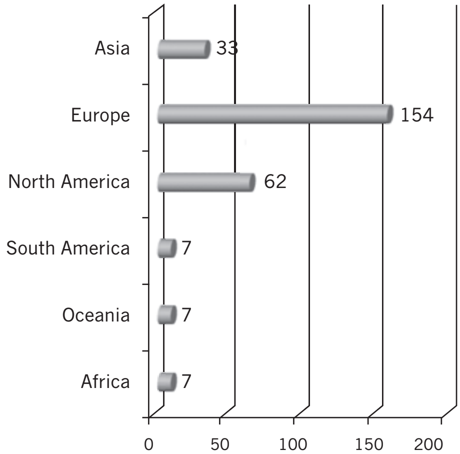
Notwithstanding its laudable ambition, it can therefore be doubted whether this will help companies move towards a more proactive business model on human rights as identified earlier. A pro-active approach would require strategic stakeholder dialogue and community involvement. More research is needed to further operationalize these empowerment strategies in practice as well as in theory.

5.2 Effective codification

One area for the further operationalization of an active human rights approach is in codification.
In 2000 the United Nations issued the Global Compact initiative that also includes adherence to international human rights principles. The UN Global Compact has become the worlds largest “corporate citizenship and sustainability initiative” (website). Since its official launch it has attracted almost 8000 participants, including over 5300 businesses in 130 countries around the world (website visited in October 2010). The attractiveness of the initiative, however, has also been that support of the compact is voluntary and self-monitored. There is no guarantee that participants really abide to the general principles, which has made the Global Compact prone to adverse selection effects. On the concrete issue of human rights, therefore, other studies have been issued to check for companies that actually have made a separate commitment to human rights (for instance within a company code of conduct or as a stand-alone human rights policy). The first initiative in this respect was taken by Shell. In 1998, the company was the first to explicitly support the UN Declaration of Human Rights from 1948. The group of explicit supporters of the UN Declaration is much smaller and unevenly distributed (Figure 2). Around 270 companies have made a more concrete commitment, with around 1/5 (21%)

from North America (USA and Canada), 11% from Japan (with only one other Asian representative) and 7% from major developing countries like India and Brazil. The majority of active companies (56%) is headquartered in Europe.

Figure 2 Number of companies by region



Source: based on Business & Human Rights Resource Centre

The relative weak power of the UN Declaration – primarily elaborated in around 80 treaties, standards and guidelines aimed at states – can further be illustrated by the growing number of industry specific schemes and labels. They help active companies to create a level playing field in which human rights abuses and related issues are dealt with. Examples include the Kimberley process (blood diamonds), the Extractive Industries Transparency Initiative (EITI). There remains considerable need for international coordination and standardization of codes. In practice also very interesting differences can be noted on the way individual companies deal with human rights issues. Consider for instance the difference between Unilever and Heineken in their approach towards the 'right to organize' (i.e. allow for trade unions). Unilever's codes reads as follows (italics added): "We *recognise* the right of employees to freedom of association. National laws differ in the many jurisdictions where we operate. In Europe, for example, home to around a quarter of our employees, our regional size requires us to have a European Works Council." This is a relatively reactive approach. Heineken, on the other, formulated a more active approach in its corporate code (italics added): "Heineken *promotes* representation of employees by works councils and trade unions. Heineken guarantees the freedom of labour to organise and gives employees the right to be recognised via trade unions as partners in negotiations on terms of employment. The extent to which employees exercise that right varies significantly from region to region, reflecting local circumstances, traditions and cultures." Both companies have comparable degrees of labor union organization within their company (around 1/3), so external influences can be considered more or less the same. The difference of approach can largely be attributed to the business models chosen (and related to that the intrinsic motivations of managers probably). In the case of Unilever: unit branding, multi-domestic, decentralised; in the case of Heineken: corporate branding, global, centralised.

5.3 Meaningful Reporting

Individual companies have increasingly started to report on human rights in order to address the accountability gap. The current Human Rights Performance Indicators in the GRI G3 Guidelines require organisations to report on the extent to which human rights are considered in investment and supplier / contractor selection practices. Additionally, the Indicators cover employee and security forces training on human rights as well as non-discrimination, freedom of association, child labor, indigenous rights, and forced and compulsory labor. The Global Reporting Initiative and the Roberts Environmental Center (a research institute at Claremont McKenna College) conducted a survey of corporate human rights reporting based on information published by 100 large companies from around the world.[10] The survey focused on evaluating the extent to which performance information is reported by companies to describe their compliance with widely accepted human rights objectives. In particular, compliance with the GRI G3 Sustainability Reporting Guidelines on human rights was assessed. In addition, information was compiled on the range of topics dealt with as human rights, the kinds of information reported, and the organizational structure of reporting. Most often human rights topics were included in the social section of sustainability reports, but they were not necessarily identified as human rights. The most frequently addressed topics had to do with labor practices which were often presented in report sections about labor without identifying them as human rights. Almost all topics identified by companies as human rights are covered in the G3 Guidelines, but not necessarily under the category called human rights. When the nine topics addressed by the G3 human rights indicators were searched for in company reports, four were not mentioned at all by half or more of the surveyed companies.

The four labor related topics were the most frequently reported, with screening of the supply chain for human rights compliance also addressed by more than half of the samples. When strict compliance with quantitative G3 Human Rights Performance Indicators was examined, fully conforming reporting was found in only 7% of possible cases for companies who declared use of G3 Guidelines and 2% for other companies. An index showing depth of reporting was devised to measure reporting of policy, actions, and performance. Only 13 companies scored at or above the median of possible scores, and it was common for policy or action information to be reported rather than performance. In an examination of performance reporting alone, it was found that quantitative information about performance was provided in 9% of possible cases, which was slightly over half of the time that any performance information was reported. G3 declared companies reported human rights performance information quantitatively in only 13% of possible cases, but this was roughly three times as often as other companies. So, the survey showed that labor practices are the most widely reported human rights topics but they are often not identified by reporters as human rights. An explanation for this is because companies still consider human rights as to sensitive politically. Even with labor practices counted, very little company reporting about human rights provides quantitative performance information. Although strict adherence to G3 Human Rights Performance Indicators is very low, G3 declared companies report quantitative performance information more often than other companies.

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10) "Reporting on Human Rights": http://www.globalreporting.org/NR/rdonlyres/13865428-9EAC-4EB0-A8E3-A31AA2F5C38C/3469/-HRReportFinal.pdf

A 2009 analysis (Umlas, 2009),[11] based on a review of 57 sustainability reports from companies representing a range of industry sectors identified examples of encouraging trends in human rights reporting, as well as indications of key areas where there is room for improvement. Among the reports reviewed, a small number presented strong overall coverage of human rights relevant issues, while a larger number of reports presented interesting or innovative, but generally isolated, examples of human rights reporting on very specific issues. The review concluded that the quality of human rights reporting in 2009, in general, still falls far short when measured in relation to certain key principles and elements of good human rights reporting, including those defined by the Global Reporting Initiative's *G3 Guidelines*. Areas in which the review found noteworthy examples of human rights reporting included stakeholder inclusion, reporting on the implementation of human rights-related policies and processes, and reporting on potential positive impacts on human rights. It found continued challenges in areas such as reporting more generally on potential negative impact on human rights, balanced reporting (presentation of both positive and negative aspects of an issue), completeness of reports, selection of the most relevant issues for inclusion in reports and placing information on performance in the wider sustainability context. Corporate liabilities probably create the greatest barrier for more transparency in these areas.

5.4 Being a good corporate citizen: towards a license to operate.

Corporations that take a more active approach towards CSR have already been using the concept of 'corporate citizenship' since the end of the 1990s. Many companies have started to issue 'corporate citizenship' reports, instead of CSR reports. In practice corporate citizenship is treated with considerable criticism, by NGOs, but also by academics, not in the least because it mixes up corporate and a civil identity, which confuses in particular the debate on how to attribute responsibilities (cf. Van Tulder with van der Zwart, 2006). The discursive power of NGOs has proven particularly strong with sectors that are polluting or with multinational firms that operate in fragile environments. For these firms the move towards a more active / proactive strategy is surrounded with the greatest dilemmas and tensions. Extractive industries, for instance, are always players in geo-political games which makes the formulation of a sustainable corporate story – in which all dilemmas and trade-offs are taken into account – very complex. Imagine a move from 'hard power' to 'soft power' exertion for big oil companies; would that be possible? NGOs and communities in any case remain skeptical, not in the least because of the immense power allotted to these firms. Legitimacy is difficult to gain as well in case of serious power battles between firms and communities, between these communities and their national governments, and between firms themselves. Nowadays, a number of companies in the extractive industriesare trying to frame their ambition as obtaining a 'license to operate'. Witness for instance the following statements:

> *"[..] Developing trusting relationships with our host communities and helping address their needs is an important component of our license to operate and, ultimately, our business success." (Chevron, 2007)*
>
> *"The concept of License to Operate is fundamental to BHP Billiton's long term success." (BHP, 2007)*

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11) "Corporate Human Rights Reporting: An Analysis of current trends: http://www.globalreporting.org/NR/rdonlyres/4C5DB4C6-5084-4A84-BE51-0D134B3B5A2E/3605/Human_Rights_analysis_trends.pdf

“ChevronTexaco shareholders ask to take into account not just the social merits of their resolution but also the high financial risks of the company's current strategy and the damage to ChevronTexaco's brand and social license to operate in developing countries.” (ChevronTexaco, 2005 in Equatorian controversy)

“It helps us establish a license to operate and is the principle on which our profitability as an enterprise is ultimately built." (BP, 2010, which the company noted might rapidly get lost in the US due to the way they treated the 2010 oil spill in the Mexican gulf)

The elaboration of the LtO concept, let alone an assessment of its consequences for local community development, remains ambiguous. In practice the LtO is elaborated re-actively as a response to often violent protests (Kraemer, forthcoming). Nevertheless, practitioners seem to attach increasing value to it as a means to obtain local legitimacy, whilst local communities embrace the concept also as an argument in obtaining a better bargaining position in their negotiations with host investor. European extractive companies seem to be the furthest in linking the LtO concept to a search for a positive duty approach in which long term (local) legitimacy and sustainability play an important role. Royal Dutch Shell is perhaps the most advanced example of this approach. The company has a separate ‘license to operate’ webpage, which contains the leading quote that ‘most companies recognize the far-reaching effects that health, safety and environmental issues can have on their business. Like us, they believe that long-term competitive success depends on being trusted to meet the expectations of society as well as those of shareholders and stakeholders “The LtO at the same time is also an integral part of Shell’s ‘sustainable development’ strategy. For American companies the LtO is related to a negative duty or “do not harm’ approach. The License to operate concept for large Chinese Extractive companies – for example CNOOC – has been primarily elaborated in its literal meaning, referring to the “license to operate an oil field abroad” (CNOOC, 2010).

6 Conclusion: hurdling through

This paper has provided an analytical framework to understand the most important dimensions of corporate power, in order to understand the barriers and triggers for progress towards more sustainable CSR strategies. The biggest hurdle is presented by the transition towards a more active use of corporate power. The analysis shows that some companies are in the process of taking this hurdle. Small companies can initiate change, but big corporations ultimately define the speed and nature of the transition by using their soft powers to further the CSR business case. Framing proofs important, but not well developed yet. Positioning power is an important precondition for becoming more active. For instance in supply chains, private labels and trademarks can be used to ‘push’ the CSR case, thereby presenting a choice architecture to consumers that can help them make more sustainable choices. Power battles, however, also result in competing standards, insufficient or even misleading communication which could reinforce the tendency towards a re-active CSR strategy of most actors involved. Some leader companies (both MNEs and SMEs) have taken important steps towards a more active stance, but a large number of firms are still trailing behind and it still unclear whether this stance can be sustained. The discourse is still primarily aimed at containing the hard (negative) powers of corporations, rather than how to release / unleash the soft (positive) powers of corporations. New roles for governments and civil society organizations – beyond the negative duty approach – are probably needed to advance in this process. More transparency and coordination in standards is needed. In case this is

Figure 3 **From Countervailing to Collaborative power: where are we now (Netherlands)**

Use of power base	**INACTIVE**		**ACTIVE**	
Stakeholder approach		**REACTIVE**		**PRO-ACTIVE**
CSR approach	Corporate self Responsibility	Corporate Social Responsiveness	Corporate Social Responsibility	Corporate Societal/sust. responsibility
Power approach	Power base approach: money, size, hierarchy, position	Countervailing power: codes, standards, indices, regulation, due diligence	Power of initiative: framing, knowledge	Collaborative / discursive power: stake-holder dialogue, partnering
Hard/soft	'Hard Power'		'Soft Power'	
Orientation	Pragmatic	Realist	Idealist	Pragmatic Idealist
1. Ownership	Individual property rights	Transparency; minimum whistleblowers proceduresBroad	fiduciary duty; license to operate; accountability	Corporate citizenship; co-ownership
2. Size	Size = Power; strict IPR protection	Size related to core competencies; de-jure standards; strong action against counterfeit	Size = focal = responsibility; de-facto standards; SME entry strategy	Shared size; joint (open) standards
	SCALE		**SCOPE**	
3. Position	Horizontal and vertical power	Pre-competitive collaboration	First mover advantages; intra-sectoral partnering	Cross sector partnering
Codes / standards	Minimum standards	Responsive standards	Visionary code	Joint standards
4. Information / Framing	CSR is not chosen as topic for framing	Explanatory; Public Relations oriented; cause-related marketing	Public Affairs; broad cause-related marketing	Strategic stakeholder dialogue; co-development; strategic issue advertisement
Choice architecture	Libertarian/ liberal	Liberal/defensive	Paternalism / conservative	Libertarian paternalism
Motto	"Trust me" / "inform me"	"Show me" / "proof it to me"	"Join me" / "inspire me"	"Involve me"
Freedom approach	Free from /of		Free to	
GRI standard adoption (in G3)	None/C+; S07: no	B/B+/A; S07: yes; plus self monitoring)	A+; S07:yes; plus 3rd party monitoring	G4; SO7:yes, plus additional measures & external monitoring
Sustainable corporate story?	"do things right" (efficiency); profit oriented	"don't do it wrong"; Limit negative effects	"Do the right things" (equity);	"do the right things right"(effectiveness)
5. Human Rights / Ruggie approach	Respect	Remedy; do no harm	Protect; corporate citizenship	Empowerment

not provided by governments, leading firms should seriously consider creating the preconditions themselves. The only way to establish these is by adopting a pro-active CSR strategy which involves the inclusion of as many important stakeholders as possible. This is the only way with which powerful corporations can earn legitimacy and thus safeguard a sustainable position for themselves in society. Figure 3 lists the characteristics for such a strategy and gives an impression of how far some have progressed in the Netherlands. In some areas, barriers towards more active / soft power has been taken, but not wholeheartedly and certainly not undisputed.

Epilogue: the power of partnering as ultimate hurdle
Back to the original metaphor: big corporations and Spiderman. The struggle of Spiderman with his powers and responsibilities is particularly nasty because he wants to do it all alone. What would have happened if Spiderman would have tried to stop acting on his own? For instance, consider if Spiderman would have engaged the local police force and other authorities in a strategic stakeholder dialogue in order to prevent crime from appearing in the first place. Maybe an effort in empowering local citizens would be more effective, because it would create novel solutions to many of the problems he thinks he has to solve alone. The same applies to companies. The most active companies in the world see that it is not enough to exert their powers 'for good' in isolation. The transition towards a more sustainable society requires alliances with other firms, but more importantly with stakeholders from other societal spheres. This is also known as cross-sector partnerships. Making these partnerships work forms the next hurdle towards a sustainable society. This requires a large number of novel business models, labels, information systems, choice architecture. But most importantly, this requires a new way of managing with power – collaborative power – in which NGOs and governments should be involved as well. Consequently, Figure 2 remains relatively blank in the pro-active CSR column. There remains a 'world to be gained'.

A Research Agenda

Companies: managing with power for good

- Are the strategies of big corporations a necessary and/or sufficient condition for progress in sustainability? Or: Can sustainability be achieved without strong backing of powerful companies?
- How can labeling initiatives be kept outside the power battles over chain / market control?
- What portfolio of partnerships should powerful companies strike with NGOs and governments
- Can Multinational corporations have a different stakeholder relationship in their home as compared to host environment? Does stakeholder distance play a role?
- How can corporate stories become more 'sustainable'?
- Is the 'license to operate' a good concept to gain legitimacy for corporations?
- Is there a business case for human rights?

Governments: channeling power for good

- What role should governments plays in channeling power battles for sustainability?
- Can labeling initiatives be coordinated by governments
- To what extent can competition policy be used as an instrument for sustainability?
- Can international conventions and standards be reshaped to make them a more effective tool for sustainability?
- What should the partnership portfolio of governments look like in order to enhance sustainability; can governments pick out 'key players' to trigger change?

NGOs: sharing and countervailing power for good

- Can NGOs move their attention from governments to companies as the most powerful actors in society?
- How can NGOs, together or alone, move companies to adopt (proper) human rights standards / practices?
- How can partnerships best take shape?
- What should the partnership portfolio of NGOs look like?
- Should one NGO focus on many companies / industry or target one particular front runner company?
- If one company adopts standards do others follow?
- Under what conditions should non-profit labeling initiatives make themselves redundant?

Science: understanding power for good

- Can/should science remain independent from powerful business interests?
- What are the most important dimensions of corporate power that business schools need to address?
- Can business schools / science be organized without power, and if no: how can power be distributed evenly and productively?
- Can a 'publish or perish' organisation of science contribute to the production of societally relevant knowledge?
- Can science help in effective transition processes towards a sustainable society? What issues should be addressed first?

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THE POWER OF MANAGEMENT SCIENCES

George Yip, Professor and dean of Rotterdam School of Management, Erasmus University

Let me start by saying that management science is in a unique position among other academic subjects. Why is that? Because we are the one subject where we have the problem of being separate from the subject that we study. We study managers and companies, and we are outside. Let us make some comparisons. First of all, compared with physics or engineering that is very obvious. An academic who is studying physics or engineering is looking at one set of phenomena; there are no other physicists out there who are practising physicists who are different from the ones in the universities. The engineering academics who are studying the structural factors of bridges are looking at the same physical phenomena as the engineers who are out there building the bridges, and in fact the academic engineer can walk on to the bridge and talk on the same terms as the engineer who is building the bridge. If we get a bit closer to our subject, say to lawyers, what is the difference with lawyers? Well, the law is embodied in books, regulations, statutes, the reports of trials, so that the legal cases that academic lawyers study are really the same as are argued in the court room, and indeed some academic lawyers do go into the court room themselves. What about economics? Well, economics is studying the economy, but there is no other body they have to relate to; the other people they relate to are economists. We are in the unique position that we have the other group – companies and managers – who we are studying from the outside. So that is both good and bad from our point of view as management scientists. It is good in the sense that we create some sort of independence; we have the practitioners on the one side, and then we have the academics, outside, studying them, and perhaps to some extent keeping them honest. Or, giving them good advice from the outside; so we have these two. What is bad, from our point of view, is that it is then hard for us to stay relevant. Because we are not running companies, we are not in the boardrooms, we are not in there with the managers. It is too easy for us to focus on our own academic peers as the audience; so we have the unique problem of the two audiences – which is the unique challenge for management schools, as Rob pointed out. This means that we have to engage harder, particularly when it comes to corporate social responsibility and sustainability, because these are topics themselves which are a sort of four-way engagement I would say of companies, governments, NGOs and academia. So those of you in sustainable CSR also know the problem of engagement because you are trying to get companies to change their behaviour, and you are again acting on them from the outside.

What is the potential contribution of business schools in the whole issue of sustainability and corporate social responsibility? Well, it comes from the increasingly recognised fact that companies have the most power to achieve not just business but non-business objectives. Rob identified over one hundred types of power in companies. Why do I say this? Because where else, except in companies, is there such a concentration of money, talent and systems? I truly believe that the modern corporation is the most effective organizational form ever created by humanity. That is a pretty broad assertion. Other people might say, well, how about the Catholic church? How about the army of Alexander the Great? My view is that those are, of course, extremely effective, efficient organizations, but they have a relatively narrow mission. Corporations have very broad missions, and have to do all kinds of different things, and are indeed much more flexible. By the way, if you don't mind me pursuing this analogy with the Catholic church a little – since I was brought up as a Catholic – sometimes the Catholic church is held up as an example of an organization. Why do you need more than three levels of organization? After all the Catholic church is highly effective with only three levels of organization. Well, if you use business terminology, the reason why the Catholic church only needs three levels of organization is that their business model is distributed service delivery. The delivery node is the single priest who has been trained to operate on his own – I cannot, yet, say "his or her" own. Indeed, if you think about it, a priest can operate quite successfully in a community, say in Africa, completely cut off from the rest of the world. A manager cannot do that. A manager in a modern corporation is operating in a network, typically a global network, of communication. It is just a different kind of function. By the way, this is the kind of thing we teach in our school here; the notion of contingency, organizational design. It depends on the mission and the kinds of things you are trying to do.

Powerful companies needed?

When we are looking at sustainability let us not ignore, or overly criticize, companies that seek to harness their power. We are already starting to see this, say, in the companies that are working at the bottom of the pyramid: developing products to serve the poorest people in the world. One of the best examples I have come across is the flashlight that is hand-cranked without needing battery power; or actually I think the best new example is the water filter that requires no electricity. It is really transforming the ability to have safe water in many places.

Now, what do we have to think about in terms of the power that businesses have? Because let me be the first to say that not all companies have good intentions. Indeed, some do seek to exploit customers, employees and environments. But I would also like to stress that those with bad intentions tend not to be large Western multinational companies. Unfortunately sometimes it is the suppliers to the large Western multinational companies who may have the bad intentions, who exploit their employees, or exploit animals and so on. But of course large Western multinationals get the most attention because they are prominent and because they are the most powerful, and indeed they are the most susceptible to pressure from NGOs and the media. That is the intention issue. But even with good intentions at the top, many companies do bad things. Because companies are so good at motivating their employees, they can also motivate them to do the wrong things; to skimp on safety so that you end up with an oil spill. Now, of course, BP did not say to the employees “we want you to skimp on safety”, what they might have said was that they wanted them to maximise profits in the period in question, and not spend too much on maintenance, etc.

Lending money for mortgages where there is little chance of repayment – why did that happen? Of course the people at the top of the company did not say “we want you to lend mortgages which nobody can repay”, but they made the mistake of putting in incentive systems that rewarded the bank managers for the volume of loans they originated, and not for the end result five or ten years down the road.

Companies do need to be regulated and they do need to be under pressure from NGOs, but the issue is to achieve the right balance. For NGOs in particular this means engaging with companies and not demonising them. There is, of course, a temptation for NGOs to exercise their power, which is often the power of the protest and the power of media and also launching social media campaigns. Just last week I was reading about an American company that Greenpeace launched a campaign against, on the basis that this company’s suppliers were exploiting pigs that gave the leather that went into some of their clothes, rather than actually looking at the processes the company already had in place for the safe and ethical treatment of the animals. Engage with them and do not just overuse your own power. Then there is the very interesting research issue of whether stakeholders such as NGOs should have a role in corporate governance. Here it is interesting to contrast the Anglo-American system and the continental European system. One of the difficulties in the Anglo-American system, where the shareholder is supposed to be paramount, is actually the issue of fiduciary duty. If you put an NGO on the board in an Anglo-American style system they may have a fiduciary duty to maximise the interests of the shareholders, and could even be sued if they are doing things that are not directly promoting the interests of shareholders. Perhaps it is better for an NGO to be on an advisory board instead, but this is a very interesting and fruitful area of research that Rob and his colleagues are looking at. The jury is definitely out on this issue.

Knowledge without power?

Another question that Rob van Tulder raised in his paper, rather cheekily I thought, was whether business schools themselves can be organized without power, and if not, how power can be distributed evenly and productively. I am a bit biased, as a Dean, because my view is that without formal power academia will be taken over by the tyranny of demagogues, the Robespierres of academia – for the youngsters among you, perhaps, Robespierre was the French revolutionary who started the terror, and believe me some professors are incipient Robespierres. I do believe in a system of countervailing power. When I arrived at RSM I found that we have very powerful department Chairs, almost in the German model, really controlling the departments. I use the Dean’s office to offset that and to make life fairer for individual faculty members, so I have actually dealt with this power issue myself. Then another question Rob raised for me was – can a publish or perish organization of science contribute to the production of societally relevant knowledge? Again, this is a particularly difficult issue for management science, but the peer review process means that we do run the danger of losing touch with our subjects of study: companies and society. Again, the solution is more engagement and support from companies and NGOs, with strings attached. With strings attached? Yes, this is heresy for a Dean to say this, but I want financial supporters from business and NGOs to attach strings to the research centres that they sponsor, because strings that tie us back to the subjects of interest to the sponsors keep us more relevant, and that is the model I have adopted at RSM for those who have been generous enough to sponsor our research.

Such an approach does not violate academic freedom. Academic freedom does not mean that a professor can do research on whatever he, or she, likes. For example, at RSM, a faculty member cannot conduct research on Chinese calligraphy unless there is a very good link to management – which I cannot imagine. Academic freedom does mean that the faculty member can teach or publish any conclusion of their research, even if it is detrimental to the interests of the sponsor. People are often confused about this issue of academic freedom; it is an important point. It is not the freedom to do what you like, such as study the beach at Copacabana, even though you are a professor of management.

In closing, I think that RSM is a school that very much believes in contributing to the future of our world. Indeed, so much so that we have adopted the slogan “the business school that thinks and lives in the future”.

THE CORPORATE PERSPECTIVE FROM NICHE TO MAINSTREAM

Sjaak de Korte, Director PLUS Supermarkets

To briefly summarize the key characteristics of PLUS retail organizations and cooperations: 270 businesses work with the PLUS formula, have a turnover of 1.9 billion Euros, 6 per cent market share, and are a member of the Superunie purchasing organization. What is the PLUS strategy? We are trying to forge a new way ahead in the Netherlands, we do not simply want to follow the price wars generated in Zaandam. This is why we have nominated a number of brand values on which we base our formula: attention to the customer, attention to the product, a lot of attention to quality, strong local involvement in local markets and, finally, responsibility. It goes without saying that our prices are competitive, and we stand up for a society in which economic, social and environmental aspects are in balance. We are there primarily for the customer. We have a large assortment of Fairtrade, biological and green products, fish and local and regional produce. But there is more to do to be socially responsible as a business. For example, if we look at the refrigerated cabinets in our shops, these will all be fitted with doors in the next two to three years. We are the first independent organization of businesses to sign an energy covenant with the government. And of course from our own logistical point of view we are paying a lot of attention to the reduction of CO2.

Moving quickly on to the case for Fairtrade at PLUS. In 2009 the total turnover of Fairtrade products amounted to 0.1 per cent of our total turnover – it is not hard to work out, on the basis of a total turnover of 1.9 billion Euros, that this is not very much. This is with 70 products, so you very quickly reach the conclusion that in all groups Fairtrade is ‘niche’. One positive exception that certainly deserves a compliment is Verkade, which, last year, became the first major brand manufacturer to choose to work with 100 per cent Fairtrade chocolate. We asked ourselves: how can we stimulate Fairtrade turnover? We can go from 0.1 per cent to 0.2 per cent, and take 2 to 3 years to do it. Then maybe we can achieve 0.5 per cent in five years’ time. No, we said, we have to do more. In order to bring Fairtrade from niche to mainstream, we have to use our power and make choices for far greater turnover potential on a number of specific products. We were sure that we could do that, but we would need the right partners. And we would no longer be able to position Fairtrade as a product only suitable for the idealistic consumer. Because if we kept focussing on that Fairtrade would never be big. We would, therefore, have to focus much more on the average consumer; the customer who does his or her shopping every day in the supermarket.

Quality, availability and price are all very important, and with Fairtrade these have sometimes proved a problem in the past; the quality has not always been optimal, availability was not always 100 per cent all year round, and even the price could be a barrier. Just suppose, if we could solve these problems and also link in with the PLUS formula and maybe even with our own label products under that same PLUS formula; and suppose we also had the guts to strongly back this with a large-scale introduction to the consumers.

Take the plunge

We made that choice at the beginning of the year, after three months of orientation with a firm in England, a supermarket organization, and we ultimately made the choice to go ahead with bananas. Why bananas? Bananas are actually one of the biggest selling products in our supermarkets. With one product we achieve 0.8 per cent of our turnover. That is already eight times as large as the total Fairtrade turnover. Eight per cent. Just suppose that in one fell swoop we could turn that into Fairtrade, we would increase our total Fairtrade turnover by a factor of 8. But then looking at the situation as it was – why was it so small? The consumer price was 35 per cent higher that year, than the major brand. At that moment we were floundering. The cost price was only 5 per cent higher. In other words, we, as supermarket organizations, were earning far more than on the major brand. But because the turnaround speed was so slow, the quality was very poor. The rotation was too low and in our shops we had 100 per cent distribution of bananas – in other words in all of our shops. But half the shops could not even sell Fairtrade due to the low turnover speed. The proportion of turnover at that point was 97 per cent. for major brand bananas, selling for Euro 1.69 per kg, but for Fairtrade bananas you had to pay Euro 2.29; they were not fresh, and the proportion of turnover was a lowly 3 per cent.

With great power comes great responsibility. That is to say, we chose to take the plunge and go for the case of the bananas, taking the decision out of the consumers' hands. We ditched the brand-name bananas from one day to the next, and you may be wondering whether that was such a good idea. We had the nerve to do this with bananas since we did not feel that our turnover was specifically based on the Dole brand; their bananas were always yellow, but the Fairtrade bananas next to them were always grey or black. If we could supply optimum quality Fairtrade bananas, without raising the price, we felt the customer would not really bother if they were buying a particular brand or not. The Fairtrade premium was actually 0.10 cents. We said we would not pass this cost on to the consumer, and even if we had it would only have meant a price rise of 5 per cent, and as far as we were concerned we would still have gone ahead with the bananas. We tied everything together with an integral consumer campaign. We involved our customers, independent retailers, in our decision so that they would be able to explain on the shop floor why we would no longer be offering consumers a choice, and why we made the decision, on behalf of the consumer, to go 100 per cent Fairtrade. We introduced the system at the beginning of this year, and no longer sell crooked bananas. Initially we sold the bananas at a temporary special offer discount, this was subsequently backed up by TV advertising, strongly backing the choice of 100 per cent Fairtrade bananas.

Results. The choice of 100 per cent Fairtrade bananas resulted in100 per cent distribution of Fairtrade. The increase in turnover amounted to 9 per cent, and I can tell you this was in a falling market for bananas, and the PLUS turnover was not on this level. If only that were true, as far as the total turnover is concerned. In short, the customer did not abandon us, and started buying more bananas from us. Not unimportantly, we gained a lot of publicity, a lot of free publicity, and the customers did not seem to mind that the choice had been made for them. Due to the limited sales of Fairtrade we previously paid $1,200 on a yearly basis; now we pay, willingly I might add, $400,000 on an annual basis. With this decision, we have moreover also become, in one fell swoop, the country's largest seller of Fairtrade. So, on this point, we are bigger than Albert Heijn. And now we are turning our sights on tea, coffee and cocoa, all under the PLUS own brand label, because we believe linking the PLUS own brand label and Fairtrade will also turn these products from niche to mainstream. We will shortly also be introducing 100 per cent Fairtrade pineapples into our PLUS supermarkets. Soon you will also be able to buy 100 per cent Fairtrade tea, with our own brand label.

Concluding

Production must continue to meet the requirements of quality and availability, this is incredibly important. My visits to the banana plantations have convinced me that large and small businesses are very well able to meet these requirements. The price should be acceptable, and the example of the bananas has shown that 5 per cent is definitely acceptable. The formula must be chosen with care, and communication and investment must be continuous. Ultimately the decision is to appeal to the mainstream target group instead of focussing on the niche market. Dare to make the consumer's choice for him. Fairtrade as a brand, in combination with our own label formula, in our point of view, differentiates it from the major brands. But as management you must be committed to the concept and be prepared to go for it. Use your power right across the chain. And, finally, get involved, get to know how the system really works. Among other things, my trip to Colombia with Peter, personally really helped me in this respect. You have had the film, this is the last thing. PLUS is a commercial enterprise which is willing to make decisions, after all we have a business to run – that much will be clear. The responsibility for brand value within Fairtrade is not based on idealism, but on realism. Commerce and Fairtrade for supermarket organizations can go hand in hand, and we ultimately believe in sustainability and the improvement of working conditions, by means of a fair price. As far as we are concerned this is well worth the effort.

THE NON-PROFIT PERSPECTIVE

Rob Cameron, CEO Fairtrade International

Introduction: why I am not here
At the moment of this Max Havelaar lecture, I am in Dubai seeing some people with a view to the possibility of expanding Fairtrade.[12] We are looking to expand Fairtrade in many territories around the world; the Middle East is one. As you look at this, I will be spending my time with one or two of the actors in the Middle East, that could just well help us in that cause. What is really interesting about the Middle East is that they, particularly the Saudis, are starting to look at the whole concept of corporate responsibility. What they are recognising is that they need to look at how they are engaging in the broader corporate responsibility conversation; certainly through the think-tank accountability with which I am associated there has been quite a lot of work done to understand how the corporate responsibility agenda can be looked at in the context of the Middle East and how Middle Eastern companies should respond.

The power of size
How big is the Fairtrade idea?

The idea is huge. The idea starts with a very simple premise – why don't we invest in the developing world so the producers have a chance to fulfil their potential. That is the basic idea we start off with. In terms of size, we now have some 3.4 billion Euros of retail sales, of products sold in about 58 countries, sourced from many countries across the global South. In terms of size, you could certainly say for what began as a niche idea and a niche organization we are now registering on the global scale. But let's be clear. In total terms – in terms of total trade across the world – Fairtrade is still relatively small, and we have a long way to go before we can consider ourselves to have really arrived on the global trade scene to the extent that I believe we are capable of doing.

The ideal thing would be that Fairtrade wouldn't be needed in the first place. But, as we know at the moment, there are many, many people in the developing world that are growing the commodities that we take for granted, that don't have a decent opportunity; actually we are needed and we will be needed for the foreseeable future as far as I can see.

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12) The actual speech of Rob Cameron was pre-recorded as an interview with Rob van Tulder (questions in italics)

The power of ownership

This is one of the great beauties of Fairtrade for me, in that in one sense it is actually quite hard to figure out who does own Fairtrade. My organization, effectively, is an umbrella organization, an association. We have twenty-one national labelling initiatives – such as Max Havelaar in the Netherlands; or the UK Fairtrade Foundation; or Transfair Germany – to name but three. Those are members of our association, so those are the market facing operations; and then we also have three members that represent producers. We have the central Latin American producers, the African Fairtrade Network and the Network of Asian Fairtrade producers. They are co-owners themselves. So, in fact, Fairtrade truly is a social movement that connects consumers, many of whom are members of the national labelling initiatives, and producers who are represented through the three producer networks. They constitute the owners of Fairtrade.

But a social network also involves power battles, debates, discussion, conflicts of interest. How to deal with that? No-one ever said that multi-stakeholder collaboration was easy. It isn't easy. Actually it's really rather hard. But what you need to have are the mechanisms in order to find resolutions, whereby you focus on the things that you are aligned around and then maybe we agree on 80 per cent of things across Fairtrade, and 20 per cent of things are different. But we don't always want to focus too much on the differences. That is what often in multi-stakeholder collaborations and you can see that across many other walks of civil society life. I think what is really interesting for me in Fairtrade, though, is the fact that unlike just about any other organization of its type, this true producer participation, something that I think we could do even more with, but producer participation is the key.

The power of position

You aim at consumers; retailers aim at consumers; big brands round the world – the Unilevers of this world – aim at consumers. Where do you stand on this? And as you know in the position paper it is also explained that there is a considerable battle for the channel and for markets going on between, in particular, retailers and the major brands. Are you not afraid that you will become cannon fodder in that battle?

The way I look at it is that if we want to drive change then we need to work with the levers of change. To my mind, big business constitutes a lever of change. We have done a lot in Fairtrade – and let's not forget we have done a lot in Fairtrade working with what you might call the alternative trade movement; we've seen extraordinary successes in the alternative trade movement. So, if you think about organizations like Divine chocolate, or you think about Cafédirect – these are alternative trade organizations that have actually done really well, with their own mission, and they have done well within the Fairtrade family. But I think that if we really want to make an impact on the world, and if we really want to change consumer behaviour, then we're going to have to work with big brands too. We need to figure out how we do that so that we are influencing their behaviour, listening to what they have to contribute as well, and insuring that we are not co-opted in the process. I think the diversity of Fairtrade's ownership puts up some fairly good mechanisms for insuring that we are not co-opted by business. What is fascinating for me, over the course of Fairtrade's existence, is the way in which the business agenda has changed. Your paper identifies that the business agenda has moved on. I think, for me, it's a really important part of the journey in sustainable development that businesses moved from "well, I'm not sure if we really want to be part of this" – to actually embracing this as part of their own agenda, and seeing the business self-interest of sustainability. That is a really good development, but we want to make sure that that self-interest isn't just becoming a self-interest for the brand exclusively. It has to have broader societal impact, than simply benefiting a business's bottom line.

The Power of Framing

Power battles are not just on the chain but also on the image. So the fifth dimension to be distinguished is the power of framing, of agenda setting. Big companies are very strong there, they can also set an agenda, that is not in your interest, for instance, or not in the sustainability interest. In the paper we look at that and say: what is the story behind that, or the business skills? Could you say something on the story you tell on the Fairtrade initiative, on the solutions you present. And do you have a good story, meaning a sophisticated story where you are able also to identify the dilemmas, the trade-offs that you are facing.

There is a lot wrapped up in that question! Let's see if we can take that apart a little bit. Firstly, in terms of the basic premise, the basic story of Fairtrade: as I said earlier on it has a strong redistributive element, of extracting some value in monetary terms from the developed world and investing it in the South. But that's not the whole story. There's a lot more in the way of what I would call the benefits of Fairtrade from the producer perspective, and I think that is what we have to keep uppermost in mind. It's not just about brands, it's not just about consumers, it is very strongly oriented to benefits to producers and that's something we might want to explore in a little more detail.

Would you call that empowerment?

I think empowerment is a really loaded word. I think the word empowerment is a useful word, I think we all implicitly know what we mean but let's be clear, it is not, in my view, possible to empower somebody else. What we can do is create the conditions in which they can empower themselves. There is nothing empowering about giving empowerment to somebody. In fact you could argue it is a complete impossibility to go and empower somebody else. Logically, it doesn't make sense. What we have to do is create the conditions in which producers empower themselves. Part of how we do that is through things like the minimum price, and the premium. But there are other ways in which we empower producers; for example access to information, organization – these are the sorts of things that can make a real difference to producers; access to markets; access to technical assistance; capital and credit. These are all producer benefits that are part of the framing of our agenda. We provide economic instruments but other benefits to producers that lead to empowerment.

Free trade or Fairtrade?

We have seen over decades, centuries in fact, that free trade does not exist and it is one of the reasons why a market-based mechanism like Fairtrade came into existence in the first place. In terms of agenda setting I think we have done a really good job in Fairtrade of agenda setting. I think though what we need to do now is to continue pushing the debate and pushing the agenda, but what I am interested in is not just agenda setting. I am interested in helping deliver results. I think that the world is moving in that direction too, in terms of its relationship with NGOs. There was a recent survey by Accenture into CEOs of global corporations and their view of sustainability. What is interesting is how many of those CEOs see sustainability as essential to their business, and that would not have happened five or ten years ago. But also where they see NGOs. Where they see NGOs is moving from agenda setters down to delivery partners. I think that is where we have a role to play because what we can do is help businesses put their values into practice and help businesses build sustainable supply chains by investing in those supply chains so that producers are benefiting and have more sustainable livelihoods.

There is a struggle in prioritizing sustainability dimensions: ecological sustainability versus social stability; short-term own welfare (affected by the financial crisis) than the welfare of others. Things like the global financial crisis and climate change present huge struggles. But let's be clear. Firstly, the global financial crisis has disproportionately affected the poor in the developing world. When the crisis began with the original credit crunch access to capital and credit dried up. Now there is capital and credit available for developing world producers, but on pretty poor terms it has to be said, where it is available, and that is causing problems. The financial crisis continues, and will continue; it will continue to cause problems for producers. Now, to talk about climate. Let's be clear, climate is not merely an environmental issue. Climate change is a social issue, it is a health issue, it is an economics issue, it is an issue that affects all aspects of life. In that context, we know that producers in the South are those least likely to have made an impact on climate in the first place, they are disproportionately experiencing the impacts of climate change already. Only yesterday I was speaking to someone just back from a tea producer who sees the desert encroaching upon their tea estates. They are putting in mitigation now to try to arrest those impacts. We need to have things to offer to producers, through our partnerships and through things like the Fairtrade premium so that they can invest in things like water management, irrigation, and in terms of drought-resistant crops, and so on. So that they are better able to respond to climate change, because it is really going to affect them badly, and is already doing so.

Critical questions

There is criticism on the effectiveness of the Fairtrade movement: other labelling intiatives claim to be more productive, but they also have a different business model and a different business case.

I think it is very difficult with the comparative nature of the kind of studies you are talking about. Very often it's a bit like saying it's all fruit, and then you start comparing apples with oranges. It is all ethical certification and labelling, but we are focussing on slightly different things. Making some kind of empirical judgement based on this piece of research or that piece of research – for every piece of research I have seen – that says Fairtrade is this or that – I can find you a piece of research that says: it's better than this or that.

Have you come across any serious research that did a good job in comparing those initiatives?

No, what I would like to focus on more is this. Is Fairtrade making a good impact for the people that are participating in it, rather than saying it is better than this, or better than that.

How would you like to do that? Because that is another type of criticism that you find of the organization. That is you did not do a zero measurement, no sort of idea where you came from and what progress has been made and where you want to get to. Or is that an old criticism?

I don't know if it is an old criticism. I think that firstly you have to look at it in the context of global trade. International trade, or global trade as we presently understand it, has been going on for some 250 years or so. And we have been in existence, as you pointed out earlier on, for thirteen years. As the Chinese would say of Christianity: is it a really major religion? It is too early to tell! I think we sometimes forget the youthfulness of Fairtrade and the problems we are addressing. To go back to what I said earlier on, I am much more interested in developing more empirical research that shows Fairtrade and the progress the producers have made, but I am also interested in the kind of specific examples. Anybody that visits Fairtrade certified producers finds pretty much a similar story: that producers are enjoying substantial and demonstrable benefits from the engagement with Fairtrade – I see it again and again, at every producer I go and visit. Yes, there are criticisms, yes, there are problems, and no, we do not have a perfect system, and yes, we really must engage in a programme of continual improvement. We are not done with the standards and certification, but, anybody who goes and visits Fairtrade certified producers sees the benefit with their own eyes.

South to South trade

Fairtrade is at the moment a North-south activity. But we witness the growing power and importance of Southern economies like India, China, Brazil. Their multinationals are also active in developing countries. Are these countries an interesting target for the Fairtrade movement or will Fairtrade labelling be primarily aimed at 'developed countries'?

I think at the moment the Indian context is really very interesting for a number of reasons. Firstly, there is a growing consumer base in India. Secondly, there are some very, very poor producers in India that are selling their produce in the developed world. We have a lot of room for expansion there. One of the ways in which we can do that is what you might call South to South trade: Indian products sold on Fairtrade terms, in Indian markets. That is going to demand that we look at things very much in a local context; so in the same way as there is a version of Fairtrade that we may need to deploy for the Middle East, similarly we may need to look at it in a different way in India. I think we need to be open to those sorts of differences. Another example of that is what we are doing in South Africa. In South Africa we already have South African products sold on Fairtrade terms to South African consumers. It is going to happen in Kenya any minute now. These are the sorts of developments that I think bring more opportunities for producers, but they are also going to require that we reassess the model of Fairtrade, so that it works well in that local context. Rather than simply saying, well, this is how it works in the Netherlands, so therefore we can transfer it across to India, China, the Middle East or anywhere else.

Power of Science

What would be your shortlist of research questions for Fairtrade?

There are most probably two areas. Firstly, longitudinal research on the impact of Fairtrade. We can't look at what we didn't look at fifteen years ago, but if you start now in five years time we might have some really solid longitudinal research. I think there is a real role for institutions like yours in that kind of area. Secondly, I think you mentioned the word 'framing' earlier on, and I am really interested in the directions in which consumers are framing the sustainability agenda, and in which business is framing the sustainability agenda. We cannot do enough, looking at trends and the directions in which this thing is going in, because I think the wind of change has moved and is in our favour. But that wind of change could prove to be fickle. We need to understand where it is going, both so we can respond to consumer interest and business needs, and also influence the direction in which it is going. I think that institutions like yours are very useful, if I may say, weather forecasters of the direction in which way the wind may be blowing.

Future

When will Fairtrade become a reality?

I do not think we can put a date on it, but I think there is a tipping point in the big products that we work in. If you look in the UK, if you look at bananas, we are moving to a position now where the majority of supermarkets' sales of bananas are Fairtrade. We've seen that happen similarly with other products in other parts of the world. What we need is for the big six products – coffee, tea, cotton, cocoa, bananas, sugar – to be registering above 10 per cent universally on global sales. That is when we are at some kind of tipping point, I think; where Fairtrade starts to become the norm. What we also need to do, I think, is get to a place where we are, if you like, a global trust mark; that people see the mark and they recognise what it stands for, and they are willing to buy because they understand what it is there for. I don't think we can quite say yet that we are that global trust mark. And, to get there, we need to be supported by, if not the world's most effective, one of the world's most effective citizens' movements. That lies behind so much of what Fairtrade does. By citizens I mean consumers, but I also mean producers and indeed I would even include business in that. When will that happen? I would like to think that our work will be done and we don't need to exist any more within my lifetime. I may be an optimist, but I'm not sure I'm that much of an optimist! There is still plenty of work for us to do yet.

THE CIVIL SOCIETY PERSPECTIVE

Joan Karanja, Regional director – Africa, Cooperation for Fair Trade in Africa – COFTA

I would like to address a different kind of Fair Trade. One of the things I noted about Rob Cameron's intervention was that when he mentioned the products that are Fair Trade they were all food products. This is not the only story of Fair Trade and what it has to offer.

Today I have an opportunity to be a campaigner for Fair Trade handicrafts. It is something that you do not hear a lot about, and I think it is something that we need to talk more about. In particular, addressing the potential of Fair Trade handicrafts and their impact on producers and rural communities. There is very limited support right now for Fair Trade handicrafts. It is usually just the producer networks such as COFTA that are struggling to get the products into the markets and struggling to get recognised. And perhaps it is time we started changing Fair Trade a little bit, so that we can expand the products that even supermarkets such as PLUS is showing as Fair Trade. So far at this event we have seen a lot about Fairtrade bananas and coffee – what about handicrafts? I am really excited to share that story and to talk a little bit more about the potential for Fair Trade in other non-food areas.

Firstly, I will speak a little bit about why handicrafts are important including what is the economic power of handicrafts in Africa. A lot of people seem to think that agriculture is what is driving the economies of Africa, but there is another side to that, and I am going to talk a little bit about that. I will also share why handicrafts are particularly important to Africa, and share with you what is the potential?

Then I will go into the Fair Trade model: and how it has started to bring change in terms of handicrafts. How it is making a difference economically. And then I will go into how much more of a change it can it bring to the small-scale producers in Africa. This will include the role of Fair Trade – what is our role? You sitting there, and me in producer networks, Max Havelaar, different certifiers, NGOs, government – what is our role in trying to make that reality happen? In this item, I will share more about the people and the possibilities. A lot of what I will be talking about is going to seem very small scale compared to what you have seen in terms of Max Havelaar bananas, coffee and tea. But I think my role here today is to talk about the possibilities of how we make this a little bit bigger, because it is also an important part of Fair Trade.

The importance of handicrafts

So to begin, I will not assume anything. As a guideline, when I talk about handicrafts I am talking about something that is made by hand or by simple tools, but not with machinery. It is something that is not mass-produced in a manufacturing kind of set up. Handicrafts are also something that really has artistic or cultural influence. This is what I mean when I talk about handicrafts. When it comes into the market perspective, handicrafts is also categorized as what you know as gifts and living and life-style products. This includes as an example candles, glass, fashion and accessories, household décor, textiles and a long list of items you use everyday in your household, and that people buy every day in the supermarket. A lot of these products come from a mass-produced manufacturing set-up, and there is potential to change some of this and enter into niche markets with handicrafts. But in summary, as a definition this is what I mean when I talk about handicrafts.

There are a number of reasons why handicrafts are important. I am going to first start with the economic scope. I have lived in Kenya most of my life, and in my country, as an example, handicrafts are considered part of what is the informal sector in Africa. Because this sector is considered "informal," there is very little support coming to this sector from both governments and from NGOs. A lot of these bodies prefer to provide their support to the agricultural sector and to the industrial and manufacturing sector because this is considered formal.

So the informal sector, where handicrafts fit, is something that has been greatly ignored, yet it has such a large contribution to the economic empowerment of the continent. For example, in sub-Saharan Africa the informal sector contributes between 48 and 72 per cent of the gross national income. It is higher in the countries that have smaller economies or are struggling economically, such as Zimbabwe – which should have about 72 per cent – and much lower in the stronger economies like South Africa, that will have about 48 per cent. So imagine that: 48 to 72 per cent of the gross national income is informal sector, so it should in fact not be ignored.

Second, in terms of employment, it is a fact, particularly in countries in sub-Saharan Africa, that the informal sector is responsible for close to 60 per cent of employment, and about 80 per cent of new job creation – particularly in times of economic hardship. When people cannot get work in the formal sector they always fall back to the informal sector. We find this happens during hard economic times – that is why Zimbabwe has about 72 per cent contribution to GNI – people fall back on the informal sector.

If I can speak specifically about two countries in particular: In Kenya the informal sector, which is known as "jua kali", contributes between 10 and 20 per cent to the economy. In South Africa it is 10 to 12 per cent of the whole economy of the country. This is quite a big contribution, which should in fact mean that a lot of support is needed to the information sector. With this support how much more would it contribute to the economies of developing countries. Currently, there is not really any organization or public office collecting relevant data or statistics regularly to find out how much the informal sector is contributing to our economy, and how it can be enhance. A lot of the information that we get, even from the World Bank, even from the ILO is categorized as estimates, and we not able to give specific information.

Another thing that makes handicrafts very important to Africa is that it is one of the few sectors in which Africa has a comparative advantage, that is, where we have the power to compete. This is for a number of reasons that I will proceed to explain. Realistically, there are a lot of sectors where Africa is never going to compete with other regions such as Asia, or other more developed countries and economies such as China, India, or the U.S among others. I do not imagine that there will come a time when Kenya will be competing in terms of nuclear energy, to give an example, or in terms of having a satellite on the moon that increasing communication technology, or studying how Mars can become a new place for us to live – this is not going to happen.

Empowerment through markets

As a continent, we have to look at the sectors where we have a comparative advantage and where we can successfully compete and become market leaders. And it is a fact that in handicrafts do have a comparative advantage; firstly because of the unique cultural elements of our products. As I mentioned earlier, handicrafts are based on our cultural and artistic property. A lot of the large commercial organizations have started to see that, and I will give you an example. Bogolan is a fabric, or textile, that comes from West Africa – it is similar to what I am wearing today. Nike has in the past designed a special edition sneaker. Nike a big international brand has seen something that is commercially viable from African culture and crafts. The company has positioned this special edition bogolan shoe and are selling this shoe for hundreds of dollars, in large quantities.

On the other hand, the people who are the owners of bogolan, that is the community to which this cultural item belongs, are they getting a percentage of these sales? Are they getting a benefit from the exploitation of their cultural property? I think that is the question that we need to ask ourselves. That is not the only example. A famous fashion designer, the late Alexander McQueen, I think some of you might know him, showed in one of his collections, about two years ago, a new design, a new fabric, a new thing that he was going to commercialize, and it was actually based on Ethiopian traditional weaving skills. And many more cases exist today.

The potential to commercialize and empower people through handicraft is very real, because large companies are starting to see this, and exploit it. And we need to also see this as Fair Traders. I do not know if you have heard of the Maasai Barefoot Technology shoe, MBT, based on the cultural foot wear of the Maasai. The Maasai and their culture fascinate many people. One of the things that is greatly admires is how the Maasai stand so tall, they walk very straight and upright, they take long steady strides. The MBT shoe is based on lessons learnt from the Maasai their culture and how they do things, and it is selling for hundreds and hundreds of dollars. How can we transform this cultural property that exists in Africa to help empower the communities in Africa? It is something that is really important – the unique cultural elements. How can Fair Trade take this and work to commercialize it in a sustainable way that results in the economic empowerment of people.

The skills are already exists within Africa – it is something that the communities can already do. We just need to upgrade the skills, and scale it up into something that becomes commercially viable. There is also the existence of raw materials. The majority of handicraft products are based on materials that are found in Africa and that are sustainable in our environments. The main thing needed for handicrafts is people. This is one thing that we have a lot of in terms of developing countries and this is one of the reasons why handicrafts are important.

In terms of the social impact: I know that a lot of people when they think of poverty, they probably see the poor farmer that Fairtrade supports, and some of the communities that are doing small-scale production and so on and so forth. But there is another side to Fair Trade, and it has to do with the poorer members of the community: those who do not have an education; who do not have capital and who do not have land. This is the target group for handicrafts. It supports the people who actually do not even have land to be able to do small-scale agriculture; it is done by a lot of the poorer members of society, both in rural areas and in urban areas. We have a lot of people living in slums in the urban centres and a lot of them rely on handicrafts as a means of economic activity, as a way to generate income. Obviously the support of women is critical – a lot of handicrafts are made by women, and benefit women. This is critical in terms of the social impact. A lot of these people then further depend on networks for support and as such, the power of networks is critical when it comes to handicrafts.

I will give you an example: as I mentioned earlier handicraft is part of what is considered as the informal sector – the formal government does not support the informal sector. A lot of the support comes to these producers through small-scale networks that do umbrella programmes to consolidate support such as finance. This is done through micro-finance, through networks for business support, and not through the main formal structures that support other businesses, including agriculture. This is where we have a role because the power of networks in supporting these producers is quite strong. Lastly: preservation of culture. Just as we have extinction of animals and plants because of environmental degradation, we have extinction of skills. Handicrafts have a role in the preservation of culture. A lot of these skills were learned and passed on from generation to generation. We have a role to preserve them and keep them strong. They can be used for youth employment, in terms of supporting generational growth, and there is the cultural property potential. As I said with Nike, how can Nike bring back some of the benefits they are making from bogolan? This needs to be explored.

Fair Trade and handicrafts

Fair Trade has done some things to support handicrafts, obviously still on a small scale. The question is, how do we get it bigger? There has been a lot of support to handicraft producers who by nature are small, grassroots producers. It is true the producers are not always very well organized, but for many of them this is their single source of income in terms of how they making a living. In one way or another handicrafts producers are considered marginalized. Within handicrafts makers, you will find marginalization either because the people involved are uneducated and just rely on basic skills; or you have people who are living with or are affected by HIV/AIDS and are marginalized because they are discriminated upon and as such are unemployable; others are living in the slums and have no access to land for agricultural purposes. In many ways they are marginalized people.

Handicrafts has always been culturally a very community-oriented activity. One cannot do handicrafts by themselves. There is always the need to involve the surrounding community because the skills exist in communities. When you define Fair Trade this is essentially these kinds of people that Fair Trade is supposed to support.

In a large way the solidarity/Fair Trade market model has been empowering, and supporting handicrafts producers. Firstly, the orders that come from the solidarity market have been very small.

So businesses that have four to seven people, or seven to twelve people, or less are able to handle the orders that sometimes range from orders of 200 or 300 pieces a month, or 1,000 pieces maybe for the larger groups. They have been able to encourage the small-scale producers to slowly increase their skills, and they are slowly beginning to empower themselves. There has been a very strong role in terms of the World Shops, and in terms of the small shops that have been buying Fair Trade through solidarity markets. Through providing a fair price and also providing pre-payment for orders, small-scale producers have received support. I told you that these producers do not have a high capital, so having pre-payment that comes directly through the Fair Trade and solidarity markets has been of great assistance in helping these producers grow. The leniency and understanding buyers have also supported to create partnerships based on creating opportunities and capacity building. The solidarity market and Fair Trade crafts buyers relationship is based on partnership – it is based on understanding the situation: understanding for example that when the rural based producer says it has rained heavily and so the wood did not dry, and as such he cannot send you the products straight away, the buyer acknowledges this and provides support.

The solidarity market has been very supportive in terms of helping create an understanding environment. It is the idea of long-term partnership that states: "As a Fair Trade buyer I am not just buying for right now, but I am going to continue buying even as you grow, and help you build your capacity so you can become a bigger producer."

Obviously, now, we have had some good success stories. In different products such as those made from sisal, such as baskets, and from sustainable wood there has been much success and producers have succeeded in increasing sales and penetrating the European gifts market.

As COFTA, we recently conducted a survey of about 60 of our members, and we saw some of the benefits that have come through the solidarity market. Currently we have within our network over 200,000 beneficiaries annually; HIV/AIDS support has been on a massive scale – a lot of the producers are affected and have been supported through economic empowerment; over 10 million Euros annually is being made by these very small, and very grassroots producers. Remember it is a small figure. We have only surveyed about 62 producers.

There are development projects that have brought improvement to the community, such as healthcare, schools and tertiary centres, water projects, and a lot of local governments have been engagement, in particular in the areas of health and safety, and skills building in the production. But now we need to move on from that. We need to get into broader markets. How do we take handicrafts so that the story I am bringing, five years from now, is similar to what the CEO of FLO was saying in terms of trade figures and impact. How do we now mainstream Fair Trade handicrafts so that it is found in the supermarkets and retail chains? What is the potential of the market to grow and expand? This is something that we need to take upon ourselves.

Conclusion

Handicrafts have a critical role in terms of Fair Trade because the potential for the market is very large. I think we all know how the market situation is changing. People are changing their tastes and preferences and nowadays, everybody wants something natural, and something unique. The eco friendly nature of the market means that recycled, and less mass-produced and more sustainable products are becoming increasing desirable and sought after. There is a potential for Fair Trade handicrafts to tap into that. There is a social consciousness coming to the consumers and Fair Trade has a story to tell. And stories sell crafts.

The potential for us targeting this market is beginning to become bigger and bigger and bigger. Fair Trade labelling for handicrafts is also critical. So far there is no handicrafts product that is labelled as Fair Trade in the market yet a lot of the growth in Fair Trade has come because there is a label on the product; on these bananas there is a Max Havelaar label that defines the product as Fairtrade to the consumer. How do we get a label on the handicraft products and begin to identify ourselves in the market?

The power to scale up, through clustering of producers and through the use of small-scale technology to expand production offers a lot of potential. A lot of our producers are small scale, but a lot of them could be clustered together to produce large quantities. For example, where I come from in Kenya, we have one product – that is the kisii soapstone – and it is unique to Kenya. What we can do is say to the producers, this is the product we need to make, we need to make 1 million pieces of this, and that can then be coordinated to help the producers step into larger and broader markets.

If you look at the size of the market, currently the EU has annually about 6 billion Euros in gifts and living sales. The contribution for Fair Trade in this market is negligible; almost non existent. It cannot even be calculated. Imagine if Africa got just 5% or 7% or 10% per cent of that market every year, going back to the small-scale producers. Imagine what a difference that would be. In the U.S. the market is much larger. The question is: what is the size of the market for Africa? How do we take that and turn it into something much, much bigger? We have had some success stories of producers mainstreaming. A producer called Made in Kenya has been selling for a long time in the mainstream in the UK; Gahaya Links in Rwanda is selling to Macy's in the U.S. in larger and larger quantities; Pure Swazi, which is a brand of Swaziland producers that has come together to consolidate, does orders of over 20,000. The potential to scale up does exist. It is just a matter of the producers to become better, and working to label the products and then ensuring that they are able to get into the market.

Fair Trade has a role. We have a responsibility to develop clear Fair Trade standards and labelling for handicrafts, to support producers through capacity building, to work to scale up production to be able to meet larger and larger orders and lastly to share the story of Fair Trade handicrafts through consumer awareness and effective market linkages. We have a role to support Fair Trade handicrafts to grow along side Fair Trade food products.

Fair Trade networks are also equally important. The power of networks cannot be ignored. Networks such as COFTA have a very strong role to provide linkages to the hundreds and thousands of Fair Trade handicrafts producers who exists in Africa. COFTA has been working to grow Fair Trade handicrafts though producer support and strengthening programs across Africa, through collective learning and collaboration and through marketing access support and other linkages. COFTA is working towards getting a piece of that mainstream gifts and living market for African Fair Trade handicrafts producers.

THE GOVERNMENT PERSPECTIVE BEYOND FAIRTRADE!

Jan Pronk, former Minister of Housing, Spatial Planning and the Environment (VROM), Minister of Development Cooperation, vice-chairman of UNCTAD, the Un organisation on Trade Aid and Development

If we really want to achieve fair trade, just buying Fairtrade products is not enough. This was the principal message contained in the passionate speech given by Jan Pronk, during the Max Havelaar Lecture 2010, which was held yesterday at Erasmus University. This short journalistic account gives a summary of key point of the lecture. For the whole speech, visit the website:
www.maxhavelaarlecture.org

Beyond Fairtrade

The power of the consumer extends far beyond the purchase of Fairtrade products. The consumer must use this far-reaching power to also effect large-scale change. In order to reduce the economic differences between the West and the Third World the consumer should in fact adopt a more sustainable way of life, which encompasses more than just buying Fairtrade products. In particular, it means the consumer must be consistent in his refusal to purchase certain products.

Say No to overfishing

To give an example: fish stocks on the West African coast have been overexploited for years by large, illegal fishing boats. Some of these, according to a Greenpeace blacklist, are European trawlers sailing under Italian or Portuguese flag. These practices have a huge negative impact on small-scale African fishermen and this leads to large-scale economic damage. If these abuses continue the African fishermen will never be able to close the economic gap between themselves and the West. As a consumer, make sure you know where the fish you buy comes from.

Say No to non-sustainable tropical hardwood

Large-scale deforestation and the disappearance of the biodiversity also has an enormous impact on indigenous populations, since this is one of the few natural resources available to them. Sustainable wood products, which come from forests managed by village communities in developing countries, are not only environmentally-friendly they also provide a fair income for the local population. The profits from large-scale (often illegal) felling usually hold little benefit for the indigenous population; the population of the Third World has no control over the profits from its own natural resources.

Introduce export restrictions

The Third World will really only be on an equal footing with the West when consumers in the West use their power to help combat unfair exports. Local farmers cannot compete with agricultural products from the West, nor do they receive a fair price for their own produce, since we continue to dump our agricultural products in Third World countries.

Consumers in the West must also campaign to stop the export of arms to Third World countries. Armed conflicts will continue to thwart progress, and these countries will never be able to develop in a beneficial way.

Mr. Pronk even went so far as to say that the export of C02 should be reduced. It is often Third World countries that are hardest hit by the consequences of climate change, even though, per capita, $C0_2$ emissions are often 30-40 times greater in the West than they are in the Third World. The consequences for the countries of South America and Africa are failed harvests due to drought, and in some cases farmers are even seeing desert sands starting to encroach upon their agricultural land. If you, as consumer, really wish to see fair trade between the West and the Third World you will have to say No to certain products and No to these unfair conditions.

Author: Peter Koelewijn
Source: ***www.neomundo.nl***

PERSONALIA

Rob Cameron *Since the end of 2007 Rob Cameron has been the Chief Executive Officer of the Fairtrade Labelling Organization, the umbrella organization that unites all sorts of Fairtrade initiatives in more than twenty countries around the world. Before becoming CEO of FLO, Cameron was the CEO and Executive Chairman of the international communications company Flag Communications. He has also become one of the UK Prince of Wales' ambassadors for corporate responsibility, and has been a member of a number of think-tanks on responsibility for more than a decade.*

Peter d'Angremond *Director Max Havelaar Foundation Netherlands since 2009. Worked in marketing and sales functions with Schiphol Group, Disneyland Resort Parijs en Sara Lee Household & Body Care Nederland. From 2005 head of Business Area Consumers, part of the Schiphol Group.*

Koert Jansen *Fund Manager Triodos Sustainable Trade Fund. Triodos Bank aims to be a pioneering force in the world of sustainable banking and to contribute to social renewal. The Bank finances companies, institutions and projects that actively benefit people and the environment. In 2009 Mr. Jansen became Fund Manager of Triodos Sustainable Trade Fund in 2009. This fund assists fair trade and organic producers in developing countries to prefinance their export to EU and US based clients.*

Rob van Tulder *Professor of International Business-Society Management, Rotterdam School of Management, Erasmus University. Van Tulder is also Academic Director of the Partnerships Resource Centre (www.erim.nl/partnerships) which aims at a modern approach towards development by means of cross-sector partnerships.*

George Yip *Dean of RSM since 2008. He is a research specialist in global strategy and marketing and a true cosmopolitan. Born in Saigon (Vietnam), he live in Hong Kong, Burma, England, the United States. Educated at Cambridge University, he obtained an MBA from cranfiel University and Harvard Business School. He helt professorships in Strategic and international management at a variety of university. But he also had a business carreer in marketing and product management with Unilever, account management for Lintas, and senior manager and/or director with Price Waterhous, MAC Group and Capgemini Consulting.*

Jan Pronk *Professor of the theory and practice of development at the Institute for Social Studies (The Hague). He has been particularly known for his role in the international development debate as member of parliament, minister for development cooperation (1973-1977; 1989-1998) as deputy secretary-General United Nations Conference on Trade and Development (UNCTAD), and as special representative Secretary General of the UN in Sudan (2004-2006). As minister of Housing, Spatial Planning and Environment he played an important role in the formulation and implementation of the Kyoto protocol. At the moment professor Pronk is also chair of the IKV (Interchurch Peace Council) and President of the Society for International Development (SID, Rome).*

Joan Karanga *Director of Cofta, the cooperation for fair trade in Africa, which is the regional representative of the World Fair Trade Organization. Cofta is responsible for the whole of Africa and headquartered in Nairobi. Karanja aims at increasing intra-African trade. For instance in the case of coffee 'in north and west Africa, people drink a lot of coffee which is imported out of Europe." One of the aims of Cofta is to make local producers less dependent on western consumers.*

Sjaak de Korte *Director of business development and commercial director at Plus Retail, one of the medium size retail chains in the Netherlands. Before taking up his position at Plus, he had abundant experience at two other retail chains: Schuitema (15 year as category manager and account management) and Unigro (two years as vice director module management). De Korte has restructured the course of Plus into a combined quality/value added direction. "More value for the same price".*