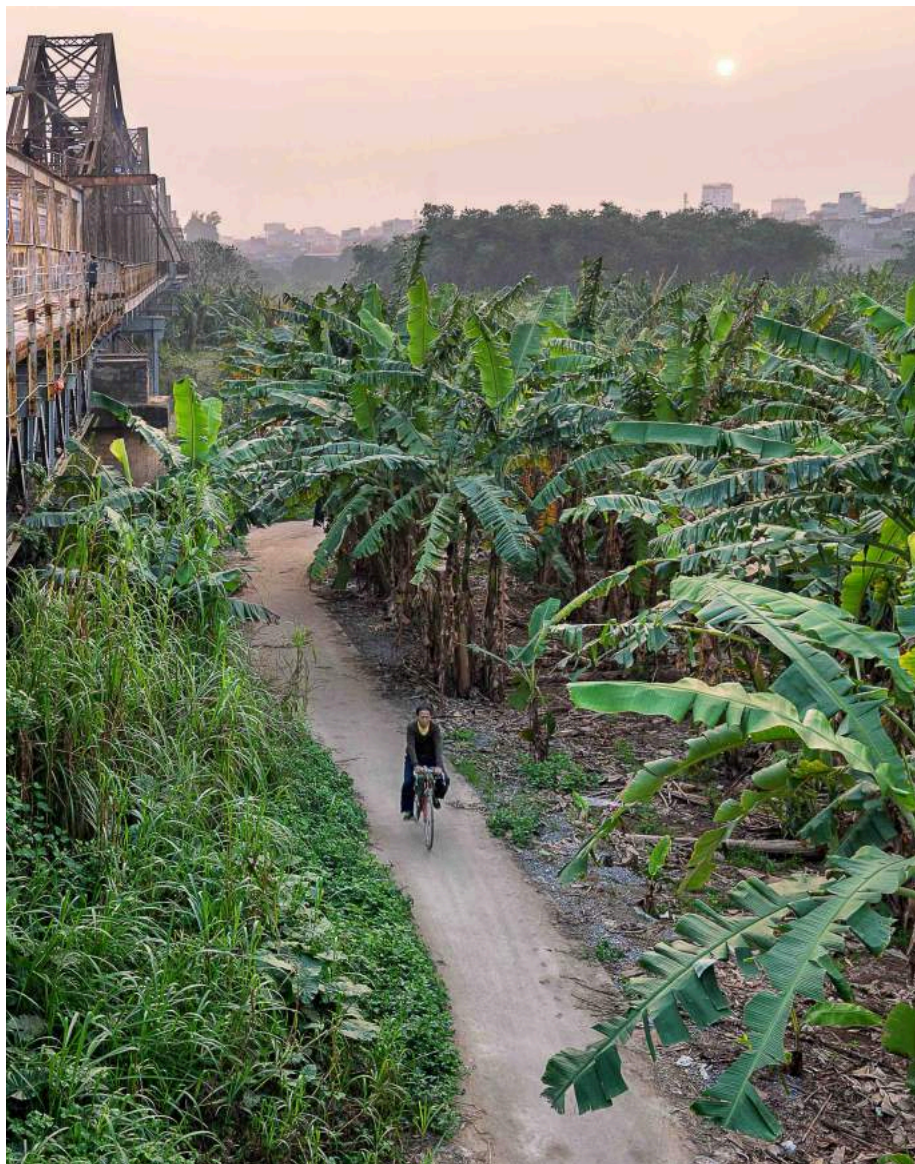


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## Embeddedness and Sustainability of MNC's



Peoples economic activities are embedded in their networks of social relations and whether or not people can trust each other. [Mark Granovetter](#) (1985)

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Embedded ties create value through three mechanisms: **trust**, fine-grained **information transfer**, and **joint problem solving**.

# 'Principled Embeddedness': How Foreign Direct Investment May Contribute To Inclusive And Sustainable Growth In Developing Economies

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## Abstract

Foreign direct investment (FDI) plays a crucial role in enabling developing economies to embark on a path of inclusive growth. This applies in particular if local subsidiaries of multinational enterprises (MNEs) are committed to 'principled embeddedness' meaning that they are prepared to integrate parts of the local economy into global value chains by enabling them to comply with the required quality norms and standards. It also results in capacity development and technology transfer that is likely to benefit local entrepreneurs who contribute to the diversity of markets in the domestic economy. The empirically validated contribution of embedded subsidiaries of MNEs to inclusive growth challenge the normative view that FDI in developing economies would merely pose a threat to existing embedded economic systems.

## 1. Introduction

In his seminal book 'The Great Transformation' Karl Polanyi (1944) calls the expansion of formal global markets a 'satanic mill' that would disembed local communities and their informal economies with fatal consequences for the local people and the environment. His gloomy view is shared by the Nobel Prize-winning economist Joseph Stiglitz, who wrote the foreword to the 2001 edition of Polanyi's masterpiece.

Moreover, even the more pragmatic literature on embedded liberalism (Ruggie 1982, Ruggie 2008, Rodrik 2011) and global corporate social responsibility (CSR) (Scherrer et al. 2006) seem to implicitly endorse Polanyi's claims by focusing their attention on the potential damage caused by multinational enterprises (MNE) as forces of 'disembeddedness' of local economic structures. These forces, so they argue, would ask for public and private initiatives to 're-embed' the affected

communities through the expansion of the national welfare state and global CSR initiatives, respectively.

More recent empirical research in economic history (North 1977, Bang 2016), economic sociology (Granovetter 1985, Beckert 2007), and industrial policy (Uzzi 1996, Meyer et al. 2011) largely disqualify Polanyi's assumption that the modern formal economy lacks embeddedness in society. After all, no economy is detached from individuals and their societal networks that are primarily concerned with addressing coordination problems in daily business transactions. Therefore, MNE with long-term interests as foreign direct investors in less developed countries encourage their subsidiaries to strengthen their local economic and social networks. As such, subsidiaries support local business partners in their efforts to become integrated into their respective global value chain (GVC) through the compliance with industrial principles, standards, and norms.

This MNE strategy of 'principled embeddedness' eventually contributes to growth and job creation in the local economy and, simultaneously, enables local business partners to better cope with the sustainability challenges related to climate change, population growth, and increasing affluence. In this context, this paper argues that the UN Guiding Principles on Business and Human Rights (UNGPs)<sup>1</sup> should recognize that corporate responsibility cannot be limited to a principle of doing 'no harm'. MNE that benefit the region in which they operate should also be awarded for doing 'good' not because they want to be good corporate citizens but because it is in their long-term interest to also contribute to the flourishing of the local economy in which they invest. The ISO 26000 Standard on Social Responsibility<sup>2</sup> tends to acknowledge the value of

corporate embeddedness indirectly through its priority area 'community involvement and development'. But its content remains vague when it comes to capturing its value concretely, and it tends to conceive the priority area as a moral duty rather than being in the long-term strategic interest of the company.

In this paper we illustrate the embeddedness challenge that MNE face when investing in developing economies by referring to the three major coordination problems that every company is confronted with when investing abroad: the coordination problem of value that is not just about the price determined by demand and supply but also the challenge of fair compensation with regard to products that have public good character (life-saving drugs, technologies that boost agricultural productivity, and food quality), the coordination problem of competition that emerges from the reluctance of market participants to be exposed to perfect competition, and the problem of cooperation that emerges from the need for pre-competitive collaboration and the build-up of social trust. These coordination problems, as originally outlined by the sociologist Jens Beckert (2007), can be most effectively addressed by a foreign direct investment through a strategy of principled embeddedness.

We illustrate this commitment to 'principled embeddedness' using concrete brief case studies. They are not meant to praise the selected MNE for all their business practices. After all potential opportunities for opportunism in large companies are widespread despite increasing expenses on compliance issues and due diligence processes. But, these examples of embeddedness of MNEs show their potential to enable local economic empowerment and sustainable change in developing regions that are characterized by a high degree of economic and political uncertainty.

## 2. New Economic Sociology and re-definition of the term 'embeddedness'

The term 'embeddedness' has been shaped and re-shaped by the research of economic sociologists in the 20<sup>th</sup> century.

Karl Polanyi initiated the academic debate on embeddedness with the publication of 'The Great Transformation' in 1944. His basic argument was that the institutions of embedded traditional economies are being destroyed by a self-regulating market economy in which the market no longer serves the needs of the people but rather the reverse, that people would have to meet the needs of the market. As a consequence, the expansion of the formal market economy would lead to the disembedding of local economies with 'catastrophic consequences' for local communities.

Polanyi's view is also associated with the term 'substantivism' in economic anthropology. It distinguishes the substantivist 'embedded' economy that is focused on self-sufficiency, from the formalist 'disembedded' economy that thrives on the rational pursuit of profit but would have no social roots. It presupposes an autonomous formal economy without social content; an assumption commonly found also in the formal theory of neoclassical economics (Gemici 2008).

Polanyi's dualistic and normative view of embeddedness was eventually challenged by a new generation of economic sociologists toward the end of the Cold War period. They criticized his assumption that embeddedness would be mostly limited to economic activities in premarket societies that were firmly embedded in social relations. The assumption that such embeddedness would no longer matter in modern economies since commercial transactions have ceased to be guided by social and kinship obligations seemed increasingly unrealistic given new empirical research on embeddedness in modern economies (Granovetter 1985, Biggart and Beamish 2003, De Bakker et al. 2013). It uncovered the embeddedness in the form of social networks, online and offline, that provide the very basis for formal business relations on the local as well as the global level.

The term 'embeddedness' was no longer applied to distinguish between substantivist (embedded) and formalist (disembedded) economic models. Instead, it was used to define the concrete, ongoing systems of social relations that underpin economic action (Granovetter 1985). Mark Granovetter, the

sociologist who played a crucial role in re-defining the term 'embeddedness', started with a general criticism of over- and undersocialized conceptions of human action in sociology and economics. While the oversocialized conception in sociology mainly saw societal norms and values, internalized through socialization, as explanatory factors of human interaction, neoclassical economics started from an undersocialized conception with its homo oeconomicus who has no age, is not embedded in any social structure and completely independent of social relations in economic decision-making. According to Granovetter, actors do not behave or decide as atoms outside a social context, nor do they act exclusively according to prescribed roles that reflect certain moral norms and values. Instead, it is the social relations rather than merely institutional arrangements or a 'generalized morality' that are mainly responsible for a low degree of fraud and malfeasance and the production of trust in economic life. His embeddedness approach concretely follows and analyzes patterns of social relations to explain how societies overcome the problem of trust and disorder in economic life. It makes no predictions of universal order or disorder but rather assumes that the details of social structure will determine it (Granovetter and Swedberg 2001).

### 2.1 The moral dimension of entrepreneurship

Granovetter is in line with the argument of the economist Albert O. Hirschman who showed that the pursuit of economic self-interest in the formal market economy has hardly ever been based on reckless utility-maximizing attitudes designed to merely realize short-term material preferences. Instead, human behavior in formal markets is characterized by civilized and gentle human interactions based on meta preferences that are also related to cultural upbringing and social relations (Hirschman 1992). In addition, each economic actor faces the risk of reputation loss if she fails to play by the unwritten rules of fair interaction. In this context, Hirschman refers to the so-called 'doux-commerce' hypothesis as suggested by well-known philosophers of the age of enlightenment such as Montesquieu and Condorcet. It basically argues that people involved in supraregional formal markets would develop more civilized manners in dealing with each other and acquire a more pronounced sense of

fairness and reciprocity. Something that has recently also been confirmed in empirical and experimental research in the field of behavioral economics. Henrich (2006) showed for example that the more local communities are involved in supraregional trade, the more developed their sense of fairness and reciprocity.

By focusing on micro- rather than the macro-foundations of the concept of embeddedness, Granovetter leaves Polanyi's normative macro-narrative unchallenged. In this context, Beckert (2007) proposes to revisit Polanyi's work and starts instead from its basic insight that, ultimately, it is the embeddedness of economic exchange that makes economic and social integration possible. The challenge is then to identify the socioeconomic preconditions that allow economic prosperity to be combined with the realization of a humane social and political order.

### 2.2 Embeddedness as a way to address three major coordination problems in the economy

The reduction of uncertainty is an indispensable precondition for the emergence and operation of market economies; and embeddedness of economic exchange in a web of social relations helps to reduce this uncertainty and provides stability to market interactions.

Reducing uncertainty through enhanced embeddedness can be addressed by managing three coordination problems effectively, according to Beckert (1996): the problem of value, the problem of competition, and the problem of cooperation. The problem of value is that the price of a product may reflect more than merely its current demand and supply because there is also the social context in which it is introduced for sale. The valuation of the particular product is primarily social in character and as such generates preferences that are endogenous, not exogenous. This problem is most obvious when comparing the uncontroversial price-setting strategies of companies that operate in the market for consumer electronics or luxury goods and the highly controversial one in the field of life-saving drugs or effective inputs in agriculture. Whereas no one bothers if the company 'Apple' asks for a higher price for its new smartphone, society may disapprove of companies that generate profits with

the sale of products that should be accessible to the poor to save lives or prevent starvation. If such products are not accessible to those in desperate need because they cannot afford to pay its price, it becomes a moral issue for society. At the same time, such products would not exist in the first place if companies would not have developed them in the hope of creating a profit that is at least able to reimburse the fixed costs invested in R&D and the regulatory approval process. So whereas the price of a smartphone is mainly based on quality markers influenced not just by advertising but also institutions and platforms that discuss the merit and thus the value of the product, the social process of valuation of products that are generally associated with public goods, such as life-saving medicine (no one should be excluded, its consumption should be non-rival), show that the embeddedness of economic action makes it necessary to negotiate prices in ways that make them socially acceptable. Often corporations do so on their own through a strategy of price differentiation (Ridley 2006), but they are also confronted with many more government interventions than in markets for personal accessories due to public concerns about accessibility to public health and food security (Aerni 2015a, 2015b).

The coordination problem of competition relates to the fact that 'perfect competition' may be neither in the interest of business nor the interest of society as a whole. While companies do not like to enter markets of perfect competition in which they can only expect decreasing returns, society as a whole disapproves of cutthroat competition where survival in the market depends primarily on cost-saving measures, often at the expense of the quality of the product, worker safety, and environmental protection. Simultaneously, markets of perfect competition do not generate innovation. Investing in innovation requires a company to have assets generated from previous rent- or profit-seeking activities. Moreover, a company would only invest in innovation if there is a prospect to generate a profit through a temporary monopoly in which the company has price-setting power (Romer 1994). This explains why markets of perfect competition are mostly a temporary phenomenon that is eventually

undermined by three forces: lobbying by market incumbents for regulation that prevents market entry of new competitors; labor, environmental, and consumer pressure groups that advocate for regulations that make it more difficult to save costs at the expense of society and the environment; and, finally, start-up companies that want to grow through innovation. The latter ask governments to create an institutional setting that rewards them for the risk of investing in something new. The protection of intellectual property rights (IPR) is one, but by far not the only way to enable innovative companies to have a temporary monopoly that allows them to generate profits that cover the prior R&D costs and to further invest in the continuous improvement of the product. In other words, regulation of perfect competition is primarily designed to discourage cutthroat competition. But the resulting creation of isolating mechanisms that shield incumbents from more competition can also harm long-term societal interests, especially in the case of monopolies that are likely to be permanent thanks to government protection and thus also unrelated to innovation. As a consequence, the economy becomes less capable of renewing itself because the established monopolies become professional rent-seeking insiders that benefit from collusion and the exclusion of more competitive actors (Olson 1982). Therefore, regulations also have the added purpose of giving incentives to outsiders to create new markets by taking the risk of investing in new products and services that generate increasing returns (Romer 1994, Aerni 2015b).

The coordination problem of cooperation arises from the asymmetric information between exchange partners, e.g. the agent (manager) of a company is more familiar with the business than the principal (investor), and the seller of a product knows more about the product quality than the buyer. As a consequence, the agent may have an incentive to use this information advantage at the expense of the principal (Akerlof 1970, Aerni 2006). Social networks in general and trusted ethnic and kinship networks in particular are a way to lower uncertainty and thus transaction costs by creating informal but binding rules and norms for transactions that are effectively enforced through the threat of exclusion (Olson

1965, Hindmoor 1998, Lyon 2000). They mostly emerge where the formal rules have been artificially imposed from outside and are not adequately enforced (Henrich 2011). In addition, coordination problems may also be resolved on a private basis through coordination efforts that go beyond tight-knit social networks. For example, before the spread of public standards for food safety in the 20<sup>th</sup> century, it was the food industry in 19<sup>th</sup> century Europe and the USA that designed and effectively implemented private food safety standards in the form of pre-competitive collaboration (Ping 2011, Freidberg 2009). The reason why all parties in industry were prepared to be inspected by a third party was the fact that deceiving the consumer, for example with diluted milk or false weight measurements, did not just affect the business of the cheater but led to a loss of trust in the whole industry. The resulting systems of reputation helped to overcome the problem of asymmetric information. When private standards eventually became international public standards through the creation of the International Organization for Standardization (ISO) and UN regulatory institutions, they could be effectively enforced only in countries where the coordination problem of cooperation in the private sector has previously been addressed effectively by private standards (Aerni 2013).

Finally, Beckert considers social legitimation a precondition for the emergence of stable markets. The definition of what is legal and what is illegal to buy and sell is determined by society and its norms and values rather than the economic actors (Jacobs 1970). However, norms and values change over time and with it the definition of legal and illegal transactions (Appiah 2011). Even though illegal markets may work similarly to legal markets, the way the coordination problem of cooperation is addressed is different. It is of existential importance to the illegal networks; if one party defects under the promise of impunity, the whole illegal business network may be dissolved and its members end up in prison. This also explains the strong embeddedness of economic activities in kinship-based illegal networks such as the Mafia (Gambetta 1996). So embeddedness may not always be desirable if the underlying norms and values of the respective network are not beneficial but harmful for

society as a whole. This also applies to embedded economic systems with high transaction costs due to widespread corruption (De Sardan 1999).

Beckert concludes that the coordination problems point to the fundamental uncertainty that economic actors face in everyday economic interactions. As context-specific challenges they are a sort of blind spot of orthodox economic models and highlight the fact that the embeddedness of the economy may be a precondition for its functioning (Beckert 1996).

### 2.3 Embeddedness in the context of economic complexity

Recent research in economic complexity (Hidalgo 2015) largely confirms this view by pointing to the costs of establishing links to build purpose-oriented social networks designed to address context-specific coordination problems in long-term global collaborative networks of firms to adopt or even create innovation in global value chains (GVCs). These links are highly specific and recurrent and exact outcomes are not known in advance. They involve individuals and firms that must be understood as packages of specialized knowledge and know-how nested in a social structure that supports them. Such global networks designed to create a stream of revenue out of economic interaction are challenging to maintain because they are evolving and with it the knowledge and know-how they embody. Accumulating knowledge and know-how is difficult because creating the networks required to embody them is difficult. If they succeed in achieving their purpose and become economically successful, it is less because of standardization and technological change that decrease the costs of creating formal network links but because they are embedded in pre-existing cultural and social networks that are based on social capital, the trust among actors involved that is required to embark initially on informal rather than formal collaboration. Since losing trust has serious long-term consequences for the one who committed a breach of trust, this non-contractual form of collaboration is very effective in deterring fraud and malfeasance (Shapiro 1987, Molina-Morales 2010). At the same time, it works without the burden of lengthy legal documentation and costly enforcement procedures and as such makes it worthwhile to embark on risky

joint commercial projects. This also explains why most employers are keen on hiring referrals because it is easier to trust someone with whom you share a friend (Granovetter 1995). Understanding how complex and purpose-oriented global networks work requires combined knowledge in transaction cost theory, which deals mostly with formal network links, and economic sociology, which looks at informal ties (Hidalgo 2015). The economic effects of preexisting social networks are important to understand the costs of links in context.

### 3. Economic globalization as a force of 'disembeddedness'

As the main drivers of economic globalization, MNEs are crucial in addressing coordination problems in GVCs by tapping the knowledge and know-how of their embedded internal and external networks to generate economic outcomes that ensure a continuous stream of revenue through scalable innovation (Andersson et al. 2002). Yet, in public, they have not been associated with embedded economic structures but actually more with the risk of 'disembedding' local traditional economies (Robinson 2014, Baker 2016).

MNE may indeed be a major force of economic globalization that has induced many locally embedded traditional industries to either transform or disappear. But this pressure on local economies started already in the 19<sup>th</sup> century in Europe, when the landlords of the feudal system tried to compete in the new trade-oriented market economy not by introducing new forms of division of labor and technological innovation but by merely squeezing out more work obligations from their dependents (Braudel 1982). As a consequence, the old manorial system<sup>3</sup> faced a crisis in the form of massive escape. Peasants and servants were no longer willing to work merely for the benefit of their rent-seeking landlords because they had an opportunity to exit. They migrated to nearby expanding urban areas or overseas. This enabled them to take their destiny into their own hands. A risky and uncertain venture that eventually allowed them to unshackle the old fetters associated with traditional feudal economic systems and flourish in arrival cities (Saunders 2011). Therefore, the first wave of globalization may have disembedded the old manorial system, but it also created many economic opportunities for the

outsiders in society, those who had no economic rights under the old rule (Aerni 2016).

#### 3.1 Why disembedding traditional structures may help outsiders – with long-term benefit for society

The great migration of the underprivileged to new places with better economic opportunities jumpstarted a process of social mobility that forced the previously unchallenged aristocrats to deal on equal terms with entrepreneurial upstarts that emerged from the former peasant and servant class. Often the latter did not compete directly with the former who invested primarily in established capital-intensive industries but created entirely new markets addressing old needs in a new way (Etzkowitz 2004, Aerni 2007). All these new markets had to resolve Beckett's three primary coordination problems of embedded economies: the determination of the value of the new product, the securing of profit through an acceptable departure from perfect competition, and the ease of cooperating with other stakeholders on issues of common interest. Thanks to their ability to limit fraud and malfeasance in their practice through effectively addressing the coordination problem of cooperation, these new economic actors created the necessary social capital to gain a public license to operate in new and often untested fields of business (Cope et al. 2007, Aerni 2016). Their success in creating and scaling new markets allowed many of these upstarts to eventually grow into global corporations.

However, as the landed gentry before them, many emerging large corporations may have used their large profits, initially generated through innovation, to imitate the lavish lifestyle of the aristocrats and secure unproductive rents through real estate investments and political lobbying to keep competition at bay (Schluep and Aerni 2016). Moreover, if their untested technological innovations caused accidents, they refused to be liable or assume responsibility for the damage (Ice 1991). As such, they indeed may have caused the disembedding of traditional societies without offering any positive alternative to the originally very repressive system. In this context, Karl Polanyi (1944) rightly refers to the growing anger of the public toward reckless corporate behavior and how it eventually led to counter-reforms that improved social security and health coverage for the employed



and helped create social safety nets for those who lost their employment or were unable to work in the first place. But this view fatally implies that disembeddedness merely happens through 'bad' private sector investment while re-embeddedness takes place exclusively through 'good' government intervention designed to repair the damage caused by the private sector.

This implicit view is also very much present in the assumption in embedded liberalism (Rodrik 2011) that opening up markets to international trade has to be accompanied by the expansion of the welfare state, as a sort of loser compensation, to obtain the approval of the voters in a democratic system. Even though it is indeed true that the private sector may not be able to provide for public goods, the public sector is only in a position to provide for important public goods if it is able to raise sufficient taxes from successful private sector activities (Desai 2003). Moreover, a government that distributes public resources only to those loyal to them, as it happens in traditional patron-client systems, will also fail to provide public goods even if the funds are available. Finally, many of the knowledge-based private sector innovations eventually end in the public realm and thus assume the character of a classical public good being non-rival and non-excludable. Therefore, the provision of public goods by governments should generally not be understood as correction for the damage done by private sector activities but as a result of the emergence of a formal, tax-paying private sector that also contributes to the effective management of public goods through its competences in the provision of client-oriented products and services (Aerni 2015b).

### 3.2 Disembedding post-colonial structures

The social and economic transformation through economic globalization in Europe in the 19<sup>th</sup> century is to some extent comparable to the transformation of developing economies in the 21<sup>st</sup> century. Foreign direct investments (FDI) by MNE in these countries are challenging and sometimes disembedding the prevailing traditional rent-seeking economies inherited from colonial times that have many similarities with the feudalist economies of the Ancien Régime in Europe. Colonial powers were

rarely interested in disrupting existing economic and political systems in the countries they colonized. Instead, they preferred to collaborate with the respective local elite based on the Polanyi's principles of reciprocity, redistribution, and autarky (Polanyi 1944) that prevailed in the traditional embedded economy (Aerni 2007). The system of patronage still prevailed in postcolonial times. During the Cold War period, the feudalist economies in developing countries tended to become client states either of the United States or the Soviet Union. Both powers endowed the new indigenous leaders of the European ex-colonies in Africa with almost dictatorial powers and secured their rule with military support, as long as they remained loyal to either the market-oriented system propagated by the United States or the communist system propagated by the Soviet Union (McCormick 1995, Zubok 2009).

With the end of the Cold War and the fall of the Berlin Wall, such systems of patronage lost their purpose and faced growing criticism from within and without the developing world. Moreover, the economic rise of Asia illustrated that developing countries are not entrapped in an exploitative global economic system in which they merely serve as suppliers of raw materials. Countries like South Korea, Taiwan, Malaysia, and later China may have resented political interference of Western powers, but they very much realized the value of foreign direct investment (FDI) from the West. After all, if Western multinational corporations find it attractive to invest in their countries under the condition that they become partially embedded into their traditional economies (e.g. through joint ventures in special economic zones), this will enable the transfer of important know-how and technology that helps to upgrade their domestic economies to a level that will eventually enable the local export-oriented industry to compete with the established economies of the West (Yingming 2009). The institutional reforms required to attract long-term foreign direct investments led to unprecedented catch-up growth (Aerni 2011a) and the emergence of an entrepreneurial middle class that makes use of its economic empowerment to lobby also for political reforms that are more conducive to their economic interests (Woetzel 1989).

Catch up growth rates today are much higher than they used to be in earlier times since so much more goods and services, know-how, technology, and financial institutions are in existence today that could quickly transform a traditional rent-seeking economy (Romer 2010) provided that the respective governments are willing to create an institutional setting that is conducive to such a process of transformation.

Alas, governments hardly ever do so unless there is pressure from the domestic entrepreneurial middle class to carry out the necessary economic reforms. Since this middle class does not exist in traditional feudalist economies with patron-client systems, governments prefer to secure their rents by addressing the preferences of the powerful landlords and traditional leaders who, in return, ensure their re-election (Aerni 2006). As patrons, they ask their dependents or clients to vote for the ruling party in exchange for protection of their material interests and improved access to scarce government resources (Berman 1998).

### 3.3 The failure of foreign aid to empower local entrepreneurs through economic integration

At the same time, foreign aid contributions constitute a significant share of government resources in the feudalist economies in developing countries. Foreign development agencies are primarily focused on addressing the preferences of the taxpayers and donors of the country that sponsors their activities. The preferences of people in affluent economies are, however, similar to the preferences of the aristocrats of Europe in the 19<sup>th</sup> century (Aerni 2006). They increasingly resent economic globalization because it challenges their economic and political supremacy and as a result, they prefer to support projects that protect traditional communities from the forces of economic globalization rather than enable their economic integration. Ignoring the demands of reformist forces makes foreign donors often part of the problem since it leads to a total neglect of the needs of the educated and entrepreneurial outsiders in the domestic economy who do not see a future in their embedded rent-seeking economy and seek a better life in the growing cities or abroad.

There may be some timid initiatives to promote entrepreneurial rights, but they are primarily focused on improving livelihoods in the informal sector<sup>4</sup>. Such efforts have little impact on the overall economic situation, employment, and economic opportunities because operating in the informal economy does not allow an entrepreneur to grow and formally employ people, as Arthur Lewis, an interdisciplinary social science scholar and Nobel Prize winning development economist, already noticed in 1955 (Lewis 1955). Why? Because only formally registered businesses that comply with standards and regulation and have a customer base beyond their neighborhoods attract investment and would eventually allow entrepreneurs to generate increasing returns and jobs in the formal sector (Aerni 2015b).

### 3.4 Recognizing the contribution of MNE subsidiaries to local economic empowerment

Enabling informal businesses to succeed as growth-oriented formally registered companies requires competent assistance, which is found in the private sector rather than government or civil society (Aerni et al. 2015). However, unlike donor agencies and NGOs, companies invest in local businesses only if they are confident that the business will eventually succeed. In other words, an investment must pay off, and in case it pays off, it will not just benefit the respective local business and its investor but the region as a whole through its contribution to endogenous (homegrown) economic development.

In this context, subsidiaries of MNE that are committed to local embeddedness have the potential to significantly contribute to sustainable change in the region in which they invest. This requires, however, that governments and civil society groups do not undercut business opportunities by already providing goods and services for free. This crowding out of private sector investments tends to be especially prominent in regions that are identified as 'vulnerable' (Farla et al. 2016, Ciaian et al. 2012)

### 3.5 Coping with business coordination problems through a strategy of 'principled embeddedness'

A corporate commitment to 'principled embeddedness' is essentially designed to jointly address the coordination problems of the market with local stakeholders responsibly. In this context, MNE from developed countries investing in developing economies realize that they have to abide by the global industry guiding principles, even if domestic regulation and weak legal enforcement power in host countries may allow them to ignore such with impunity. MNE are committed to principled embeddedness, not because of a normative ethical stance, but because it is in their enlightened self-interest to be perceived as a fair player in business and society, independent of the location in which they operate. At the same time, MNEs know that they do not operate in a vacuum. The local stakeholders in the region in which they invest will eventually raise the question to what extent the presence of the MNE also benefits the local economy as well as local society and the environment. If the MNE turns out to be a mere economic off-shore island of their country of origin that has no links to the local economy and no social impact in the region whatsoever, nationalist politicians may eventually want them to lose their license to operate or force them into compliance with rather rigid local content requirements or joint-ventures that may make little sense from a business point of view. So, no matter if they pay their taxes in the country in which they operate and comply with international business and human rights standards, they will have a local acceptance problem if perceived as generating profits for stakeholders abroad while shunning any interaction that might benefit the local economy and society (Schluep 2017).

Therefore, MNE with a long-term view are also prepared to negotiate with local stakeholders on how to integrate qualified local business partners into their global supply chains, invest in local capacity development and training programs to recruit more skilled local employees (to help upgrade informal business activities to a level where local businesses are able to comply with international

standards and compete in the formal economy) and to sell a higher share of their goods locally. Such a commitment to 'principled embeddedness' helps the MNE to earn long-term social capital on a national as well as the international level.

### 4. The role of subsidiaries of MNE in developing countries

So far, this paper has portrayed MNEs as a homogenous entity located in wealthy OECD countries and investing in poorer non-OECD countries. This is misleading insofar as many of the globally expanding MNE originate from emerging economies rather than developed economies. MNEs from emerging economies tend to be encouraged by their governments to invest in the developing world. Instead of being monitored and eventually shamed for investing in 'high-risk' developing economies, as it is often the case in OECD countries, MNE from emerging economies even obtain active support from their governments in bidding processes for public procurement in less developed countries, for example through pre-financing agreements.

The portrayal of MNE is also misleading in the sense that they are not a homogenous entity. Their local subsidiaries often enjoy a substantial amount of autonomy, and frequently, they are as much involved with local stakeholders (external embeddedness) than their parent company (internal embeddedness) – which, depending on the industry and country context, may ultimately also benefit the parent company.

This double or multiple embeddedness (Meyer et al. 2011) exposes the subsidiary to internal and external institutional pressures: MNE that adapt their strategies and organizational practices to the local contexts are subject to constraints imposed by the available resources as well as institutional constraints imposed by their country of origin. If subsidiaries manage to combine external and internal resources successfully, they become centers of excellence on their own and as such may benefit the host country through their knowledge base and their commitment to sustainability and to collaboration with domestic business to a great extent (Andersson and Forsgren 2000).

The new attention in academic literature on the important and increasingly autonomous role of subsidiaries in MNE has led to a growing skepticism toward the former 'center-periphery' view, in which the firm-specific advantages of the MNE are developed and controlled by the parent company, while the foreign subsidiaries merely exploit these advantages in the local markets. This may still be the case at an early stage, when an MNE starts to explore opportunities to sell its products in another country. But once the MNE selects a country also as an important production base, the importance and autonomy of the subsidiary increases and with it the pressure to enhance embeddedness in the country (Andersson and Forsgren 2000). Another critical dimension of enhanced local embeddedness is related to the potential of the information age to change the distribution of competitive advantages across different categories of firms in global value chains (GVCs). Information and communication technologies (ICTs) have facilitated the emergence of new manufacturing technologies and cost-saving logistics that led to the increasing engagement of a wider variety of actors, including small and medium-sized enterprises (SMEs) in developing countries that would have previously been ignored due to high transaction costs. Enhanced use of ICTs in GVCs also leads to advances in product modularity. They can act as a substitute for relational governance, even when cultural differences among partners are high. In other words, fragmentation and modularity may make relationships among partner firms more immune to cultural differences (Alcácer et al. 2016). At the same time, they increase pressure to pursue a strategy of principled embeddedness in the host country because integrating local companies into global value chains requires them to adjust their business practices to international standards.

#### 4.1 Selected cases of 'principled embeddedness' of subsidiaries of MNE

Based on the field research conducted by Master and PhD students in the CTI<sup>5</sup> project on local embeddedness of multinational enterprises in developing countries<sup>6</sup> and a panel discussion on the topic in a workshop on embeddedness in Zurich<sup>7</sup>, the positive sustainability effects resulting from

embeddedness of Swiss-based multinationals such as Chiquita, Nestlé, Syngenta (case studies) and Bata shoes (workshop presentation) were assessed. The field research required the collaboration with a local university to obtain external and independent assessments, in addition to the data provided by the company. Even though in each case, some shortcomings and challenges of the business of the respective country subsidiaries were identified, a commitment to 'principled embeddedness' were recognized in all case studies. Independent of the failures and scandals that all these large MNEs may be confronted with in the course of their operations in developing countries, it is worth pointing out what makes their commitment to principled embeddedness valuable for the local communities and the environment:

A first example is Nestlé Philippines. The Swiss-based company set up its first subsidiary in the Philippines in 1911. In 1960, Nestlé S.A. and San Miguel Corporation entered into a partnership resulting in the formation of Nutritional Products, Inc. (Nutripro). In 1962, Nutripro's first factory started operations in Alabang, Muntinlupa to manufacture NESCAFÉ. In 1977, Filipro, Inc. and Nutripro Inc. merged under the name Filipro, Inc. In 1986, Filipro, Inc. changed to its present name as Nestlé Philippines, Inc. In late 1998, Nestlé Philippines became a wholly owned subsidiary of Nestlé S.A., following the latter's purchase of all of San Miguel Corporation's equity shareholding in the company<sup>8</sup>. Today Nescafé Philippines is not just sourcing its coffee beans from the Philippines but also processes and sells most of its end products domestically. Moreover, most of its employees in senior positions are Filipinos. As such the company is truly embedded in the local economy and perceived by most Filipinos as a Filipino-based company. Simultaneously Nestlé abides by its CSR standards and has even developed a NESCAFÉ Plan designed to ensure that coffee farmers grow viable, healthy crops, and that coffee farming remains sustainable. Together with the Rainforest Alliance, the Sustainable Agriculture Network (SAN), and the Common Code for the Coffee Community (4C), the company makes sure it complies with internationally recognized sustainability standards.

The Swiss-based agribusiness firm Syngenta (recently acquired by the Chinese firm ChemChina) also illustrates the positive impact of a self-interested commitment to embeddedness. The company has often been criticized by civil society activists for being an agent of industrial agriculture that generates profits at the expense of clueless small-scale farmers in developing countries. The fact is, however, that an innovation-driven agricultural company like Syngenta is unable to sell any products to such farmers unless they prove to benefit the farmer family in terms of revenues and improved natural resource management. In this context, the company has an active interest to invest in those small-scale farmers in developing countries who are determined to move from subsistence-oriented to business-oriented agriculture. For that purpose, it has built up a global stewardship network in collaboration with local NGOs that recognizes the potential of public-private partnerships for sustainable development<sup>9</sup>. The network aims at ensuring the safe application of the offered solution packages. Each year, Syngenta and its partners train around three million producers worldwide and help them to upgrade their agricultural productivity in a sustainable way. Growth-oriented small-scale farmers benefit from Syngenta's stewardship program by learning how to comply with the national and international labor and environmental standards, and this allows them to eventually produce food for the growing urban population worldwide while generating the necessary revenues to invest in the future of their offspring.

A needs assessment conducted in 2013 with stakeholders involved in agricultural extension in tropical countries on capacity development for agricultural innovation revealed that private sector capacity development is more appreciated by local farmers than public sector programs to enhance the capacity of farmers to innovate and become more productive<sup>10</sup>. This is not surprising given the fact that companies are under much greater pressure to deliver value for farmers. They need to understand their context and come up with tailor-made solutions, whereas public sector officials may offer services for free but they are less responsive to the

actual needs of farmers and therefore less valuable to them (Aerni et al. 2015).

The international company Bata illustrates how many benefits MNE subsidiaries can create for the local people if they do not primarily focus on merely exporting their products to affluent markets abroad but instead tailor them to the needs of the domestic market. Bata initially started in the Czech Republic but then quickly expanded into many other countries in the course of the 20<sup>th</sup> century. For many decades, the company has run subsidiaries in several African countries where its shoes are primarily produced for the local market. As a result, most Africans who buy shoes buy Bata shoes because that is what they can afford and what suits the local circumstances. Moreover, thousands of Africans were employed, housed, and trained in the business of shoemaking since Bata first invested in Africa in the mid 20<sup>th</sup> century. As a consequence, Bata has earned the company an enormous amount of social capital because its shoes have generated considerable welfare effects for the less privileged.

Finally, the company Chiquita is an interesting case because it has a long history of embeddedness. The history of United Fruit Company, as the company was called before changing its name in the 1980s, was characterized by political rather than economic embeddedness. It played a crucial role during the Cold War period as a company that enjoyed the backing of the US government as well as the national land-owning elites in Latin American countries that fought against communism. As a consequence, the company's name became associated with client states that had more interest in serving US interests than the interests of its people. Chiquita was determined in the early 1990s to leave the past behind and embark on a fundamental corporate transformation. It decided to fundamentally change the mode of producing and exporting bananas in developing countries. As one of the very first MNE, it asked its country subsidiaries to collaborate with the Rainforest Alliance (RA) to improve its social and environmental sustainability performance in the early 1990s. In 2000 all Chiquita-owned farms were RA certified, and by 2012 it upgraded 75% of its local suppliers to become compatible with the RA

standard. In this period, its subsidiaries started with a homeownership program for their employees, local nature and community projects such as 'Nogal' in Costa Rica together with the Swiss retailer Migros, the Mesoamerican Reef Project with WWF, and the Panama Biodiversity Project ('San San') with the German retailer REWE.

In addition, the company continuously improved the strict implementation of sustainability practices in banana cultivation and processing, reduced its carbon footprint (in collaboration with the Massachusetts Institute of Technology, MIT) as well as its water footprint in collaboration with WWF International. Its efforts have been widely acknowledged by external reviews<sup>11</sup> and reported in the Economist in 2012 under the title 'Going Bananas' (because all these investments in sustainable change would not have paid off in terms of an improved reputation). Its commitment to local embeddedness has been documented by three master theses conducted in Guatemala, Costa Rica, and Panama at ETH Zurich in 2016. These theses were part of a project on the impact of local embeddedness of Swiss-based MNE on sustainability in developing countries<sup>12</sup>. The critical field research conducted by the students discovered many positive side effects for the local economy that resulted from the commitment of Chiquita subsidiaries to embed themselves into the domestic economy. Often these side effects were not documented in Chiquita's sustainability report because they attributed them to the long-term business strategy rather than a concrete sustainability strategy. But the students also uncovered local challenges due to local institutional and economic uncertainties that the company may be able to address more effectively. Despite the fact that Chiquita turned from a public into a private company in 2015 after having been acquired by the Brazilian fruit juice producer Cutrale, Chiquita continued to stick to its progressive CSR strategy and remained open-minded to critical issues that the students raised in their field research. Many large retailers in Europe refuse to acknowledge Chiquita's record as a pioneer in the field of CSR and sustainability in banana production (Schwab 2017). These retailers tend to point out that consumers still do not associate Chiquita with sustainability. As a consequence, many large retailers prefer to

exclusively sell Fairtrade and organic bananas to their consumers to signal their sustainability commitment (Aerni 2013). In addition Migros came up with its own model project of banana production in collaboration with WWF. However, Migros has yet to provide evidence of sustainability improvements it has attained that go beyond the performance achieved in collaboration with Chiquita (Schwab 2017). In fact, the so-called COSA study that compares the performance of different sustainability standards in agriculture suggests that organic and Fairtrade have improved little in performance compared to less known labels such as UTZ and the Rainforest Alliance<sup>13</sup>. The challenges of organic farming labels in developing countries are also documented in numerous publications (Dragusanu et al. 2014, Ronald & Adamchak 2008, Paarlberg & Paarlberg 2008). What is especially odd in organic banana production is the fact that water is considered a natural ingredient and therefore its use is unrestricted. This explains why organic banana production is mostly found in rather arid zones because it relies heavily on irrigation. The fairness of Fair Trade has been questioned by Fridell (2007). More recently, Clark & Hussey (2016) argued that describing fair trade as an effort to re-embed the agricultural economy in the way Polanyi envisioned it is misleading. Stakeholders in the developed world define fair trade standards, not the local people; and local fair trade production is not designed for domestic consumption but for affluent consumers abroad who are prepared to pay a premium price to feel good about their ethical behavior. The unwillingness of fair trade cooperatives to embed themselves into national sustainability strategies has become apparent in Costa Rica, a country which aspires to be the leader in sustainable banana production in tropical countries. In this context, the Corporación Bananera Nacional Corbana, S.A. (CORBANA), an organization partially owned by the banana growers of Costa Rica, seeks to get the geographical indication (GI) accreditation of 'Banano de Costa Rica' as a national sustainability label for banana production<sup>14</sup>. As such it collaborates with all key stakeholders in the banana business and sustainability certification. Oddly, fair trade cooperatives are not part of this collaboration. They

argue that they have to follow the instructions demanded by the retailers in importing countries.

#### 4.2 Embeddedness and its link to sustainability and corporate responsibility

The case studies in the previous chapter illustrate that the term 'embeddedness' also has a strong relationship to corporate responsibility and sustainability. After all, a private organization that is locally embedded and abides by its self-imposed principles of corporate responsibility is more likely to assume active responsibility for the local people and their environment and bring prosperity to the region.

The ISO 26000 Standard on Corporate Social Responsibility (CSR) as well as the OECD Guidelines for Multinational Enterprises (MNEs) point out that multinational corporations should get involved in local community development. 'Community Development and Involvement' is, in fact, one of the priority areas of ISO 26000 and can be interpreted as a commitment to local embeddedness. However, the wording of the ISO 26000 standard very much reflects the spirit of the UN Guiding Principles on Business and Human Rights (UNGPs) and its focus on minimizing potential risks of FDI for human rights. In accordance with the view of embedded liberalism (Ruggie 1982), the common goal of ISO26000, as well as UNGPs, is to tell MNEs how to become good corporate citizens by refraining from doing bad things to people and the environment while contributing to general wellbeing. The narrative is implicitly still guided by Karl Polanyi's argument that a self-regulating market leads to social disruption and causes disembeddedness of local traditional economies.

#### 5. Concluding remarks

Karl Polanyi's highly influential book 'The Great Transformation', published in 1944, addressed a lot of important concerns related to the global expansion of the formal market economy and its potential to disrupt and disembed traditional economic systems. In many ways, he proved to be a visionary in anticipation of the increased ability and agility of MNE to act beyond existing national regulatory regimes in the age of the globalization. The view of a global economy dominated by rootless MNE that would undermine national solidarity,

decrease the bargaining power of national stakeholders, increase social inequality, and thrive on poor working conditions in developing countries has caused a backlash against economic globalization.

It is undeniable that economic globalization produces winners and losers and that the losers need to be not just compensated but also coached in their efforts to become re-integrated into economic life. But what is exactly the alternative to a modern trade-oriented and innovation-driven market economy? History shows that there has never been a past, as often imagined by the critics of globalization, where people lived in harmony with nature, and were able to ensure that everyone has enough for a productive and fulfilling life. The past was instead characterized by war-mongering feudalist regimes that were dominated by rent-seeking elites that oppressed and exploited their subjects for the sake of achieving particular political and military goals. They mostly competed for land not through trade deals but by waging war. These regimes that became rich through war rather than trade produced a much greater percentage share of losers than today's trade regimes that leave room for social mobility and economic empowerment. This probably explains why Polanyi does not distinguish between empires that became rich through trade and those that became rich through war.

Polanyi's normative view of economic globalization as a force of disembeddedness has nevertheless become very popular in affluent economies. The line of argumentation is that MNEs are merely disembedding traditional economies in developing countries and that therefore development cooperation and philanthropic activities need to be focused on efforts to compensate or protect these embedded traditional economies. This view tends to cement existing structures rather than induce structural change because these countries need economic integration, not isolation to cope with population growth and the resulting economic, social, and environmental challenges.

Despite their potential contribution to economic integration, MNE that invest in fragile developing countries may increasingly face reputation problems because their primary goal is indeed to generate a return on investment rather than to provide

development assistance to the poor. It is therefore quite easy for anti-MNE activists to denounce FDI in fragile developing economies as 'land-grabbing' or 'exploitation of poor labor and environmental standards'. As a consequence, many MNE prefer to focus again on domestic investments in advanced, stable economies and divestments in high-risk developing economies; even though the potential positive long-term impact of their investments would be lowest in the former, the affluent minority world, and greatest in the latter, the struggling majority world. In other words, they focus on managing and preserving prosperity rather than spreading it. This is hardly desirable given the general insight that private sector involvement is necessary for the global effort to achieve the UN Sustainable Development Goals (SDGs) by 2030.

Since knowledge-based MNE are often at the core of expanding global formal and informal networks related to GVCs, they play a crucial role in the economic integration of less developed regions by decreasing the transaction costs of doing business. Local businesses that receive the necessary investment to comply with the global standards of the respective GVC become suppliers of the foreign MNE. As such they automatically attract more investment, hire more local people and enhance local economic opportunities for the outsiders in the region. As such, MNEs are not merely replacing informal transactions with formal transactions but are creating alternative informal and formal networks in the region with low transaction costs. These are not replacing traditional economic networks but must be conceived as complementary to pre-existing ones that are often still characterized by feudal structures. They increase the choice for local people in search of economic opportunities and may prove more attractive to local people if they manage to address the three coordination problems related to value, competition, and cooperation in an effective and fair way.

MNE address these coordination problems by involving local social and economic networks in defining the terms of reference of market interaction. As a consequence, an MNE that is interested in long-term investments in a particular

country will encourage its subsidiary there to engage with local stakeholders to learn what they expect from the presence of the MNE in their country. If the MNE is committed to 'principled embeddedness' in the sense that it has many ties to the local economy while simultaneously sticking to its own corporate responsibility principles, it may eventually earn social capital in the form of public trust within the region. This enhances its freedom to operate and lowers its transaction costs of doing business. In other words, 'principled embeddedness' has nothing to do with disembedding first local economic structures and then compensating for the damage done. Instead it is all about benefiting the foreign investor as much as the local stakeholders. So the foreign investor is not disembedding but enhancing the value of the locally embedded economy by contributing to its diversification, its technological and managerial upgrading, and its integration into global value chains.

The strategy of 'principled embeddedness' of MNE and how their subsidiaries concretely implement it has been illustrated using four brief but actual case descriptions in this paper. They all show that such a strategy significantly contributes to the flourishing of the local economy as well as to achieving the UN SDGs since their local public-private partnerships do not just benefit the MNE and its employees but also contribute to poverty reduction, better education, improved health, and more economic opportunities for the local people.

For sure MNE are no saints and abuses of their economic and political clout in fragile developing economies are well-documented. But rather than merely focusing on minimizing the potential risks of foreign FDI, CSR ratings should also award the 'moral courage' of those MNE that invest in such high-risk economies by following a strategy of principled embeddedness that enables the local private sector to benefit from the knowledge and know-how of global networks related to GVCs.

MNEs that have this moral courage are of crucial importance in the spread of prosperity to people who are trapped in informal and traditional economies that do not generate sufficient and decent work for a growing young population and are



dominated by embedded structures that are based on rent-seeking patron-client systems that prevent economic empowerment. This makes their embedded foreign direct investment more valuable in efforts to achieve the UN SDGs than the widely communicated corporate social responsibility activities and are now being linked to numerous SDGs.

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## Endnotes

1 See <http://www.ohchr.org/EN/Issues/Business/Pages/BusinessIndex.aspx>

2 See <https://www.iso.org/iso-26000-social-responsibility.html>

3 The basic unit of the manorial system was the manor, a self-sufficient landed estate, or fief, which was under the control of a lord. As a representative of the aristocracy or the clergy, the lord enjoyed a variety of rights over the estate and the peasants attached to it by means of serfdom.

4 See for example the UNDP initiative on livelihood and jobs: <http://www.undp.org/content/undp/en/home/ourwork/sustainable-development/development-planning-and-inclusive-sustainable-growth/livelihoods-and-jobs.html>

5 CTI is the Swiss Federal Commission on Technology and Innovation (<https://www.kti.admin.ch/kti/en/home.html>). It

sponsors research at universities that is considered to be of commercial value in the private sector.

6 See <http://www.ccrs.uzh.ch/en/research/sustainable-impact/projekte/local-embeddedness.html>

7 See <http://www.ccrs.uzh.ch/en/News/embeddedness-panel-en.html>

8 See <https://www.nestle.com.ph/aboutus/history>

9 See <https://www.vsointernational.org/fighting-poverty/improving-livelihoods/improving-food-security-for-smallholder-farmers-in-bangladesh>

10 See <http://www.fao.org/in-action/tropical-agriculture-platform/resources/reports/en/>

11 See Chiquita Assessment funded by the Fondation Guilé ([http://www.guile.org/wp-content/uploads/2015/06/Book-Interactif\\_300dpi.pdf](http://www.guile.org/wp-content/uploads/2015/06/Book-Interactif_300dpi.pdf))

12 See <http://www.ccrs.uzh.ch/en/research/sustainable-impact/projekte/local-embeddedness.html>

13 See <https://thecosa.org/wp-content/uploads/2014/01/The-COSA-Measuring-Sustainability-Report.pdf>

14 See <http://www.wipo.int/ipadvantage/en/details.jsp?id=3111>

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# Sustainable and Future-Oriented Cocoa Production in Ghana: Analysis of the Initiatives of two Swiss Chocolate Manufacturers

Tanja Sostizzo, CCRS

## Abstract

Sustainability remains high on the worldwide agenda in the cocoa sector as numerous problems threaten its viability. This study gives a broad picture of the Ghanaian cocoa sector and examines the initiatives of two Swiss chocolate manufacturers aiming at a more sustainable and future-oriented cocoa production in Ghana.

The study reveals many challenges the Ghanaian cocoa sector is facing. The entire sector is highly regulated and controlled by the Ghana Cocoa Board (COCOBOD); the scope of influence of the private sector is limited. The COCOBOD shows rent-seeking behaviour and patronising attitudes. To attract investments from cocoa farmers, cocoa production would have to become a profitable business for them. The case study reveals that certification helps to increase both yields and income of the farmers. However, certification schemes are by far not sufficient to pull farmers out of poverty. As the projects of the two chocolate manufacturers focus on the diversification of the farmers' income, they have the potential to improve the livelihoods of farmers. Because chocolate manufacturers, through their core business activities, cannot directly interact with farmers given the state control of the sector, its development is limited. Large-scale improvements of the whole cocoa sector go beyond the sphere of influence of chocolate manufacturers and must come from the Ghanaian government.

Keywords: cocoa, Ghana, sustainability, corporate social responsibility, private sector initiatives

## 1. Introduction

The word sustainability is defined by the Oxford Dictionaries as “the ability to be maintained at a certain rate or level”.<sup>1</sup> It originates from the two words sustain and ability.<sup>2</sup> Sustainability is inextricably linked to social, environmental and economic issues (Glavic and Lukman, 2007, Sneddon et al., 2006 and Drexhage and Murphy, 2010). It means that something should be sustained over a long period of time (Costanza and Patten, 1995), but it is a dynamic concept linked to innovation (COSA, 2013 and Aerni, 2015). Although essential functions of an individual system should be preserved (in this case the cocoa production), this does not automatically imply that the system itself should not be altered and adapted. In the end, whether a

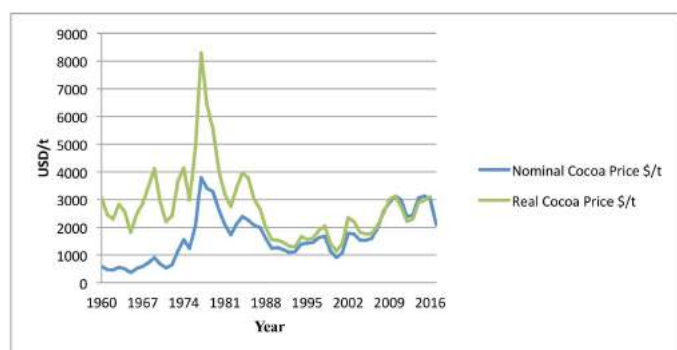
particular system is sustainable can only be determined in the future, and therefore the contextualised definitions of sustainability are seen by Costanza and Patten as “predictions of actions taken today that one hopes will lead to sustainability” (Costanza and Patten, 1995).

In the context of sustainability and sustainable development the private sector has a stake and plays an important role. This is where the concept of corporate social responsibility (CSR) and creating shared value (CSV) comes in (Porter and Kramer, 2011). Actions and initiatives resulting from CSR strategies are conscious decisions of the management to positively influence people and the environment affected by the company's operations (Frederick, 2008 and Dubielzig and Schaltegger, 2005). As a result, the company is better connected to and embedded in society (Frederick, 2008). Consequently, CSR strategies, which are built on embeddedness, can enhance sustainable development (Frederick, 2008). In addition, the company creates shared value when it recognises specific demands in society and develops new business models or products to meet these needs (Porter and Kramer, 2011 and Pfitzer et al., 2013). It is a win-win situation for society and the private sector. According to Porter and Kramer, the idea of shared value goes even beyond the concept of CSR (Porter and Kramer, 2011). They claim that societal issues should be at the core of each business and not treated at the periphery by CSR programmes of the firm (Porter and Kramer, 2011). Pfitzer et al. give a variety of convincing examples of how the concept of shared value has positively influenced societies, especially in developing countries (Pfitzer et al., 2013).

Figure 1 Real and nominal world market price from 1960 to 2016

Sustainability is also a big issue discussed in the cocoa sector worldwide (Technical Centre for Agricultural and Rural Cooperation, 2013). The

Figure 1 Real and nominal world market price from 1960 to



2016. The real world market price is adjusted for inflation on the basis of the year 2010. The figure shows that the current cocoa price is rather on the low side although it increased over the past years. (Data source: International Cocoa Organization Secretariat; World Bank)

Global Cocoa Agenda states that “over the past decades, the global cocoa sector has been operating in an unsustainable manner raising concerns over its future” (Global Cocoa Agenda, 2012). Even though there are many different ways to achieve a more sustainable cocoa production (COSA, 2013), a holistic approach is crucial and has to go beyond certification (Cocoa Barometer, 2015 and Abidjan Cocoa Declaration, 2012). Cocoa experts agree that certification or a particular sustainability standard or label cannot be used interchangeably with the term “sustainable cocoa production” (COSA, 2013 and Cocoa Barometer, 2015) as the latter encompasses much more.

Most of the 5.5 million smallholder cocoa farmers worldwide are living in poverty (Cocoa Barometer, 2015 and Consultative Board on the World Economy, 2010). Since cocoa originates from the rainforests of Central America and thrives in warm and wet climate, it grows in the tropical regions of Africa, South and Central America and Asia (Hütz-Adams, 2010 and The World Bank, 2011). However, these areas host important biodiversity hotspots (Ruf, 2007). The sustainability of the current system can be questioned given that yields are low worldwide and there is a lack of investments into cocoa by farmers (Consultative Board on the World Economy, 2010 and Schroth et al., 2016). The latter tend to expand the area under production instead of intensifying the production or rehabilitating old plantations (Ruf, 2007). Thus, cocoa production is a driver of deforestation and environmental

degradation (Ruf, 2007 and Gockowski and Sonwa, 2010). Additionally, the farming population is ageing, revealing that cocoa is not attractive for young, better-educated people (Anyidoho et al., 2012). Hence, it is important to improve the economic situation of farmers by implementing practices that help to protect the environment at the same time (Ruf, 2007).

West Africa produces around 70% of total world cocoa production – Ivory Coast is the largest and Ghana the second largest producer (Cocoa Barometer, 2015 and Hütz-Adams, 2012). The highest consumption of cocoa is in Europe (Cocoa Barometer, 2015 and Hütz-Adams, 2012). The value chain shows that most value-added happens at the end of the chain by the manufacturers and retailers in Europe and North America (Cocoa Barometer, 2015). The money does not accrue to the producers at the very beginning of the chain who heavily depend on exports (Hütz-Adams, 2013). The world market price adjusted for inflation is rather low nowadays compared to the early 1980s (Figure 1). This means that the income situation for cocoa farmers has worsened over the past decades (Consultative Board on the World Economy, 2010 and Hütz-Adams, 2012). Thus, significant changes to sustain and intensify cocoa production are critical to turn it into a profitable and viable business for farmers and making it future-oriented.

Since the future of the cocoa production is threatened due to the bad situation of cocoa farmers, many organisations including cocoa bean processors and manufacturers get engaged in activities that aim to achieve a more sustainable cocoa production and to mitigate supply deficits in the future (Barrientos et al., 2007 and Hütz-Adams and Voge, 2014). Furthermore, consumers’ concerns about the social and environmental conditions that surround cocoa production foster the engagement of firms (Barrientos et al., 2007, Gao et al., 2016, Auger et al., 2003 and Schneider and Schmidpeter, 2015). Several companies work with labelling organisations such as Rainforest Alliance, Fairtrade or UTZ; others have designed special projects to foster a more sustainable cocoa production and some combine both approaches (Cocoa Barometer, 2015).

This study investigates if private sector initiatives lead to a more sustainable and future-oriented

cocoa production. To do so, it focuses on the CSR initiatives carried out by two Swiss chocolate manufacturers in Ghana. The two enterprises, Läderach (Schweiz) AG and Chocolats Halba, can be seen as representative of the upper and medium price segment of the Swiss chocolate industry. Whereas Läderach is a family-owned business that sells high-quality and high-priced chocolates directly to consumers, Halba is a subsidiary of Coop (Swiss grocery retailer) and sells mid-priced chocolates to business customers. Both companies source most of their cocoa beans from Ghana. Even though Ivory Coast is the world's largest cocoa producer, Ghana is Switzerland's principal cocoa supplier.<sup>3</sup>

## 2. Research Question and Methods

Central to this research is the question of whether the initiatives from the private sector lead to a more sustainable and future-oriented cocoa production in Ghana. To satisfactorily answer this question, it is important to consider key features of the Ghanaian cocoa sector and to comprehend how sustainable production is perceived. The first part of the study consists of a literature review, which is complemented with qualitative expert interviews. This part examines the social, economic, ecological and political issues concerning the Ghanaian cocoa sector and the current state of best farming practices. In total 17 experts were interviewed.

The second part of the study is an analysis of the initiatives implemented by the two chocolate manufacturers in Ghana. The companies' sustainability goals and status of implementation was assessed following qualitative interviews with employees knowledgeable of the companies' sustainability initiatives. The impacts of the CSR initiatives were evaluated through quantitative surveys among participating farmers and controlled for external effects. The two companies buy only labelled beans, which is a common tool among chocolate manufacturers to attain a more sustainable cocoa production. The focus therefore was on the evaluation of the effects of certification. Additionally, each of the companies carries out a project in Ghana that goes beyond certification. These projects were in a pilot phase when this study

was conducted. Hence, some initial indications could be gained about possible outcomes of the projects.

For each case study a treatment and control group was created. Farmers that had been certified for less than three years (control group) were compared with farmers who had been certified for more than three years (treatment group). In total, 71 farmers from four villages were interviewed for the "Läderach" case study and 87 farmers from five villages for the "Halba" case study. Translators filled out the highly structured questionnaires together with the farmers. In the "Läderach" case study additional data was used from Olam Ghana (licensed buying company that works together with these farmers) that relates to the number of cocoa bags farmers sold in one year. This data is more accurate than the data gathered during the surveys since it is based on the records of Olam Ghana and not on the memory of the farmers.

## 3. Results

The following sections explain the challenges faced by the Ghanaian cocoa sector in different areas. The findings are obtained from the analysis of the expert interviews, unless otherwise stated. Furthermore, the results from the case studies are presented.

### 3.1 Overview of the Ghanaian Cocoa Sector

#### Political Dimension and Framework Conditions

The Ghanaian cocoa sector is heavily regulated and controlled by the Ghana Cocoa Board (COCOBOD). The COCOBOD is a governmental organisation that is mandated to sell cocoa on behalf of the farmers (Ecobank Report, 2014). Farmers are required to sell all of their cocoa through a licensed buying company (LBC) to the COCOBOD. The Cocoa Marketing Company, a subsidiary of the COCOBOD, is the only firm allowed to export cocoa (Ecobank Report, 2014). The COCOBOD determines the price for the farmers at the beginning of main crop season (starting in October) for one year. Irrespective of the quality, all farmers receive the same price per bag (Opuni, 2015). According to experts, it is problematic that the COCOBOD uses part of the cocoa revenue to subsidise fertiliser, pesticide and seedling distribution among farmers, to build roads, provide scholarships and construct schools in cocoa growing areas.

Spending in these areas directly reduces the price farmers receive for cocoa beans. Experts perceive this as rent seeking activities and patronising actions by the government. According to experts, this is particularly the case for the distribution of inputs, which is inefficient and reaches only part of the farmers. Additionally, experts state that farmers pay disproportionately high income taxes. Since the cocoa sector is controlled, it is much easier to collect taxes from cocoa farmers than from other farmers.

Due to the strict quality control system of the COCOBOD, Ghanaian cocoa is considered to be the gold standard on the world market and therefore receives a price premium (Ecobank Report, 2014). Most experts agree that a certain regulation of the sector is beneficial. Generally, farmers seem to appreciate the fixed and stable prices (Knudsen and Foldi, 2010). However, there are divergent views on the extent of the regulation, the efficiency of the current system and the size of the COCOBOD. It is stated that the extreme extent to which the market is controlled nowadays tends to hinder sustainable development.

### *Economic Dimension*

To date, cocoa remains a major source of foreign exchange revenue for Ghana and is therefore very important for the country (Essegbey and Ofori-Gyamfi, 2012). Furthermore, it is an essential source of employment (Hütz-Adams, 2012); about one million Ghanaians depend directly on the sector (Hütz-Adams, 2012). According to experts, cocoa farmers seem to be better off than other rural dwellers, but most of them still live in poverty. Farmers sell on average around one ton of cocoa per year. Thus, the average income from cocoa is about 1700 USD per year (calculation done by the author with a producer price of 425 GHS per 62.5 kilograms). The high inflation of the Ghanaian cedi aggravates the situation. Farm sizes are small, and yields and producer price remain low. Currently, farmers receive about 60% of the world market price. The situation discourages farmers from investing in their farms. Most experts agree on the need to diversify the sources of income of the farmers and help them to first of all become food secure to improve their economic situation. It is

crucial that farmers see cocoa farming as a business and have access to knowledge, loans and markets to boost their income. Experts also state that farmers should be allowed to process their cocoa beans to add value at the source of the value chain. Additionally, it is important to increase cocoa yields in an environmentally sound manner.

### *Environmental Dimension*

As more and more land has been brought under cultivation, cocoa farming in Ghana has become a source of deforestation, environmental degradation and soil depletion. Interviewed experts stress the importance of applying production practices that increase soil fertility and biodiversity and foster the resilience of plantations against pests and diseases and climate change. Since cocoa can grow in combination with trees and other crops, most experts promote agroforestry systems that help to increase the biodiversity of the plantations and positively influence the microclimate. In their view it is critical to rehabilitate old farms to avoid further deforestation. The pros and cons of the use of pesticides and synthetic fertilisers are currently under debate. For some, it is unavoidable to use agrochemicals, while others claim that this is an unsustainable practice.

The average yield of 450 to 600 kilograms of dried cocoa beans per hectare in Ghana reveals that farmers are not following the recommended good agricultural practices (GAP). Experts point out that realistic potential yields are about double the current yield.

### *Social Dimension*

The farming population is ageing. According to experts, farmers' children with a good education tend to move to the cities because of deficient infrastructure in rural areas and the low revenues offered by cocoa farming. This exacerbates an already problematic land tenure system. Many absentee farmers employ caretakers on their farms. These workers earn about one half or even only one third of the total revenues of the farms. Additionally, experts claim that the average farm size is rather low and that there is a lack of farmers' organisations. The

latter factor reduces the bargaining power of farmers and makes them more dependent on the COCOBOD.

Child labour is not seen as a major issue specifically in the Ghanaian cocoa sector, but as a general problem in Ghana. It is suggested that the government address this issue in a holistic and comprehensive way.

### 3.2 Case Studies

#### Initiatives of the Chocolate Manufacturers

Facing these problems, Läderach and Halba want to improve the situation of cocoa farmers. For both companies, certification is a first step in this direction. Läderach purchases Rainforest Alliance certified beans and Halba partners with the biggest Fairtrade cooperative in Ghana, Kuapa Kokoo. Certification gives the two companies a basis that should exclude certain unsustainable practices such as child labour. Läderach is implementing its “family life” project in four farming communities. It consists in building or rehabilitating five boreholes for the farming communities such that they can access clean drinking water. Furthermore, Läderach wants to help farmers to establish a business besides cocoa farming. Therefore, a few farmers or their wives are invited to participate in a course about soap production or rearing of the greater cane rat. Läderach paid for the inputs to start the enterprises. However, it is unclear how many farmers will profit in the end.

In Ghana, it is illegal to enter into a contract with farmers or farmers’ cooperatives to directly source cocoa beans. The Ghanaian government fixes the farm gate price. That is why Läderach cannot pursue its general strategy of sourcing beans directly from farmers or cooperatives and paying them higher and stable prices for high quality beans.

Chocolats Halba wants to support farmers and to protect the environment by implementing a dynamic agroforestry system. At the core of this production system is the diversification of the farm, which leads to higher food security, increases the income of farmers and is beneficial for the environment. Extensive pruning and selective weeding should restore the quality of the soil (all organic matter is left on the ground for decomposition) and the

diversity of the plantation should prevent the spreading of pests and diseases. With such a system, the productivity of cocoa can be increased by implementing environmentally sound production practices and its resilience against climate change is increased. The goal of Halba is to train 1000 farmers and to convince them to produce cocoa based on the dynamic agroforestry system. To do so, Halba partners with other organisations and receives third party funding for its project. The pilot project in Ghana has just started with a few farmers dedicating part of their plantation to the agroforestry approach. Despite the short span of time, there is already a visible difference between the conventional slash and burn approach and the dynamic agroforestry approach. This is shown in Figure 2 and 3. The pictures show the initial phase where food crops are dominating the plantation. They give evidence that the dynamic agroforestry approach leads to a much faster growth of these food crops.

Figure 2 Dynamic agroforestry: newly established cocoa plantation after a few months.



Figure 2 Dynamic agroforestry: newly established cocoa plantation after a few months. The plantation was established according to the dynamic agroforestry system. When a cocoa plantation is newly established, food crops such as maize, beans, cassava, yams, cocoa yam, tomatoes, pepper, ginger and others are planted. These crops provide the farmers with income and food in the first years before the cocoa trees are bearing fruits. At the same time high-grade woods and fruit trees are planted that will increase the income of the farmers in the future. (Photo by author, 2016)



Figure 3 Slash and burn method: newly established cocoa plantation after a few months.



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Ghanaian farmers often use this method to rehabilitate old or establish new farms. The plantations shown in Figure 2 and Figure 3 were established at the same time by the same farmer. (Photo by author, 2016)

### 3.3 Results of the Farmer Surveys

The results of the farmer surveys show that in both cases, certification helped to increase the yields and also the annual income of the farmers (Figure 4). Although the difference between the treatment and control group in the gross income derived from cocoa is statistically significant, farmers from the treatment group in both case studies remain poor. In fact, farmers in both case studies stated their dissatisfaction with their economic situation and pointed out that their situation has worsened over the past years, irrespective of the duration of their participation in the certification programmes. By looking at the factors that influence income, in the case study of Läderach, the income derived from cocoa depends more on the farm size than anything else. Furthermore, the income and yields were more closely related to the specific community farmers are living in than the certification. Thus the main determiner of the income can hardly be influenced by Läderach's operations. In the Halba case study,

the correlation between the farm size and the community and income of farmers is weaker.

Figure 4: Gross income from cocoa production (H= Halba case study, L= Läderach case study)

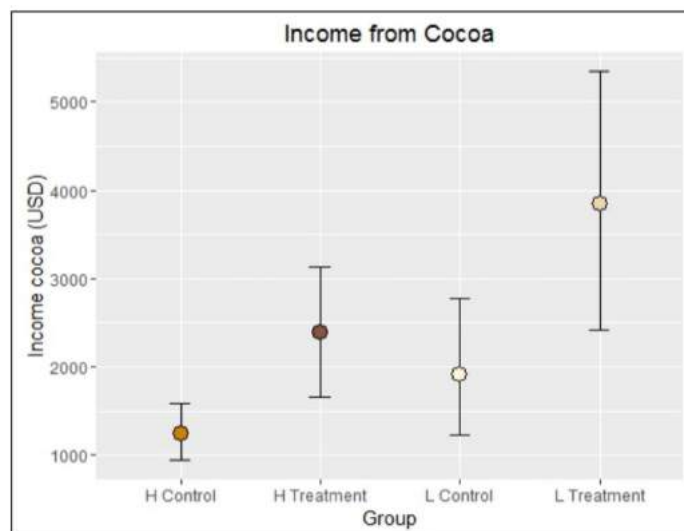


Figure 4: Gross income from cocoa production (H= Halba case study, L= Läderach case study). In the Läderach case study, data from Olam Ghana was used from the cropping season 2014/2015 regarding the number of bags farmers sold to Olam Ghana. In the case of Halba, data derived from the farmer interviews was used. The error bars show the 95% confidence intervals. The independent t-test shows a significant difference between the L Treatment (M= 3'846, SE=746) and L Control (M= 1'912, SE=408;  $t_{(45.5)} = -2.28$ ,  $p < 0.05$ ) and between H Treatment (M= 2383, SE= 372) and H Control (M= 1251, SE= 165;  $t_{(69.8)} = -2.78$ ,  $p < 0.01$ ).

In the Läderach case study, data from Olam Ghana was used from the cropping season 2014/2015 regarding the number of bags farmers sold to Olam Ghana. In the case of Halba, data derived from the farmer interviews was used. The error bars show the 95% confidence intervals. The independent t-test shows a significant difference between the L Treatment (M= 3846, SE=746) and L Control (M= 1912, SE=408;  $t_{(45.5)} = -2.28$ ,  $p < 0.05$ ) and between H Treatment (M= 2383, SE= 372) and H Control (M= 1251, SE= 165;  $t_{(69.8)} = -2.78$ ,  $p < 0.01$ ).

Part of the higher yield recorded for the treatment groups is due to somewhat better farming practices of these farmers. However, from the results of both case studies, no clear conclusion can be drawn about which production methods really influence yields. When considering environmental aspects like the number of shade trees per hectare there is no difference between the treatment and control group in both case studies. But because many farmers experienced drought the year before, most of them

are willing to increase the number of such trees on their farms.

Assessing the use of inputs such as agrochemicals and fertiliser, farmers in the Läderach case study rely on supplies from the COCOBOD. None of the Läderach farmers bought fertiliser or pesticides on their own, but not all farmers had access to free inputs from the COCOBOD. On the other hand, nearly all farmers from the Halba case study used fertiliser and pesticides. These farmers were also willing to buy inputs from private sellers. Likewise not everyone in this group received inputs from the COCOBOD. Farmers are willing to invest in their farms but lack the financial means. When asked to identify and prioritise their needs, building of infrastructure ranked high in both case studies, reflecting the situation in rural Ghana (Figure 5). Often essential infrastructure such as boreholes, paved roads, schools and medical centres is lacking. Furthermore, farmers would like to access bank loans and free inputs such as fertilisers or agrochemicals. The request for inputs is in conflict with the sustainability objectives of the companies. However, it also shows that farmers are struggling to buy inputs given the low farm gate price for cocoa and the lack of access to financial means.

Figure 5 Requested support from chocolate manufacturers

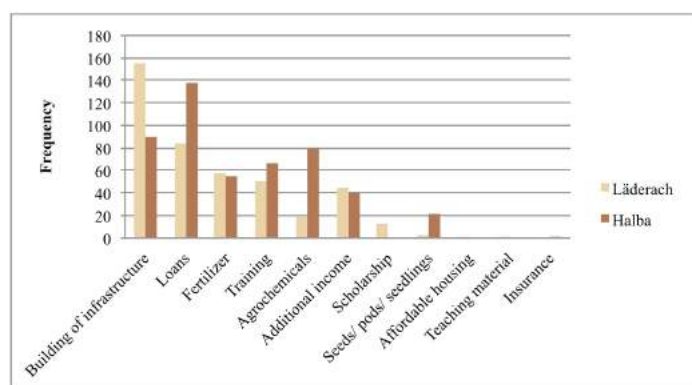


Figure 5 Requested support from chocolate manufacturers. Farmers could give their three priorities for how the chocolate manufacturers should support them. To their first priority three points were given and to their second and third two and one point, respectively.

Farmers could give their three priorities for how the chocolate manufacturers should support them. To their first priority three points were given and to

their second and third two and one point, respectively.

Nearly all children of the interviewed farmers in both case studies go to school and are able to complete primary education. However, the schoolchildren might not be at the right grade for their age. Interestingly, farmers from the Läderach case study do not mind their children becoming cocoa farmers. On the contrary, the farmers from the Halba case study do not want their children later on to work on the farms. Reasons for this might be that more children in the Halba case study reached higher education compared to the Läderach case study and the farmers’ income in the Läderach case study is higher than the one of the Halba farmers. Hence, cocoa farming is a more attractive option for the farmers’ children of the Läderach than of the Halba case study. Furthermore, the answer to this question also depends on the farmers’ understanding of the term “cocoa farmer”. Some also consider themselves to be cocoa farmers when they are the owner of the plantation but engage a caretaker to work on the farm.

#### 4. Discussion

The central research question of whether the initiatives of the private sector lead to sustainable and future-oriented cocoa production in Ghana cannot be easily answered. The results from the expert interviews and the literature review reveal that it tends to be difficult for chocolate manufacturers to engage with farmers and to foster a more sustainable and future-oriented cocoa production. Challenges faced by the cocoa sector in Ghana, such as land tenure, farm size and farm gate prices, go beyond the scope of influence of the private sector. The institutional framework conditions in Ghana prevent private companies from directly interacting with cocoa farmers and integrating them into the value chain. It is impossible for the firms to embed in the local context. The extent to which certification can improve the farmers’ situation is limited. Nevertheless, some positive effects from the CSR initiatives of the two chocolate manufacturers are found in both case studies.

#### 4.1 Scope of Influence of the Chocolate Manufacturers

Chocolate manufacturers have a very limited scope to influence different areas of the Ghanaian cocoa sector. The COCOBOD fixes a single price for cocoa such that farmers cannot receive premiums for higher qualities. Chocolate manufacturers cannot influence this pricesetting as they are not allowed to negotiate with farmers. The consequence is that the firms are not able to directly alter the economic situation of the farmers through premium payments that would lead to higher farm incomes. The only possibility to pass on higher prices to farmers is through certification schemes that provide premiums. However, a big portion of the premium money is used by the COCOBOD and the LBCs to guarantee the traceability of cocoa. Another major part of the premium money is used to pay the training that farmers receive in order to comply with the standards of the label. The little premium money that reaches the farmers does not substantially change their situation. This was also found in the COSA study (COSA, 2013).

Farmers receive less than 60% of the price that the manufacturers pay. Even though the COCOBOD provides certain services to farmers, they are taxed heavily. This is considered to be rent seeking by the government. Tax revenues from cocoa are then used to fund rural and urban development. While cocoa farmers pay disproportionately high taxes, farmers that deliver food crops to local markets cannot be taxed at all due to the lack of institutional framework.

Ghanaian cocoa beans are normally of excellent quality. Although this leads to a price premium on the world market, it might discourage interventions from the side of processors and manufacturers. Companies do not have to engage with farmers to get high-quality beans. There is also no need and no possibility to pay higher prices to farmers that deliver good quality. Additionally, it is difficult to assure that the cocoa beans from farmers who profit from a certain intervention of a company are sold to this company. Since the beans pass through the LBC and the COCOBOD it is difficult to receive specific beans; this is particularly the case for small amounts. In the

area of quality control, collaboration between the quality control unit of the COCOBOD and chocolate manufacturers might benefit both sides as well as the farmers.

One area chocolate manufacturers can influence is the yield and the diversification of farmers' income. Through training, GAP can be passed on to farmers and the start of other businesses besides farming can be facilitated. Training in GAP can also tackle environmental issues. Firms could incentivise the planting of shade trees on the plantations to compensate for CO<sub>2</sub> emissions. However, the training of farmers is not a business case for the processors and manufacturers per se. Still, there is a particular motivation for the companies to engage directly with farmers. This motivation is based on the fear of supply deficits, which would provoke higher world market prices, or can reflect a marketing strategy and mitigate bad press about the company. Since consumer awareness is rising, manufacturers' sustainability initiatives can be used as a purchasing argument.

Social issues such as land tenure systems and child labour are not unique to the cocoa sector in Ghana. They are systemic problems that need to be addressed at the national level and require a holistic approach. However, this goes beyond the duties of chocolate manufacturers.

#### 4.2 Effectiveness of the Interventions

Generally, initiatives of the private sector that are built on voluntary standards have limited influence to combat the violation of human rights and environmental degradation (Cocoa Barometer, 2015). For Läderach and Halba, certification helps to exclude certain unsustainable and unethical practices in the value chain. However, audits are often not capable of detecting all non-conformities with the standards on the farms (Cocoa Barometer, 2015). The right framework conditions and legal settings must be in place to foster sustainable cocoa production (Cocoa Barometer, 2015). Thus, the effectiveness of sustainability initiatives depends for the most part on the local context (COSA, 2013). Although there have been many interventions in the Ghanaian cocoa sector over the past years, major problems persist. This raises doubts on the

effectiveness of past initiatives by the private sector, NGOs and the Ghanaian government.

The overall strategy of Läderach is to achieve a win-win situation through strong relationships and direct contracts with cocoa producers. The resulting stable prices and superior quality of cocoa benefits both parties. This is consistent with the idea of CSV by Porter and Kramer (Porter and Kramer, 2011). However, in the context of the Ghanaian cocoa sector, Läderach is not able to pursue its strategy due to adverse institutional framework conditions. Läderach cannot enter into contractual agreements with farmers or farmer groups. Even though Läderach is willing to pay higher prices for quality cocoa, the institutional framework in Ghana makes this impossible. In this case the COCOBOD prevents the farmers from receiving higher farm gate prices instead of supporting them. Similarly, Halba cannot source their cocoa beans directly from farmers of the Fairtrade cooperative.

Since the Rainforest Alliance and Fairtrade certification schemes include training, certified farmers acquire basic knowledge of good farming practices and can improve their farming skills. Furthermore, environmental protection is also a subject of the training sessions. However, only a small percentage of the premium money reaches farmers. As a consequence, the economic situation of farmers does not improve directly through the certification schemes. On average, farmers state that their situation has worsened over the past decade. The negative trend could not be reversed by price premiums for certified cocoa, training which should lead to improved yields and the increased nominal farm gate prices in the local currency. This suggests that the price increases at the farm gate – including benefits farmers receive from certification schemes – do not adequately compensate for inflation.

The case studies demonstrate that certification schemes alone do not change the livelihoods of the farmers in Ghana. Especially in the Läderach case study, the primary factor that determines income is the farm size; something chocolate manufacturers can hardly influence. However, since the projects of both chocolate manufacturers focus on income diversification of farmers, they might have the

potential to improve the livelihood of farmers. Additionally, the implementation of the dynamic agroforestry system by Halba could become important to fostering an environmentally sustainable production.

The request by farmers for better infrastructure corroborates with the view of experts that certain infrastructure is lacking in rural areas. Furthermore, farmers request input supply. This gives evidence that the price they receive for their cocoa is not high enough to buy the necessary inputs by themselves. This also explains their request to access financial services.

### 4.3 Comparison

By comparing both case studies, it is apparent that the starting positions of the firms are rather different. However, the two companies have similar approaches in Ghana to reach a more sustainable cocoa production: Both work with labelling organisations and implement projects beyond certification. The content and implementation of the projects look different. Läderach uses the Rainforest Alliance certification to ensure environmental sustainability and social standards. Läderach's "family life" project centres on the improvement of the farmers' economic situation and livelihood.

The Fairtrade certification helps Chocolats Halba to reach farmers and to introduce their project. The project of Halba combines environmental protection, climate change mitigation, training on farming practices and the increase and diversification of the income of the farmers. While cocoa production is an integral part of the project of Halba, the additional project of Läderach does not include it. Also, the reach and size of the projects differ substantially. Läderach is self-funding its projects, while Halba receives third-party funding. This indicates that companies selling mid-priced chocolate are struggling to implement extensive sustainability initiatives which have a large and positive impact on farmers and still achieve high enough revenues. Hence, such initiatives may lack economic viability for the company itself. From an economic perspective, both studies show that the projects do or will benefit the farmers in Ghana but not necessarily directly benefit the chocolate

manufacturers. They seem to be mostly of philanthropic nature or show a developmental aid character, especially in the case of Läderach. This does not correspond to the idea of shared value by Michael Porter and Mark Kramer (Porter and Kramer, 2011). Of course, both companies benefit from indirect positive effects like good reputation and motivated farmers and employees. Halba uses its CSR initiatives as a marketing instrument. Additionally, environmental protection and climate change mitigation are important also for firms, since they too depend on natural resources.

## 5. Conclusion

By looking at the Ghanaian cocoa sector it can be clearly seen that major changes are needed in order to sustain the production. To be sustainable and future-oriented it should not only be sustained but developed into a thriving business for farmers. Therefore the income of farmers must be doubled or even tripled. This can only be achieved by substantially increasing yields, producer price and farm sizes, and simultaneously diversifying the source of income of farmers. Intensification must take place, however, in an environmentally sound way, so that farmers can achieve high productivity without further expanding the farms into the last remaining patches of forest. Structural changes are needed in order to increase the farm sizes. This in turn would require more jobs in other sectors in the region to absorb the labour force getting out of cocoa farming.

The study reveals the challenges chocolate manufacturers face in promoting sustainable development of the Ghanaian cocoa sector. Since the entire sector is highly regulated and controlled by the COCOBOD, the scope of influence of the private sector is limited. However, by training farmers about good agricultural practices, yields can be increased, and environmental concerns addressed. But, issues about land tenure and higher farm gate prices are out of the scope of chocolate manufacturers. Hence, it is crucial that the COCOBOD steps back and encourages the private sector to engage with farmers and take over the input supply. The COCOBOD should abandon the inefficient input supply subsidisation and rather focus on the transfer of knowledge to the farmers. Private-public partnerships could be valuable in this

area. Also, collaborations between companies that are interested in high-quality beans and the quality control unit of the COCOBOD might be beneficial. It is important that firms would be allowed to pass on higher prices to farmers that deliver excellent quality. Since certification does not help to sufficiently increase the income of farmers, other measures must be introduced to increase the producer price. This should also include the lowering of the tax burden on farmers.

In conclusion, the two chocolate manufacturers could positively influence the situation of farmers through certification schemes and projects. However, large-scale improvements of the whole sector go beyond the scope of influence of the companies. Those policies must come from the Ghanaian government. A clear strategy and holistic approach are needed to do so.

**Acknowledgements:** I am very grateful to Constantine Bartel and Isabelle Schluep for providing comments on the draft version of this paper.

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### Footnotes

- 1 See <https://en.oxforddictionaries.com/definition/sustainability>
- 2 See <http://www.dictionary.com/browse/sustainability>
- 3 See <https://www.eda.admin.ch/eda/de/home/vertretungen-und-reisehinweise/ghana/bilaterale-beziehungenschweizghana.html>

## TANJA SOSTIZZO

Tanja Sostizzo has a Bachelor degree in Biology of the University of Zurich. Since she is highly interested in the interface of humans and nature she completed her studies with a master in environmental sciences as well at the University of Zurich. In her master thesis she discussed the topic of sustainable cocoa production in Ghana and investigated the sustainability initiatives of two Swiss chocolate manufacturers. She was involved KTI project which investigates the embeddedness of multinational enterprises. At the moment she is doing an internship at Agroscope in the area of phytosanitary service in order to become more familiar with the Swiss agriculture system.



# Embeddedness of Chiquita's banana production in Panama: The potential to mitigate social and ecological problems

Constantine Bartel, Veronica Soldati, Nina Ellenbroek & Johannes Hunkeler

## Abstract

The study examines the banana production operations of Chiquita in the remote region of Changuinola in Panama and contrasts it with experiences from Guatemala and Costa Rica. Of particular interest are the local context and the socio-economic framework conditions in which the company is operating. They are essential to assessing the embeddedness of the company in the region. Moreover, they influence the potential of the enterprise to provide positive sustainability effects through its business activities for the local community, the local economy and the local environment. The study analyses how the use of technology, standards and partnerships can help to mitigate the significant social and ecological problems in the indigenous communities in Panama. It also highlights which areas the Chiquita company would need to address to improve its sustainability and further embed the company in Panama. The main recommendations are deduced from interviews with local experts and workers in the banana plantations.

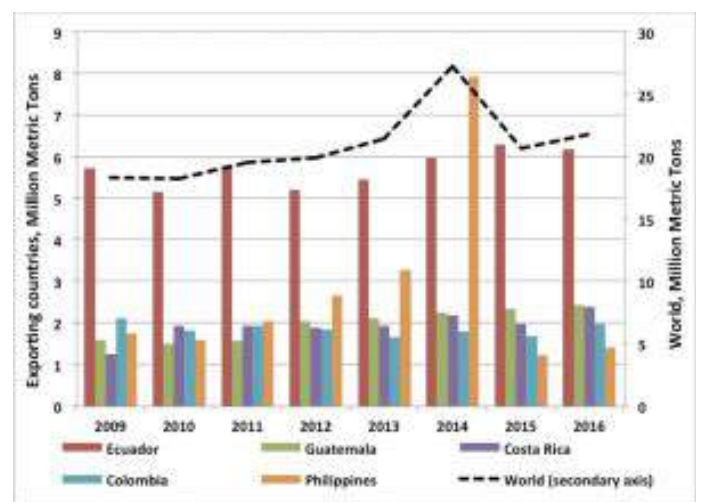
Keywords: Chiquita, banana, embeddedness, local context, socio-economic framework conditions, sustainability effects, Panama, Costa Rica, Guatemala

## 1. Introduction

This article highlights the embeddedness of Chiquita's banana production operations in Panama, Guatemala and Costa Rica<sup>1</sup>. Three studies examined whether the presence of Chiquita in these countries and the extent and quality of embeddedness have generated positive impacts on sustainability such as improved livelihoods for banana workers and the members of the wider community. While the paper is focused mainly on Chiquita's banana production operations in Panama, it is complemented with findings from the Costa Rica<sup>2</sup> and Guatemala studies. Costa Rica and Guatemala are two of the top five

banana-producing countries responsible for three-quarters of globally exported bananas. The other three top exporting countries are Ecuador, the Philippines and Colombia (Figure 1).

Figure 1: Global banana export quantity in million metric tons (MT)



Source: ITC calculations based on UN COMTRADE and ITC statistics.

Panama is of particular relevance for the entire banana industry, as the region of Bocas del Toro can be recognised as the historical birthplace of global industrial banana production, which got its start at the end of the 19<sup>th</sup> century (Abbott 2009). Panama was the first place where banana production was established on an industrial scale and intended for export (Abbott 2009; Lassoudière 2010). For more than 100 years, Chiquita has been the only major banana producer in the country. More than 80 percent of its workers belong to the indigenous group of the Ngobe-Buglé. In Costa Rica, several multinational fruit companies are involved in the banana (export) business today (Chiquita, Dole, Del Monte), and independent producers have usually contracted with the large MNE companies. Chiquita is among the most important ones. It produces bananas on its plantations and also sources bananas from independent producers. The workforce is well educated. In Guatemala, Chiquita is producing only a



minor part of the export product on its own farms. The majority is sourced from independent producers or contracted farms. However, in the Entre Rios region, Chiquita is one of the most significant employers. In Guatemala, banana production is characterised by independent producers selling the fruit mainly to multinational companies (notably Chiquita, Dole and Del Monte).

Like many other multinational enterprises (MNE) Chiquita is perceived as being exploitative of society and the environment. Therefore, consumers tend to distrust the production of MNE in foreign countries (Aerni 2009). Nonetheless, the socio-economic framework conditions in which a company has to operate need to be taken into account when evaluating its business operations. An MNE that invests in a less developed country is often faced with issues of poverty and lack of (human) capital, infrastructure or technology. Also, these countries often cannot comply with global standards (Aerni, 2009). However, an MNE that produces and invests in a less developed country has the potential to develop positive sustainability effects through empowerment, innovation and entrepreneurship (Juma 2011).

Existing studies offer guidance on how businesses and organisations can operate in socially responsible ways but do not provide robust methods to check if positive sustainability effects indeed are generated. Here, we want to show how the embeddedness of Chiquita can lead to positive sustainability results in Panama, Guatemala and Costa Rica. The concept of embeddedness assumes that the stronger the social and economic ties that a company has with its stakeholders, such as its suppliers, customers, non-governmental organisations (NGOs), the government, academia and so on, the more embedded it is. Through embeddedness, an MNE like Chiquita can generate substantial business advantages, facilitate access to resources and improve its local acceptance. This is crucial in banana production, which requires a considerable local labour force.

### 1.1 The history of Chiquita in Panama

Until the construction of the oil pipeline between the Caribbean and the Pacific coast of Panama in the

mid-1980s, no road existed across the Talamanca Mountains. Bocas del Toro was isolated from the rest of the country, and the government had no interest in investing in the region (personal communication, Chito Quintero). For Chiquita, it was therefore instrumental to build the production and export infrastructure in Changuinola from scratch including the port in Almirante, houses, schools, shops, recreation centres and hospitals for its workers. Due to the absence of the state, the company had to provide this infrastructure and services that go beyond its core business to be operational. The firm organises events, hosts sports and cultural activities and, in fact, is delivering a significant amount of services to its workers. Through the years, however, many people have criticised the paternalistic nature of the company. The company believes its approach and support of social issues, in particular, the housing program<sup>3</sup>, is helping Chiquita to move away from a paternalistic scheme and towards empowerment of its employees and their communities.

In the 1980s the Panamanian government began to assume some responsibilities such as education and healthcare (personal communication, Luis Nuque). Some governmental departments (environment, agriculture, economy, finance, commerce, health, education, housing) and institutes (human development, sport, art) are now based in the region.

Chiquita's history in Latin America and its relationships with governments are a particularly delicate matter. As a company in the banana business where margins are small, it is faced with the challenge of engaging in corporate social responsibility (CSR) activities. More than 20 years ago Chiquita pioneered environmental and social responsibility in industrial agriculture. The challenge, however, has been to reconcile economic demands to maximise yield with society's pressure to protect people and the environment, an outcome it is still struggling to meet fully in some regions more than others.

### 1.2 Between embeddedness and paternalisms

The embeddedness of Chiquita, and how it is perceived, has evolved. In the early 20<sup>th</sup> century, it

was strongly embedded in the infrastructural dimension such as through the port in Almirante (Panama). It is similar to the developments in Costa Rica where the goal was to connect the plantations to the export port of Puerto Limón. The railroads in Costa Rica and the infrastructure in Panama transformed both countries, making them accessible and able to contribute to economic development and national wealth. The importance of the national income today is much less in Panama, which is dominated by services. However, in the remote region of Changuinola, Chiquita dominates the local economy. Likewise, banana production is a significant pillar of the Guatemalan economy. In 2013 banana exports accounted for 7.7% of Guatemala's total exports, making it the third export product after textiles and raw sugar (UN Comtrade 2014).

It then increasingly became embedded in the social, economic and environmental dimensions. This has led some to accuse Chiquita of paternalism. The population in Changuinola, according to critics, is "addicted" to the services provided by Chiquita. The company is still paternalistic, offering many benefits. However, all those benefits are negotiated between SITRAIBANA (labour union) and Chiquita, which must comply with the decisions because the government has long forfeited its role as a provider of many of the services. Instead of addressing the causes of poverty, the government is responding to local calls for support by subsidising food and other essential services.

Corruption and governmental neglect impact Chiquita's embeddedness in several ways. One of these is the unrestrained rise of illegal settlements around Chiquita's plantations where the most vulnerable people are living. While it is not Chiquita's responsibility to manage illegal settlements, its reputation is negatively affected, and its socio-environmental embeddedness will be perceived as low. Experts, on the other hand, consider Chiquita as a threat to the health of the settlers because of the intensive use of agrochemicals by Chiquita and its future impacts on the illegal settlers and their environment.

In Guatemala, Chiquita built two settlements away from the plantations in Nueva Esperanza and Placa for 525 families of workers to keep them at a safe distance from health risks that could result from aerial spraying of pesticides. Unlike in Panama where workers could buy houses, but the government retains ownership, the land on which Chiquita built and sold homes near Entre Ríos in Guatemala was sold to employees for a symbolic amount of GTQ 1 (US\$ 0.13) per lot. The houses cost Chiquita GTQ 30,000 – 40,000 (US\$ 3900 – 5200) per lot.

### 1.3 From bankruptcy to corporate social responsibility (CSR)

Between 1990 and 2001, a botched commercial strategy resulted in declining sales for Chiquita bananas. Hurricane Mitch, the emergence of Ecuador as the major banana producer and the introduction of a restrictive import quota system for bananas in the EU (Haig 2003; Wicki and van der Kaaij 2007; Lassoudière 2010) added pressure on the company. In December 2001, Chiquita filed for Chapter 11 reorganisation under the U.S Bankruptcy Code (Chiquita Brands International Inc. 2000; Haig 2003; Wicki and van der Kaaij 2007; Lassoudière 2010). It took some cost-cutting measures, such as selling its plantations in Puerto Armuelles<sup>4</sup> to recover.

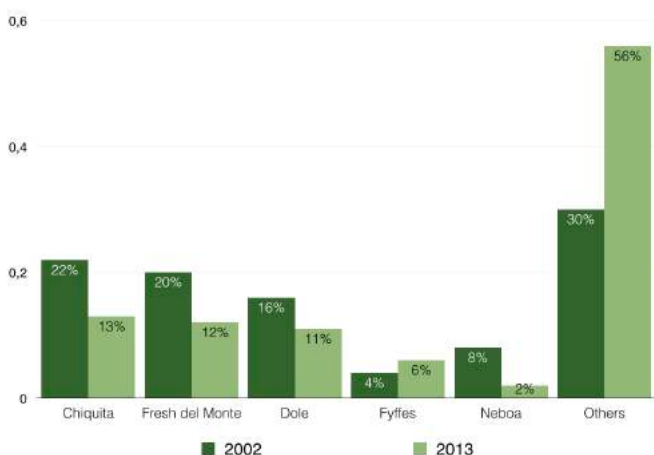
The negative press coverage tainted the firm's reputation, while Fairtrade bananas were gaining market share (Wicki and van der Kaaij 2007). In response, Chiquita decided to raise its sustainability credentials by collaborating with Rainforest Alliance in 1992, an NGO focusing on sustainable agriculture (Gonzalez-Perez and McDonough 2006; Wicki and van der Kaaij 2007).

The concept of CSR was introduced (Riisgaard 2004; Gonzalez Perez and McDonough 2006) as the Better Banana Project was launched, committing to an innovative environmental approach. After this first alliance, Chiquita made further steps to become environmentally and socially responsible. It resulted in a robust code of conduct and Global GAP<sup>5</sup> and SA 8000<sup>6</sup> labour standards certifications (Gonzalez Perez and McDonough 2006; Wicki and van der Kaaij 2007). However, the past will continue to haunt Chiquita's reputation (Haig 2003) if progress is not

communicated properly to both internal and external stakeholders.

Chiquita, Del Monte and Dole have gradually lost their dominant market share of 65 percent of exports to Fyffes and other companies since the 1980s. In 2002, these MNE controlled 58 percent of exports, dropping to 36 percent of exports in 2013.

Figure 2: Market shares of selected companies in global exports, by volume, in 2002 and 2013



Source: FAO, 2014.

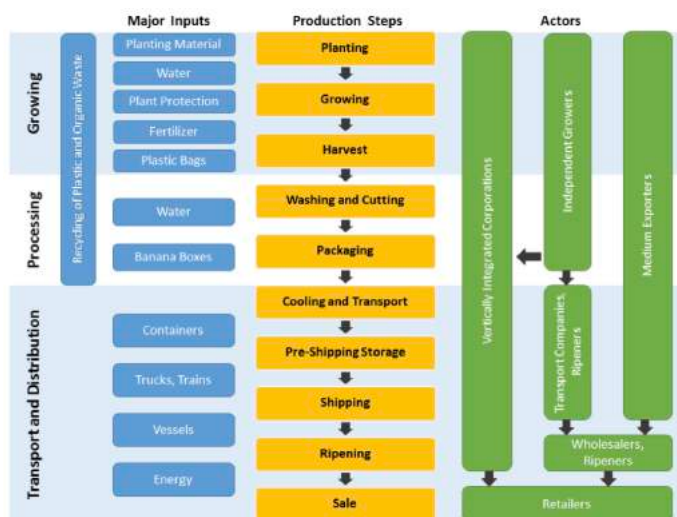
Of the three major companies (Chiquita, Del Monte and Dole), Chiquita lost the biggest market share over the period between 2002 and 2013 (FAO, 2014). As a consequence, the banana companies bought fewer bananas from independent growers. Concurrently, retailers in the US and Europe opted to purchase bananas directly from producers or wholesalers and bypassed the banana MNE (FAO, 2014). This has been facilitated by attractive logistics and transportation costs. The MNE are now investing less in production, and more in logistics, marketing and distribution networks (FAO, 2014).

### 1.4 The banana value chain

Harvested while still green, bananas are transported and shipped from plantations to the consumers. Figure 3 shows the inputs, production steps and actors involved in the growing, processing and logistics. Most of the workforce participates in the growing and treatment stages. A substantial percentage of traded bananas is exported and imported by vertically integrated corporations (e.g. Chiquita) who produce the bananas on their own farms or buy them from independent producers. The

production steps are in the centre, illustrated in yellow. On the left, the primary inputs are depicted (blue). The green boxes represent the major players at every step of the production process.

Figure 3: Conceptualisation of the global banana export chain



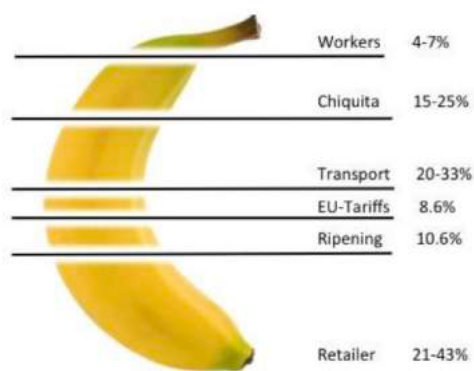
Source: Ellenbroek 2016

Since bananas are produced all year round, the industry offers permanent employment for the local communities. The production is labour intensive, and it is estimated that about one person needs to be employed per hectare. No other agricultural occupation in the tropics has comparable numbers (Baur et al., 2015). As banana production is also very capital intensive and highly sophisticated and requires detailed planning, international trade in bananas is dominated by MNE. Half of the costs of exported bananas are derived from packaging, shipping and logistics (Baur et al. 2015).

The share of the total value in the banana value chain is split between the workers, Chiquita, transport (logistics), border measures like tariffs and retailers (see Figure 4). The shares differ among the countries of production. Chiquita earns between 15 and 25 percent of the total value.<sup>7</sup> The Swiss supermarket Migros used to get 21 percent of the retail price of bananas (Baur et al. 2015).<sup>8</sup> In absolute numbers, the share of the retailer is even greater for Fairtrade bananas (up to 45 percent) (Baur et al. 2015).

Figure 4: Share of total value in the banana value chain

Source: Representation by Soldati (2016) based on averages from various literature (BASIC 2014; BASIC 2015; Baur et al. 2015).



## 2. Results of the surveys

The data on the embeddedness of Chiquita's banana production business was collected in Panama, Guatemala and Costa Rica using a mixed-methods approach. The three studies carried out three different surveys: one for the company, one for experts along the local value chain and one for workers. The company survey is designed to capture the extent of embeddedness as seen by the firm. The extent of embeddedness provides information about the relationships between the MNE with different stakeholders such as the local private sector (i.e. suppliers), NGOs, the government, the local communities, research institutions and so on. Furthermore, it captures the involvement (also in financial terms) of the MNE regarding the economy, society and environment, in the local context. The expert survey is designed to understand the perception of local stakeholders about the extent and quality of embeddedness. Experts were asked to name positive externalities and estimate their impact. The quality of embeddedness stands for the expert rating of the involvement of Chiquita in the different dimensions of embeddedness: they include social, economic, technological, environmental, infrastructural, relational, structural and political embeddedness. A comparison of the results of the company and expert surveys helps to find out about perception gaps. For example, the Guatemala study revealed a significant knowledge gap between the business and the Guatemalan population. Many point to inadequate or poorly targeted communication. Some still perceive Chiquita as the company that it was in the 1950s.

The worker questionnaire aims to identify the positive impacts that directly and indirectly benefit the workers and their communities. The questions elicit how workers perceive the impact that the

operations of Chiquita have on their livelihoods. Below we present findings from the company, experts and workers survey on the different dimensions of embeddedness and the positive sustainability effects as a result of Chiquita's presence in the region.

### 2.1 Political dimension

In the 1990s Chiquita Brands in Panama was facing quality issues, labour disputes with the government of Panama and protectionism from Europe. Today, the relationship between Chiquita and the government of Panama has evolved from the time when the region of Changuinola was isolated with no government services and Panama City was not accessible by road, which was the case until the 1990s (personal communication, Ben Huyghe). Back then, United Fruit Company (UFC), Chiquita's predecessor, had constructed houses, hospitals, schools and recreation facilities for its employees (Wicki & van der Kaaij 2007; personal communication, Clyde Stephens). For this reason, some assumed that the relationship between the Chiquita and the government was crafted to benefit both parties financially. However, there is no conclusive proof to substantiate these allegations. Given its long presence in Panama, it is not unimaginable that Chiquita enjoyed the particular attention of the national government or indeed profited from its relations with local politicians and local government, some of whom might be associated with incidences of corrupt practices. Despite acknowledging that Chiquita is fighting corruption, respondents to the expert survey believe that Chiquita was to a varying degree complicit in some of the habits practised by the government or its officials. In Panama, Chiquita is expected by respondents to work in a transparent manner with the local government. In Guatemala, Chiquita opted out of partnership projects with the government including a housing project in 2003. Chiquita terminated the collaboration with the Guatemalan government to avoid being implicated in corruption scandals that government officials were accused of.

In contrast, Chiquita in Costa Rica operates from a distance and is not directly involved in the country's policy-making. Respondents believe it is because Costa Rica's political institutions and legal frameworks are well established and efficient

compared to the ones in Guatemala or Panama. For example, Corbana<sup>9</sup>, the official representative of the banana industry in Costa Rica, maintains the relations with the government of Costa Rica for the entire banana industry. The extent of political embeddedness in Panama and Costa Rica are mostly influenced by the strength of institutions and governance. Factors that Chiquita has been faced with in Guatemala's young democracy with its weak institutions. Guatemala was ranked last in the 2015 democratic development index of Latin American countries (IDD-Lat 2015).

## 2.2 Social dimension

The company's management believes that Chiquita is among a few employers in the country that pay social insurance to permanent as well as part-time employees. Chiquita's social remunerations are one of the highest by an MNE in Panama. Its employees are the only ones in the region with pensions.

Having opposed labour reforms in the past, Chiquita decided it was time to do things differently. Employees were entitled to benefits including privately owned homes. It went on to sign a framework agreement with the global trade union federation on agriculture. To date, it is the only company in the country that has done so. These tangible steps along with a focus on the community have embedded Chiquita in many communities in Latin America (Jaksch 2017). Equality at the workplace is marked by equal pay for men and women for the same job and the opportunity to ascend the management ladder. People with rural and farming backgrounds occupy 85 percent of the supervisory positions.

The mandatory social contributions include health insurance, vacation, sick leave and a bonus. Chiquita provides additional benefits such as school materials, sports facilities, union holidays and until recently student transportation, etc. adding up to 23 percent of the total pay. In addition to paying social insurance (12.25 percent of salary) the company invests in nutritious diets for its workers. The nutrition programme also serves the people of Theobroma, a community of settlements mainly inhabited by Panama's indigenous population (Ngobe Buglé). The programme is implemented in partnership with Deli

XL, a Dutch retail company and the government of Panama. Nine local NGOs participate in feeding malnourished children with funding from Chiquita.

By funding and prioritising "Target Zero" which is the programme for occupational safety, Chiquita expects to eliminate work-related accidents through training and improvements in the factory environment and the banana farms. It invested in new protection equipment for a value of over US\$ 100,000.

Chiquita offered land to build schools for the children of its employees and the larger community. It covered school transportation and provided scholarships to the best-performing students.

Several programmes were designed to empower women such as the SITRAIBANA<sup>10</sup> women's committee to build a women's house and a cafeteria programme was launched to enhance worker nutrition. Women are trained in all aspects of management to run the cafeteria. The company reserved the task of cutting low-hanging leaves in the farms for women. This has been a source of sustainable jobs for the women. The policy raised the number of female employees from seven percent in 2010 to 10 percent in 2015, pushing against a traditional machismo-based society. The empowerment of women can directly impact the education of their children, safety and nutrition of the households. Nevertheless, even if the numbers of women increased, the firm still needs to tackle the collateral problems, such as appropriate sanitation, protection against harassment and nursing facilities. Due to the socio-cultural dynamics, the MNE alone cannot eliminate the complex issue of discrimination against women. Despite the large numbers of women working in banana production, few women hold supervisory positions. Gender inequality is higher among the indigenous groups.

Government health experts detected a disproportionately high manifestation of diseases in Changuinola compared to other districts in Panama. Experts blame the concoction of agrochemicals widely used by Chiquita in the region as the cause these diseases, which include cancer, leukaemia, skin pigmentation, birth malformation and low levels of cholinesterase<sup>11</sup>. Experts were split on the severe consequences of the chemicals on sterility, while

others do not consider it a problem at all. There are no statistics to confirm the claims or establish the magnitude of the problem. Although cancer cases are prevalent, local doctors are not always able to identify the symptoms on time for treatment. There is no oncologist in the region to help patients and to keep medical data on record. Chiquita does offer medical examinations to workers who handle nematicides<sup>12</sup>. These workers undergo a cholinesterase test every year. If doctors find abnormal values, workers are reassigned to other tasks.

Due to the adoption of additional precautions, Costa Rica's workers have experienced a reduced number of work accidents. They have better and quicker access to medical care, lower exposure to pesticides, improved health and security for workers as well as the members of local communities. As a result, operational costs of the MNE are reduced. In Guatemala, workplace safety improved from the year 2000 following the introduction of SA8000 standards and Rainforest Alliance certification. Workers began using personal protection equipment, which significantly reduced workplace accidents. Those who suffer severe injuries or illness are transferred to public health service centres for further treatment. Workers say the quality of healthcare provided by public health services is poor and not reflective of the 13% public health insurance that employees are paying. They believe that the public health insurance system is in a deep crisis because of widespread corruption.

### Sustainability impacts

In June 2003, Chiquita sold its banana business in Puerto Armuelles (Western Panama) to the worker-owned cooperative COOSEMUPAR<sup>13</sup>. Notwithstanding guaranteeing market access for the cooperative by signing a ten-year contract to buy the fruit at market prices (Chiquita Brands International 2002), the effects of Chiquita pulling out of Puerto Armuelles revealed just how valuable the company's embedded operations had been in sustaining the social and economic stability of the town and its banana-growing community. The population of Armuelles dropped to 20,000 inhabitants in 2010 from 50,000 in 2003 ([livinginpanama.com](http://livinginpanama.com))<sup>14</sup>.

Today in Changuinola, Chiquita's workers have more money to spend on nutritious food. Families are spending on average between 60–75 percent of their income on food. Nevertheless, some workers worry from time to time about not having enough food. Workers complain about the lack of drugs, doctors and the long waiting time to be treated. Patients are forced to travel to the nearest town of David or Panama City in search of treatment. For many, it is a very costly endeavour. Common ailments include lower back pain, shoulder pain, headaches and exhaustion. Curiously many workers are not aware of Chiquita's "Target Zero" programme, or have heard about the programme but could not say what it concerns. Field workers who have had accidents at work tend to believe that the social insurance they get compensated for on-the-job accidents.

Workers in Panama, unlike their counterparts in Costa Rica and Guatemala, were cautious about offering information regarding the nature of their jobs and their company. They are fearful of a backlash and the real threat of losing their handsome benefits or even their jobs (Rossi, 2013). Both experts and workers say Chiquita performed best in reducing inequality in their communities.

### Education and Equality

Employees in Panama do not expect Chiquita to take over responsibility for the education of their children. It is considered the responsibility of the government or the responsibility of parents. But in reality Chiquita provides school packages to pupils in Guatemala and Costa Rica and scholarships in Panama, Honduras and Costa Rica. Parents appreciate the scholarships that Chiquita offers to their children. Most children go to primary schools located between 10 to 20 minutes' walk. Chiquita spends about US\$ 50,000 per year subsidising transportation for workers. The government of Panama is expected to pass a resolution to use special buses to replace the makeshift tractors and wagons currently used with a safer mode of transportation for the employees.

Experts in Costa Rica affirmed Chiquita's support for schools. The company also provides loans to pupils in the country with an outstanding scholastic performance to help them access higher education.

In Guatemala, schools that had been run by the company and provided free schooling for the children of the employees were transferred to the government, but Chiquita still provides school utilities (electricity and water and uniforms to pupils). This transfer of responsibility to the government was met with concern, as many feared the standards would drop if Chiquita were to stop providing the necessary support to the schools. In Guatemala, experts from the business (private) sector perceived the extent and quality of Chiquita's social embeddedness to be lower than experts from government and NGO institutions. One point of consensus among the experts is that transferring its schools to the government will be detrimental to the high quality and free education that children have enjoyed in the past. The other area of consensus among Guatemalan experts is that Chiquita is more committed to social issues compared to its competitors such as Dole or Del Monte. For example, one direct competitor also runs private schools but with one difference. Access is limited to the children of administrative personnel and not to the children of workers. In Guatemala, Chiquita was also rated better than the other MNE with regard to labour rights.

Some workers in Panama point to discrimination of indigenous people and women who are paid less for doing the same job. While Chiquita has hired more women, there is a lack of representation of indigenous people and women in supervisory positions. In Costa Rica, the expert survey shows that Chiquita has reached a high quality of social embeddedness. The studies confirm the fact that as of 2011, Chiquita remains the only MNE to have signed a regional framework agreement with banana workers unions (Jacks 2017, BananaLink 2017).

### 2.3 Economic dimension

Chiquita pays salaries that are above the minimum wage level. Nationally, the minimum wage is US\$ 336 a month, while an average worker's salary is US\$ 461. Including social benefits, it adds up to US\$ 700 per month. Although the wages conform to the legal requirements, some families still struggle to make ends meet. The widespread presence of polygamy and consequences of alcohol abuse are two factors

contributing to poverty. Men from the Ngobe-Buglé indigenous group often have several wives and many children with each one. In addition, they oppose female employment. Therefore, large families depend on a single wage earner, which is not sufficient to cover all the needs of the household (Baur et al. 2015). Alcohol abuse is common among all ethnic groups but especially prevalent in the indigenous ones. It further diminishes the money available for the household.

Some Chiquita workers feel that the salary they are getting is not enough. These workers say they are unable to save despite earning the highest wages in the country and the region. Younger workers are less critical, however, probably because they tend to have smaller families, and therefore fewer dependents compared to older workers who on average have six dependents. Some workers say they sometimes end up working longer than the legal 48 hours a week. Because of the long hours, workers are not able to complement their income through other activities.

The majority of employees are union members of SITRAIBANA, an independent workers union that is striving to raise worker salaries, encourage more social programmes and defend their legal rights.

Chiquita's presence is driving the economic development of the region of Changuinola. The company believes its efforts to reduce corruption are necessary to generate trust and to acquire legitimacy at the local level. All the stakeholders and experts affirm that the presence of Chiquita in Changuinola has a positive sustainability impact on the local and regional economy. There is also a consensus among experts that Chiquita drives the economy of the district of Changuinola. For a few experts, however, the company could do more to support programmes for local entrepreneurship development.

This is where experts in Panama are divided on their assessment of the extent of the positive sustainability effects of Chiquita on the local economy. While they believe that Chiquita's presence is the best thing that could have happened to Changuinola, a few think Chiquita has in some instances hindered opportunities to diversify the economy in the region. The latter group points to the exclusive rights that the company has to use the port

of Almirante and the associated infrastructure, as this keeps out potential competitors and blocks the economic diversification and development of the region. They think that companies would avoid investing in the province of Bocas del Toro because they will either have to build a new harbour or forge a deal with Chiquita. For many businesses, negotiating a deal with Chiquita is a non-starter.

Nearly all commerce and transport logistics in the region are tied to the company and its subsidiaries. Chiquita is firmly embedded, and many agree that the economic future of Changuinola depends on the fate of Chiquita.

The majority of experts in Guatemala consider the Chiquita-owned port of Puerto Barrios as critical infrastructure responsible for much of the positive sustainability effects. It is being used to trade many products other than Chiquita bananas. For many local businesses, the port is what enables them to access global markets.

In Costa Rica, Chiquita and its employees attracted suppliers and new companies and increased the demand for goods and services. It triggered economic development and entrepreneurship. The continued presence of Chiquita in the country is sustaining the job security and economic prosperity of the local communities. Long-term contracts with local suppliers are expected to improve MNE-supplier collaboration through the adoption of quality requirements and standards. Long-term partnerships increase business security and create trust between the suppliers and Chiquita (temporal embeddedness).<sup>15</sup> Given Chiquita's commitment to CSR and sustainability standards, this leads to the adoption of more sustainable production practices and helps mitigate negative impacts on the environment and human health.

#### 2.4 Environmental dimension

Chiquita invests in promoting environmental awareness. Local farmers and workers receive training on land conservation, management of wetlands and the sustainable use of natural resources. With the German retailer REWE and APROTENG<sup>16</sup>, radio programmes were created to inform the local population and discuss environmental issues in Spanish and the Ngobe dialect in Panama. Chiquita's newly built drainage

systems in the farms should limit agrochemicals from contaminating the soil and environment. Other conservation and efficiency measures include renovation of packing stations, cutting down on water use and boosting its recycling efforts.

The company has been battling nematodes with nematicides. These products contain toxic compounds that are harmful to humans and the environment. Chiquita spent many years trying to find a simple solution to fight nematodes. However, as of yet, there is no environmentally sustainable replacement. But, by injecting the nematicide inside the banana trunk instead of spreading it in granulated form, the company has reduced its negative impacts and exposure to workers, the soil and the environment by 40 percent between 2006 and 2010. Employees that perform pesticide injections get shorter working hours as a health and safety measure to minimise exposure to pesticides compared to other activities such as harvesting.

Two decades ago, workers fumigated the plantations against Black Sigatoka<sup>17</sup> every fortnight. Now that the Black Sigatoka has developed resistance, a stronger and more effective fungicide is used every week. The chemical industry has yet to develop a sustainable alternative. So far, there is little commercial interest to develop an alternative product to fight Black Sigatoka.

The company's water treatment plants improve the quality and efficient use of water and also limit the spreading of agrochemicals into the environment. Still, untreated water flows into the rivers because of the limited capacity of the drainage system. The World Bank, according to the survey respondents, had formally recommended building an efficient water treatment facility and has yet to hear from Chiquita. Despite improvements in the quality of water, NGOs and government experts continue to warn against the increasingly polluted rivers and rising fish mortality rate. The small improvements are deceptive. People unknowingly bathe in rivers that are detrimental to their health. IDIAP, an agricultural research institute (Instituto de Investigación Agropecuaria de Panamá), affirms that the continued intense use of agrochemicals will lead to increased resistance towards the chemicals. An outbreak of a resistant nematicide will threaten the company's future and would put an end to



thousands of independent growers and smallholders who depend on plantain production for their food security and livelihoods.

Experts are also unanimous on the need to stop domestic waste: there is no disposal or incineration plant in Changuinola, just a large open dump. Chiquita improved its waste disposal system. Plastic is collected and transported across the border to Costa Rica for recycling. Organic waste is disposed of in specially dug trenches.

Most experts including AAMVECONA, a local NGO protecting the San San Pond wetland, and the department of the environment are aware of Chiquita's support for wetland protection, but most cannot explain its involvement. Stakeholders are not aware of any climate change mitigation measures that Chiquita is spearheading or has adopted locally.

Employees attend several environmental awareness training sessions every year, but some doubt the effectiveness of the mostly theoretical training. Workers express concern about the continuous aerial spraying of the plantations and its impacts on the numbers and diversity of animal species in the region.

In Costa Rica, experts regarded Chiquita as having strong environmental embeddedness compared to its competitors. The project Nogal with its strong local community involvement is assisting in the reforestation and conserving the biodiversity of the area. The beneficiaries include the wildlife refuge of Nogal and the much bigger Mesoamerican Biological Corridor allowing animal migration.

Due to the Nogal project, workers have a positive perception of Chiquita's efforts to foster biodiversity and experts rate those efforts to be an outstanding contribution to environmental protection. Experts considered Chiquita to be the strictest company regarding the efficient use of pesticides compared to Dole and Del Monte.

The environmental challenges are similar in the three countries for all the companies. In Guatemala, the consensus among experts is that Chiquita has improved its environmental policy since the 1990s, the main improvement being its pesticide management and the reduced use of toxic products. Also, the decrease in the use of water and

investment in wastewater treatment are among the positive developments. Still, most experts rated the company's overall impact on the environment negatively. Chiquita's environmental performance is perceived and rated as similar to the other banana producers.

## 2.5 Technological dimension

No local innovation is currently taking place in Panama regarding bananas. Knowledge is transferred from San Jose, Costa Rica, where the company's department for research and development (R&D) is located to Bocas Fruit Company (BoFco), which is Chiquita's local subsidiary in Panama. There is no collaboration with the local universities and therefore no technology transfer is taking place. At least one university has a programme on bananas. However, it is situated four hours' drive away from Changuinola in the town of Chiriquí (Western Panama, at the border to Costa Rica).

The company does not share its production-related information with researchers, nor does it involve or encourage local students to undertake research. Experts agree that Chiquita is weak on the transfer of technology. Their assertions are based on the notion that the company does not share its R&D findings. It declined to collaborate with the local agricultural college and IDIAP<sup>18</sup>. COOBANA, on the other hand, is working with the local agricultural college to train workers and farmers from the region. It is perceived that Chiquita's focus is more on business while IDIAP is more motivated to increase and disseminate knowledge.

Only bilateral and international cooperation would facilitate pest control at the transnational level. By joining the World Banana Forum, Chiquita is demonstrating its commitment to controlling pests in a sustainable way. At the same time, many experts remain sceptical as to whether the company will "fully collaborate with its direct competitors" to find joint solutions.

With the knowledge that Chiquita employees have acquired while working on the company's plantations, experts believe that workers could use this knowledge to grow bananas in their private plots successfully.

By making use of bioscience technology, the company could curtail the use of toxic agrochemicals and could improve plant disease resistance, increase productivity, enhance nutritional content and improve other plant characteristics. However, uncertainty and strong-minded NGO opposition to genetically modified food may be holding back the technology. Yet, biotechnology has evolved to a platform technology offering many more possibilities (i.e. gene editing) than just the introduction of foreign genes.

The company has no answer to the largest threat to the entire banana industry, Panama disease. It is a soil fungus that has developed a new strain "Tropical Race 4 – TR4". In the last century, this disease already wiped out large banana plantations in Central America. TR4 cannot be controlled with pesticides. The only way is by using a new banana variety that is immune to the fungus, which can endure in soil for decades. For the development of such a variety, however, biotechnological methods (including, i.e. gene editing) hold the most promise for delivering results in the not too distant future.

In Costa Rica, the application of pesticides is based on disease pressure monitoring and on empirical thresholds. It has led to the efficient use of less toxic substances. Spraying is better targeted using aeroplanes that are equipped with GPS technology. The application of precision farming techniques has reduced the use of fertilizers and improved soil fertility.

The consensus among experts in Guatemala is that the company puts plenty of effort into developing new technologies and production techniques to reduce water use and into precision farming. Chiquita, according to experts, has brought new technologies into the country that have been adopted by other producers. Regarding climate change mitigation and adaptation, the majority of experts think there is considerable scope for Chiquita to do more.

## 2.6 Infrastructural dimension

Over the past decades, Chiquita has been handing over various infrastructures to the government of Panama that it had built up and operated for many years. They include schools, hospitals and housing.

Three years ago, the government took over the provision of water and electricity.

Despite handing over these facilities, the company is still investing US\$ 5.5 million every year to provide water to nine communities and a monthly subsidy of only US\$ 4 per month for water. Also, US\$ 9.6 million per year is spent to provide power to the community. Workers get an allowance of US\$ 7 per month per worker for electricity. Moreover, workers get free transportation, which costs the company over US\$ 300,000 a year. The company has exclusive rights over the harbour of Almirante and two landing strips for aerial spraying for Sigatoka control and a hangar at the Changuinola airport for its company airplane.

Although Chiquita built the schools, harbour, roads, etc., the infrastructure dimension received the lowest rating, perhaps because many of the structures date back many years and people do not remember who originally constructed them. Instead, inhabitants of Changuinola complain about the poor maintenance and neglect.

In the past, Chiquita shared its machines with the communities in times of emergency. During the 1991 earthquake, the company helped rebuild houses and schools. It supported the Red Cross and firefighters with equipment and personnel.

Increasingly, employees in Panama think the houses are not worth buying, as they are old, broken down and in need of maintenance. Also, workers who bought those houses have no rights on the land that their homes are built on. Such land still belongs to the government of Panama. This is an important hurdle; workers who require bank loans are not able to get them because banks require land as collateral.

In Costa Rica, Chiquita sold its houses at affordable prices to its workers including the property rights for the land. Homeownership is believed by both experts and employees to enhance the independence, bargaining power and social status of employees. It helps to foster community development and quality of life. For some owning a house means additional costs for them. They expect Chiquita to meet some of the housing-related expenses. Also in Guatemala, Chiquita moved away from giving houses to employees and towards

supporting homeownership – an act welcomed by the majority of experts as the best way to foster employees' empowerment and independence.

### 3. Discussion

The presence of Chiquita is essential for the development of the local economy and its workers' welfare and security. On economic embeddedness, experts in the three countries perceive the firm as important for the existing and future local businesses. It could also be a primary agent for the diversification of the local economy in a place like Changuinola (Panama) where the company could attract more local suppliers if it opened access to the port to other businesses.

The comparison of the extent and quality of embeddedness and positive sustainability effects (PSE) shows that they follow the same pattern. The greater the extent and quality of embeddedness, the stronger the positive externality effects. These would confirm the central hypothesis that the extent and quality of embeddedness are related to the level of sustainability impacts of the company's operations.

The framework conditions in the three countries have determined the number of challenges faced by the firm. With its labour laws and low level of corruption, Costa Rica is the most developed of the three countries. It has the highest level of education, excellent medical care and policies for inclusive growth of the economy.

The international NGO community and western consumers' outcry and demand for sustainable production practices led to Chiquita's commitment to CSR principles. On the other hand, these same groups hinder the choices that Chiquita could undertake to vastly reduce the use of pesticides and aerial spraying, and consequently improve the environment and livelihoods of the workers and their communities by seriously considering biotech solutions to mitigate negative impacts on the environment and people.

These findings are significant because they suggest that stakeholders and experts are well aware just how dependent their regions are on Chiquita, and how they will be economically worse off without the banana industry. Many are concerned about the impacts of new and emerging threats to banana

production. The new strain of Panama disease, Tropical Race 4 (TR4), and climate change can potentially wipe out the banana industry in their regions if a new immune variety is not found in due time. The threat that an exogenous shock wipes out Chiquita and the whole banana industry is increasingly more real since the first Panama disease.

Chiquita's technological embeddedness is weakest in Panama compared to the other two regions. The company is extremely hermetic and does not share its technology or innovations with local institutions. In contrast, it is over-embedded in the infrastructure dimension by not letting other companies access the Almirante port. In some instances, the company still has exclusive rights to use the infrastructure that it builds.

While the extent and quality of embeddedness determine the sustainability impacts of the enterprise, we see that the environmental dimension of embeddedness follows different patterns. The environmental embeddedness can be high but with a weak score on sustainability effects. It is partly due to the persistent perception that industrial banana production is harmful to the environment. Unless accompanied by targeted communication and awareness programmes, efforts to strengthen the extent and quality of environmental embeddedness alone will not rid the negative perceptions held by those beyond the industry's primary stakeholders.

Even though experts recognise the efforts of the MNE to reduce its environmental impact, they believe there is room to improve its embeddedness by improving the quality of its programmes. Experts perceive that many programmes look good on paper, but are often poorly implemented.

### 4. Conclusions

Chiquita is a vertically integrated company. It controls the value chain from production and shipping to ripening. The overall conclusion from the engagement of Chiquita in the three countries, Panama, Costa Rica and Guatemala, is that the company is embedded in the local communities where it operates. The company recognises that embeddedness is crucial to ensure the morale, commitment and productivity of Chiquita's workforce. The combination of the MNE's

commitment towards its workers and local institutions has provided good access to health care and education.

Also, positive effects resulting from Chiquita's embeddedness were mainly found in the local economy where the company created a vast number of local jobs in banana production, processing and transport including in Guatemala.

Experts note that Chiquita pays fair salaries, which translates into decent economic conditions with security for workers. Nevertheless, workers perceive that their wages are decreasing relative to the quickly increasing costs of living.

Chiquita's association with independent banana producers, which has been the case in Guatemala and Costa Rica, facilitates the transfer of knowledge to the local economy. The company imposes strict quality requirements on its suppliers and demands full compliance with the Rainforest Alliance (RFA) standard. The role of international retailers on Chiquita's drive for quality and its long-term strategy cannot be underestimated. The retailers demand for sustainable banana production made the banana industry one of the first to incorporate "voluntary" sustainability standards. Chiquita has been leading the industry in that respect. In Costa Rica, the MNE contributes to the adoption of sustainable production practices and entrepreneurship.

Nevertheless, the survey on the perception gaps shows that Chiquita's efforts are not well acknowledged. Likewise, the MNE's contributions to the generation of positive sustainability effects are barely known.

Besides having positive impacts on the communities, Chiquita benefits from or even depends on its embedded activities around the plantations. These allow the company to continue producing in remote areas where there is a lack of public infrastructure and institutions.

## 5. Recommendations

**Way out of paternalism:** There is a need to find a balance between embeddedness and paternalism. Chiquita's embeddedness should focus on strengthening its core business. Currently, its social commitment focuses more on giving endowments for workers. Instead, the company could encourage

public-private or private-private partnership and business models that include workers to avoid accusations of paternalistic behaviour. For example, Chiquita could work with SITRAIBANA to stop subsidising workers for infrastructure expenses and instead increase wages.

### *Communication, transparency and local acceptance:*

Local actors in the three countries tend to focus on negative effects rather than on positive sustainability impacts generated by Chiquita. To rectify some of the distorted perceptions about Chiquita ("solve the perception gap") and to improve the reputation of the company, communications within the three countries of production should be much intensified and targeted. Communication with the local communities should be prioritised mainly in Panama where Chiquita hardly has any local advertising. The local communities should be targeted and made aware of the many social and environmental programmes that are being developed and implemented. There are also apparent weaknesses in communication in Guatemala. There needs to be a much greater collaboration in communications with the National Independent Producer Association (APIB) as one way to improve Chiquita's image in Guatemala. The company should strive for stability and continuity by building the trust of its stakeholders. It requires a commitment to regularly communicate with the affected stakeholders and highlight the company's distinctiveness, authenticity, transparency, visibility and consistency (Wicki & van der Kaaij (2007). Effective communications could end the ambiguity surrounding the actual impacts such as of agrochemical use.

**Collaboration with local stakeholders:** The company should consult and collaborate with employees during the early stages of project design and employees should be encouraged to participate throughout the development of the project to ensure buy-in and confidence in the company's core values such as commitment to transparency. Involving workers leads to innovative solutions that support the sustainability of the company and the region.

**Improving technological embeddedness:** Chiquita should share knowledge and cooperate with local research institutions (such as IDIAP or University in

Chiriquí) but also international institutes especially when it comes to Panama disease. Higher technological embeddedness could generate transboundary positive sustainability effects. Local research is necessary to find resistant varieties to lower the use of agrochemicals and their impact on the environment.

**Collaboration with unions and competitors:** Acknowledging the powerful influence that SITRAIBANA has over its members in Changuinola, Chiquita should collaborate with the workers union to raise employee interest in training, education and nutrition.

Furthermore, Chiquita could improve its embeddedness by cooperating with its competitors including COOBANA, Dole, and Del Monte to find innovative solutions for diseases and mitigate climate change in the region. Industry collaboration is especially urgent in the case of Panama disease, which has the potential not only to devastate a whole industry but deprive large segments of the population of their economic basis.

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## Endnotes

<sup>1</sup> The report draws on the Master Thesis by Veronica Soldati (2016), Johannes Hunkeler, Costa Rica study (2016), and Nina Ellenbroek, Guatemala study (2016).

<sup>2</sup> Chiquita's employee homeownership programme helps employees to own a home. In the 1990s, Chiquita rolled out the homeownership programme in Honduras, Guatemala and Costa Rica to enable its employees to become independent homeowners. The programme is a sharp deviation from its earlier policy of providing free housing to workers.

<sup>3</sup> Puerto Armuelles is located on Panama's Pacific coast in western Chiriquí Province next to Costa Rica.

<sup>4</sup> GLOBALG.A.P. is a farm assurance programme, translating consumer requirements into Good Agricultural Practice.

<sup>5</sup> SA8000 is an auditable certification standard that encourages organisations to develop, maintain, and apply socially acceptable practices in the workplace. It was developed in 1997 by Social Accountability International.

<sup>6</sup> The range share is based on averages from various sources (BASIC 2014; BASIC 2015; Baur et al. 2015).

<sup>7</sup> In fall of 2016, Migros replaced Chiquita bananas with bananas from a pilot project with the NGO WWF in Colombia and Ecuador.

<sup>8</sup> The Corporación Bananera Nacional (Corbana) is a parastatal organisation that links Costa Rica's private independent banana producers and the multinational banana companies. Besides serving banana producers, Corbana develops research programmes aimed at strengthening the quality of banana farming, provides state-of-the-art technology to producers, maintains lines of credit to facilitate the operation and recovery of the plantations struck by natural disasters, among other commitments to improve the industry (Corbana 2017).

<sup>9</sup> SITRAIBANA is Chiquita's workers union in Changuinola (Sindicato de Trabajadores de la Industria del Banano y Agropecuaria y Empresas Afines).

<sup>10</sup> Cholinesterase is an enzyme which is crucial for neurotransmission. While the effects of cholinesterase-inhibiting products are intended for insect pests, these chemicals can also be poisonous to humans in some situations. The presence of cholinesterase-inhibiting chemicals prevents the breakdown of acetylcholine. Acetylcholine can then build up, causing a "jam" in the nervous system. Thus, when a person receives a high exposure to cholinesterase-inhibiting compounds, the body is unable to break down the acetylcholine (Exttoxnet 1993).

<sup>11</sup> Nematodes are parasitic worms that live in the soil and water. They are microscopic in size, and can cause major damage when they feed on plant tissues and roots. There are several different nematicides that are used to control nematodes and prevent plants from experiencing stunted growth. Most nematicides are broad-spectrum pesticides that have a high volatility (maximumyield.com 2017).

<sup>12</sup> COOSEMUPAR is the cooperative of banana producers in Puerto Armuelles (Cooperativa de Servicios Múltiples de Puerto Armuelles).

<sup>13</sup> Similarly, until 1984, the Costa Rican region of Golfito was the centre of banana production in the country. The company's departure from Golfito resulted in a collapse of the region's economy and fuelled widespread poverty and hunger. Although the government of Costa Rica established a "Zona Franca" (a tax-free shopping zone) to relieve the economic hardships, Golfito has yet to recover fully.

<sup>14</sup> Temporal embeddedness refers to the past and future of the ongoing relationship between two actors (Koster 2005). For some transactions, uncertainty is high and a lot of trust is

required. A mutual future (through for example long-term offtake contracts) can establish trust (Axelrod 1984). A larger probability of future business dealings makes opportunistic behavior less attractive because the punishment ensuing from uncooperative behavior will last longer (Matthews et al. 1983).

[15](#) This is the association of professionals and technical staff of the Ngobe Buglé indigenous people in Chanquinola (Asociación de Profesionales y técnicos Ngäbe Buglé). <http://www.cohesionsocialpanama.com/cohesion/?p=481>

[16](#) Black Sigatoka is a fungus (*Mycosphaerella fijiensis*) that causes a premature ripening of the banana bunches. Mature bananas can then not be exported since they would not survive the journey to the retailers. At the moment, the only way to control the fungus is through aerial fumigation, a practice that started in the 1960s.

[17](#) Agricultural Research Institute of Panama – IDIAP

## CONSTANTINE BARTEL ET AL.

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# From Philanthropy to Business: When Transformation Is The Only Way to Stay True to Your Mission

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## Abstract

The sustainable development of micro, small and medium-sized enterprises (MSMEs) in Latin America is FUNDES' mission and reason for being. The work of FUNDES involves targeted learning among its customers that can be translated into potential supply chain efficiencies in both manufacturing and services companies. The article describes the transformation of FUNDES from a philanthropic foundation to a limited company. Further, it explains how FUNDES – by working with local MSME suppliers and distributors – helps large firms to get embedded and to contribute to sustainable development. The article highlights how the new business model of FUNDES – despite a protracted economic crisis – benefitted MSMEs in Latin America by becoming part of the supply and distribution systems of large firms and having procurement arrangements with them.

## 1. Introduction

Micro, small and medium-sized enterprises (MSMEs) play an important economic role in most countries and are critical for the sustainability of supply networks. The World Trade Report 2016 emphasizes this and stresses that especially in developing countries small firms can be “critical vehicles of social inclusion, for instance, by providing opportunities for women to participate in economic activities” (WTO, 2016, p. 14). Also, the United Nations' Sustainable Development Goals (UN SDGs) highlight the “poverty-reduction dimension associated with micro firms and SMEs” (WTO, 2016, p. 14). In all countries, the share of micro firms among the total population of firms is always the highest between 78 and 87 percent (WTO, 2016, Table A.1). However, the share of MSMEs that are formal – meaning that they are officially registered and pay taxes – amounts to just 26 percent as

reported by the International Labour Organization (ILO, 2015, Figure 2.3).

The World Bank Enterprise Surveys dataset reveals that electricity and access to finance are the two most frequently cited obstacles for businesses in developing countries, and that access to finance affects small businesses much more than it does medium and large businesses (Kushnir et al. 2010). Further, formal firms face competition from the practices of informal companies (i.e. informal payments) and corruption among government officials poses significant challenges for formal firms (Kushnir et al. 2010).

In Latin America small and medium-sized firms provide more than 80 percent of employment (OECD 2016, p. 206) but contribute only 30 percent to GDP (OECD/ECLAC 2012). This has to do with the fact that large enterprises are more productive and innovate as they benefit from economies of scale and invest more in machinery and skilled workers and they are also more likely to develop new products (ILO 2015). The productivity gap in Latin America persists as MSMEs specialize in low value-added products and are active in low-productivity sectors such as agriculture, commerce and services (OECD/ECLAC 2012).

FUNDES works at the interface of MSMEs and large companies such as multinational enterprises (MNE) and strives to create win-win situations for firms of all sizes and obviously for itself. Only where profits accrue can businesses be financially sustainable for the long term. From the perspective of large firms the key to success is having access to local suppliers or distributors to efficiently handle complex supply chains that support the firms' product range. Accordingly, local suppliers or distributors are central to large firms' sustainability strategies. For some firms like SABMiller<sup>1</sup> which buys from or sells directly to approximately 1.5 million small businesses



worldwide, the latter are critical to the company's whole value chain (SABMiller 2016). In Latin America small retailers account for 40 percent of their sales. The company's business directly relies on the "ability of suppliers, farmers, distributors, and retailers to survive, grow, and prosper" with SABMiller (SABMiller 2016). Local procurement or distribution is typically recognized to generate local employment, enhance growth and other positive externalities such as improved livelihoods.

In many less developed countries like Costa Rica, the exigency is that MSMEs must first meet the required standards or become export ready before they could supply large firms. This is no simple matter. Research suggests that measures helping MSMEs to become "fit" to be included in the supply or distribution systems of large firms need to be devised carefully and the different characteristics of MSMEs need to be taken into consideration (Pedersen, 2009). Simply transferring sustainability practices to MSMEs that had been developed by large firms has been found inappropriate (Pedersen, 2009). Instead, interventions should enhance MSMEs' capabilities, know-how and expertise and provide financial help.

FUNDES realized how being integrated through procurement and distribution and becoming part of the supply systems of large firms can dramatically help micro and small businesses. By assisting MSME enterprises to become linked to large firms as suppliers or distributors, FUNDES is playing an instrumental role in enabling the transfer of knowledge and technologies. In other words, FUNDES is facilitating the technological embeddedness<sup>2</sup> of large partner companies in Latin America.

From its origins as a social company, a core activity of FUNDES is the empowerment of local communities. This in turn allows FUNDES to engage in tackling social and environmental concerns in partnership with its large companies. Again, FUNDES helps these firms to embed locally and create positive sustainability effects for communities such as better access to clean water, a functioning recycling system, vocational training, entrepreneurship development, better personal security and so on. Essentially, the work of FUNDES gives the impulse for large companies and MSMEs to introduce far-reaching

organizational and systems changes which can create shared value for all parties involved.

## 2. Historical background

Since its creation in 1984, FUNDES<sup>3</sup> has modified its business model many times to keep up with a changing political and economic environment and to ensure its continued impact in resolving the most pressing issues that hinder a more durable development of MSMEs in Latin America. Throughout the first decade (1984–1994), "access to capital" was the driving theme. At that time, FUNDES worked towards the formation and development of a micro-finance industry by offering guarantees to creditors and often by giving out loans itself. The underlying assumption was that a lack of access to financial services was hampering the growth of MSMEs, above all during the early stage of their respective development, which has been confirmed by World Bank Enterprise Surveys data.

By the mid-1990s FUNDES had helped to create a micro-credit industry in most countries in the region. At the same time, it became increasingly apparent that "access to knowledge" was equally important for MSMEs. In fact, if a hierarchy had to be established for the importance of capital vs. knowledge, should the latter not come first? Based on these modified premises, FUNDES began to organize group sessions and offer lectures covering a broad range of topics in which MSMEs were lacking both knowledge and complementary skills.

In 2004, FUNDES started to move away from the dissemination of knowledge towards offering consulting services as the group adopted a more fundamental approach to training and implementing best practices. With the generous support of philanthropic organizations such as AVINA Foundation<sup>4</sup> and international development agencies such as the Multilateral Investment Fund (MIF)<sup>5</sup>, FUNDES' new value proposition to the MSME sector was one of high-quality – yet subsidized – retail consulting. Since most MSMEs would not be able to pay the full cost of such services, subsidies remained crucial at that stage.

In 2008, two significant events had far-reaching effects on FUNDES and its operations. First, a financial and economic crisis that had originated in the United States would turn global. In Latin

America, the economy experienced a downturn due to falling demand at home and abroad. Against a backdrop of fundamental uncertainties, both donors and beneficiaries (MSMEs) started to reduce their investments in all those goods and services that were not considered to be vital. It goes without saying that consulting services were among the first victims of such adjustments.

At about the same time, the governing body of FUNDES (VIVA Trust<sup>6</sup>) decided to diversify its investment portfolio and communicated that some of its recipients, FUNDES among them, would “soon” have to look for alternative sources of funding. It was decided that a five-year transition period would be adequate to identify and secure such new sources.

All of a sudden, FUNDES had its back up against the wall – and needed to reinvent itself once again. The underlying parameters, however, were fundamentally changed. Faced with the prospect of running out of money shortly, management had to come up with a financially self-sustaining model. Confronted with a tedious economic crisis, FUNDES needed to increase the positive impact on MSMEs in the region. Instead of supporting some 3,000 MSMEs every year, the new objective was to reach out to about 25,000 businesses.

### 2.1 The new model

As is often the case in critical situations of this kind, stepping back and bringing the broader context into full view turned out to be a helpful exercise. In the process, management came to realize what might sound trivial with hindsight: MSMEs are not islands in the business world, but strongly depend on the ecosystem surrounding them. Building on this fundamental insight, FUNDES started to analyze the MSME world in a much more systematic and comprehensive manner. At the same time, it became apparent that finding partners and customers with the requisite financial resources to pay for FUNDES’ new value proposition was going to be crucial.

One of the weaker elements in FUNDES’ previous structure, i.e., the sheer diversity of its offerings across different countries, turned out to be decisive in developing the new model. For many years, FUNDES had accumulated experience as well as expertise in MSME support activities in ten Latin-American countries. This impressive stock of

knowledge would now make it possible to study a wide array of solutions in light of the new challenges related to self-sufficiency. In Bolivia, for example, the FUNDES approach to helping MSMEs had led to the creation of large groups of micro and small businesses facing similar challenges, and to providing these clusters with access to their three most urgent needs: capital, knowledge and markets. Access to markets was achieved by connecting the clusters to their main buyers either domestically or abroad. While the weak element in the Bolivian model was its dependency on donors, the business opportunity was in the provision of access to the buyers, i.e. the one element in the value chain with the necessary resources to finance the scheme. From the very beginning, there was a clear understanding that those big players in the value chain (anchor companies) would not go along and invest unless FUNDES was capable of creating incremental value for them.

The new model was thus based on the assumption that FUNDES would be able to create sufficient value for the anchor company (as a customer) through training of suppliers or distributors. Only in this manner would investments in support of MSMEs’ (beneficiaries) value chain integration turn into smart business decisions. Opportunities were expected to be both in upstream (supply) and downstream (distribution) sectors.

The new model also put forward a different incentive structure with MSMEs having to pay a small fee for the services they receive. This raised MSME motivation and made them much more receptive compared to when receiving training for free. The agreements with the anchor companies, on the other hand, included strict financial targets that had to be met such as increased sales turnover, improved margins or more efficient procurement. If they could not be achieved, the anchor company would have the option to cancel the contract with FUNDES.

In a nutshell, FUNDES’ new model consisted in the provision of business development services (BDS). As articulated in a case study on FUNDES,

"BDS aims to increase MSME market access, reduce productivity gaps between these organizations and large firms, formalize MSME businesses, establish adequate working conditions, and create more

Cerrejón is an integrated mining and transport infrastructure complex in La Guajira. It is Latin America's largest thermal coal open-pit mine producing more than 32 million tons a year. A 150-kilometer railway track connects the mining site with the seaport of Puerto Bolivar from where the coal is shipped worldwide. In parallel runs a motorway for operational support which can be freely accessed. The independently operated mine is owned in equal shares by a joint venture partnership between Anglo American, BHP Billiton, and Glencore. Cerrejón employs more than 12'000 people - half directly and the other half as contractors. More than 99 percent are Colombian nationals. The company is one of the largest private exporters and taxpayers in Colombia. The annual royalty payments amount to US\$ 233 million (2014) and US\$ 197 million (2014) in corporate taxes. Cerrejón makes considerable environmental (US\$ 56 million, 2014) and social investments (US\$ 10 million, 2014).

dynamic business environments” (Bucher et al. 2016).

Even in the early stages of the process, FUNDES realized that government agencies and international development organizations would buy into this new approach as well. And these customers, too, would not get involved unless they were convinced of FUNDES’ value proposition, regardless of how they might interpret the meaning of “value” in their respective context.

## 2.2 The early stages – proof of concept

Since FUNDES had been operating as a philanthropic organization for some 25 years, the biggest challenges under the new business model were waiting in the prospecting and commercial activities and the new competition from other BDS providers<sup>7</sup>. So far, the most important common denominator in the profiles of FUNDES’ 200-plus employees had been a strong focus on social skills and environmental awareness. Commercial skills, on the other hand, had never been an important part of FUNDES’ job profiles, neither in the management team nor with the organization’s trainers and consultants.

At the same time, early successes were deemed crucial to generating a list of convincing sales arguments for potential partners under the new model.

A Brazilian steel producer (Gerdau), with thousands of scrap metal collectors in its supply system, was one of the early adopters of the new “FUNDES Way of Doing Business” by commissioning the service of training and organizing scrap metal suppliers. While Gerdau benefited from the initiative by ensuring a constant and well-organized supply of raw material, the 200 beneficiaries (i.e., the scrap metal collectors)

were able to generate growing business volumes with a reliable partner and thus to increase their personal income. The most successful beneficiary in this project runs a company with dozens of primary scrap metal collectors under contract. With annual revenues of approximately US\$ 400,000, this has been one of FUNDES’ showcase beneficiaries to date. FUNDES provided coaching and guidance in six subject areas and created a manual for scrap metal collectors and provided technical assistance as well. Among other things, the project improved the adequate classification of scrap metals, reduced the risk of accidents and illnesses from managing residues, and improved the health, living and working conditions of the recyclers and their families.

Similar project formats were introduced in other countries with hardware stores as beneficiaries in the downstream value chain of a cement producer (customer), or in the upstream supply chain of a supermarket and a hotel group (customers) with their vegetable and fruit suppliers (beneficiaries). All of these initiatives are part of the answer to strategic challenges for clients. At the same time, they allow for the strengthening of MSMEs in their respective value chains – which is, of course, the mission of FUNDES.

## 2.3 The need to scale up – the creation of shared value

While early success facilitated expanding the scope at the national level, some failures helped to improve the model. Three years into its implementation (2012), the number of customers and beneficiaries was still small. Regional expansion of at least one of the locally successful projects was imperative to come close to the target of 30,000 beneficiaries by year five.

At that point (January 2011) Michael Porter and Mark Kramer published their groundbreaking concept of “The Creation of Shared Value” (CSV) (Porter & Kramer 2011). The underlying message is that if a company wants to stay in business, it must not only create economic value for itself and its stakeholders but simultaneously create value for the society in which it is embedded.

This, in turn, is necessary not just to meet its social and environmental obligations but primarily to become more competitive. This message fit like a glove on FUNDES’ hand. What is more, Porter and Kramer started to support FUNDES in getting the message out to potential customers mainly in the private sector. Large-scale events were organized to create and foster awareness among potential clients.

A little later, a leading international company in the beverage industry commissioned FUNDES to strengthen its traditional channel of mum and pop stores as a strategic complement to the rapid globalization process in the food retail business. Implementation started in one country, then gradually expanded to the region. In the case of the collaboration with SABMiller, FUNDES consultants improved the business skills of over 26,000 shopkeepers and empowered them. The methodology that FUNDES had developed addressed not only the financial sustainability of the microenterprises but also helped to improve the quality of life of their families and the development in their communities. It resulted in increased sales for shopkeepers and SABMiller of 11 percent in Colombia, 9.3 percent in Ecuador, 9.6 percent in El Salvador, 22.7 percent in Honduras, 11 percent in Panama and 11 percent in Peru (FUNDES 2017). The marketing margin improved for SABMiller on average by 2 percent. Also, brand reputation and customer loyalty could be enhanced as well.

By 2014, other customers (in realms such as consumer products, hardware stores and the credit card business) also started to take their initiative with FUNDES to a regional dimension. With an impressive number of success stories in its portfolio, FUNDES found the arguments it needed for the successful prospecting of new clients and for further strengthening its commercial activities. Solid foundations were now in place to take the new

model to scale and create an organizational structure that allowed for a fast track expansion strategy.

#### 2.4 Structure follows strategy

The organizational and legal structure of FUNDES was historically built to allow for an efficient and effective implementation of the philanthropic business model with foundations in both the headquarters (general policies and controlling) and the country offices (implementation). Foundations are arguably among the most rigid legal structures as they are designed to implement initiatives funded by generous donations. In most instances, the central office has the fundamental responsibility to support all branches of the organization financially. In such a framework, transferring resources from one country branch to another is virtually impossible. Structures of this kind are, therefore, genuinely incompatible with the needs of an internationally active, financially self-sufficient organization where the head office is predominantly a cost center that needs to be financed through the repatriation of funds from its subsidiaries.

The implication is that some things will have to be turned upside down. The country branches are gradually being dismantled and replaced by a legal structure of limited companies (Ltd) so as to give the new business model the legal framework that is required. Service level contracts between the subsidiaries and the head office ensure financial flows to support activities of the corporate HQ team.

The change of the legal structure of any organization does not per se imply a change of its mission. In fact, FUNDES has no intention of altering its original purpose; it does, however, aim to reach out to more beneficiaries by improving its business model. The highest organizational body still is the original foundation based in Panama.

#### 2.4 The human factor

Every FUNDES executive will confirm that the biggest challenge during the transformation from a philanthropic organization to an economically sustainable one has been on the people side. Of the more than 200 staff in the former charitable FUNDES organization, approximately 150 had to be dismissed to make room for 60 new employees with the right profile for the new approach. 150 dedicated

employees came (or had to) realize that they did not possess the necessary skill set for the new “FUNDES way” of supporting the same type of MSMEs they had supported over the previous 25 years. The fact that these employees had been competent professionals in the context of a philanthropically oriented institution did not make this part of the game plan any easier.

In light of numerous, eminently personal consequences involved in this section of the change process, it will come as no surprise that the most frequent complaint about the transformation has been about the time it took to change and adjust the teams.

### 3. The outlook

The market potential of the niche that FUNDES has identified and begun to penetrate thanks to the new model is vast. FUNDES is unique as it helps large companies to embed locally by empowering their local MSME suppliers or distributors. As FUNDES knows the needs of its customers, it is able to design and implement solutions on the ground to strengthen MSMEs throughout Latin America. This is very different from large consulting companies focusing on strategy development. With its specialized training methodology and consultancy work, FUNDES induces higher efficiencies, profitability and innovation throughout the entire value chain. Its focus on embeddedness yields not only positive impacts for MSMEs and large companies, but also for local communities and the environment. FUNDES is a positive impact company and is already aligned with the sustainable development goals (SDGs) that are aspiring to create prosperity for everyone without harming the environment or jeopardizing freedom on the planet.

However, the current business model centering on face-to-face training generates high personnel expenses. This is a major challenge for FUNDES to stay competitive. Even though FUNDES after five years of transformation has benefitted over 50,000 MSMEs, with 80 satisfied customers (large companies) and generated total revenues of US\$ 10–15 million each year, it is clear that FUNDES once more needs to reinvent itself in view of the challenges ahead.

Meeting the aggressive 2020 target of becoming one of Latin America’s largest high quality consulting companies, of improving the performance of some 25,000 MSMEs every year, and of generating annual revenues of US\$ 50 million requires further changes in FUNDES’ business model. The question is how FUNDES can contain costs while making more attractive offers to large companies and scale up its operations to reach out to ever more MSMEs?

In the past, FUNDES has enabled change through innovation, for example, in training methodologies or financial instruments. As information technology is now accessible to a large extent in Latin America, new innovations pertaining to digitization in training and consulting could yield an interesting avenue for FUNDES. Yet understanding and respecting the local context and dynamics in the different markets of operation will remain key to delivering quality services and being successful. Of course, it will also be necessary to make adaptations to the organizational structure to include implementing strategic business units with regional responsibilities and authority as well as strengthening management teams. Even though limited resources naturally slow down the change process, they allow for constant adaptation and fine-tuning even before scaling up.

The new phase of transformation ahead of FUNDES will enable the company once more to stay true to its mission of enhancing the performance of an ever-larger number of micro, small and medium-sized companies over the next years. This will be very helpful to MSMEs in Latin America who need to continue to improve productivity in order to become more competitive and stay in business. FUNDES will therefore keep making significant contributions towards the SDGs and more sustainable growth trajectories in Latin American economies.

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## Endnotes

**1** In October 2016 the British multinational brewing and beverage company SABMiller Plc was acquired by Anheuser-Busch InBev for US\$ 107 billion. This unites the

world's two biggest beer makers. SABMiller, which had grown from its South African base (founded in 1895) into a global company, ceased to exist as a brand and is now a business division of the Brazilian-Belgian corporation Anheuser-Busch InBev SA/NV, which is headquartered in Leuven, Belgium (from Wikipedia: <https://en.wikipedia.org/wiki/SABMiller>).

**2** Embeddedness of a company refers to the ties it has with local stakeholders and how it engages with local communities and includes local suppliers or distributors in its value chain and so on. Technological embeddedness encompasses the collaboration between a large firm and local public and private actors, to trigger innovations, develop local technologies and facilitate knowledge transfer to address local solutions (Andersson et al. 2007).

**3** FUNDES was established in 1984 by the Swiss industrial tycoon Stephan Schmidheiny with the aim of supporting the development of MSMEs (MIPYME in Spanish) in Latin American countries.

**4** In 1994 Stephan Schmidheiny established the AVINA Foundation, which contributes to sustainable development in Latin America by encouraging productive alliances among social and business leaders.

**5** The MIF is an independent fund administered by the Inter-American Development Bank (IDB). It was created in 1993 in order to support private sector development in Latin America and the Caribbean.

**6** The VIVA Trust was established in 2003 by Stephan Schmidheiny with the objective of ensuring the long-term sustainability of philanthropic organizations in Latin America.

**7** In some instances BDS providers are sponsored by (foreign) governmental or non-governmental organizations.

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Ueli Frei lives in Switzerland and Costa Rica. Over the course of twenty years of living and working in Latin America, he has developed an intimate understanding of the critical issues in the region. And he is determined to use his for-profit experience to unleash the full power of business and wealth generation in the service of human dignity.



# Positive Sustainability Effects Resulting from Embeddedness: Evidence from Syngenta's potato business in Kenya and Colombia

Tanja Sostizzo

## Abstract

A variety of studies assess the impact of multinational enterprises (MNE) in developing countries. They mainly focus on the negative externalities of these companies. Therefore, this study focuses on the positive effects emanating from the presence of MNEs in developing countries. It is hypothesised that positive externalities resulting from MNEs have their source in the local embeddedness of the firm. The two case studies presented in this paper assess the embeddedness of Syngenta's subsidiaries in Kenya and Colombia. The focus is on Syngenta's potato production and related crop protection business. The study investigates the perspective of the company, the view of experts and the potential impact on smallholder farmers. The results show that in both countries Syngenta is collaborating with universities and other research institutions, governmental institutions, NGOs and the local private sector. Syngenta creates attractive skilled jobs for locals in both countries. The company positively influences its business partners in the area of standards and good business practices. Furthermore, farmers profit from the technologies and trainings provided by the firm or its partners. It can be concluded that through embeddedness, Syngenta understands the needs of farmers and can help to meet these needs, which in turn results in a business case for the company.

## 1. Introduction

Multinational enterprises (MNEs) have existed since the late 19th century. An MNE is an organisation that owns or controls one or more subsidiaries extracting raw materials, producing goods or providing services in one or more countries outside its home country. Until the second half of the 20th century their impact was low and their operating areas narrow. Increased globalisation in the second half of the 20th

century led to a boost of MNEs in size and number.<sup>2</sup> Today, around 65,000 holding companies run 850,000 subsidiaries and are responsible for two-thirds of all commodity flows.<sup>2</sup>

A variety of studies cover some aspects of the embeddedness of multinational enterprises in developing countries. Usually, the focus is on social (Heidenreich, 2012) or political embeddedness (Fransen, 2013) but studies considering a holistic embeddedness approach are lacking. Furthermore, while many studies have been conducted about negative externalities originating from the activities of MNEs in developing countries (Bakan, 2004), positive externalities have been widely neglected. Accordingly, the research gap can be found in the positive externalities resulting from a holistic embeddedness concept of MNEs. This study focuses on positive externalities that are created by the MNE's embeddedness in the host country. At the centre of this study is Syngenta and its activities related to the potato and crop protection business in Kenya and Colombia.

### 1.1 Embeddedness<sup>3</sup>

The term embeddedness was first used by Karl Polanyi to define social relationships of pre-market economies, where resources were transferred without the use of money (Polanyi, 1944). The economic term embeddedness means that people's economic activities are integrated in local culture, community and economic networks (Polanyi, 1944 and Granovetter, 1985). The embeddedness concept is a contextualisation of economic activity in social structures, culture, cognition and political institutions (Zukin and DiMaggio, 1990). A firm is locally embedded when it collaborates long-term with local companies, institutions, clients and employees and when its policy takes the local context and environment into account.



The rationale of an MNE is to create value by using, creating, transferring and combining resources across multiple locations (Meyer et al., 2010). Each location is characterised by a specific institutional framework and resource endowment which leads to different opportunities and constraints (Meyer et al., 2010 and Kostova et al., 2008). Embeddedness allows an MNE to adapt to a location. This is the basis for an efficient value creation (Meyer et al., 2010). To become embedded MNEs can create and access a local network of contacts, which in turn facilitates access to local knowledge (Cantwell and Mudambi, 2005, Lane and Probert, 2006 and Burt, 1992). Local contacts and knowledge are crucial for a company to access resources and capabilities that otherwise would lie outside the company's boundaries (Andersson et al., 2002). Embedded companies cultivate long-term cooperative relationships and seek long-term returns by collaborating with and therefore depending on others (Romo and Schwartz, 1995 and Dore, 1983). Furthermore, embedded companies are more likely to innovate (Andersson et al., 2002) which increases the possibility of value creation (Snehota and Hakansson, 1995 and Blankenburg et al., 1996) and consequentially opens space for new opportunities (Gulati, 1999 and McEvily and Marcus, 2005) and alliances (Kogut et al., 1992). Those benefits would be difficult to create solely with arm's length relationships or vertical integration (Uzzi, 1997).

Assessing the embeddedness of an MNE requires the recognition and comprehension of its multifaceted dimensions (Badry, 2009). Embeddedness can be segmented differently. One possibility are the six categories of embeddedness proposed by Halinen & Törnroos, who divided embeddedness into social, market, technological, spatial, temporal and political embeddedness (Halinen and Törnroos, 1998). Badry stated that the embeddedness dimensions should be designated and adapted to the intention of the research and conceptualised in each case study (Badry, 2009). For the case studies conducted in Kenya and Colombia we distinguished seven dimensions of embeddedness: social, economic, technological, environmental and infrastructural embeddedness as well as relational and structural and political embeddedness.

## 1.2 Potato Production Worldwide, in Kenya and Colombia

Potatoes originate from the Andes and were domesticated around 8000 years ago (CIP, 2017a). Nowadays, potatoes are grown around the globe, mostly in temperate regions and consumed on regular basis by more than a billion people (CIP, 2017b).<sup>4</sup> In terms of consumption, potato is the third most important food crop after rice and wheat (Ibid). China, followed by India and USA are the biggest producers.<sup>5</sup> According to Devaux et al., potato is considered as very important for food security by the FAO (Devaux et al., 2014). Since potatoes are relatively easy to grow, have a high adaptive range, short vegetative cycles and are of high nutritional value, its consumption has increased steadily in developing countries (Devaux et al., 2014 and Gastelo et al., 2014). By now, potato production in developing countries exceeds that in developed countries (Devaux et al., 2014). However, yields differ substantially (Figure 1).

Figure 1 Potato yields. Development of the yields from the ten most important potato producing countries and Kenya and Colombia. Source: FAOSTATS, 2017



Devaux et al. argue that potato production is gaining importance to eradicate poverty and improve food security and health in rural areas (Devaux et al., 2014). Moreover, potato is a very efficient crop with the highest yields per land area and water unit (CIP, 2017a and Devaux et al., 2014). Thus, the crop is of general importance, considering the pressure on global food production. Devaux et al. located areas where poverty and potato production coexist (Devaux et al., 2014). These areas included the potato producing regions of Kenya and Colombia (Devaux et al., 2014). They argue that interventions

in these areas aiming at increased potato yields are of high importance since potatoes can serve as a staple food and cash crop for these farmers and in this way help them to escape food insecurity and poverty (Devaux et al., 2014).

Potatoes are Kenya's second most important food crop after maize (Janssens et al., 2013 and Muthoni et al., 2013). In Kenya, potatoes are grown as a staple food as well as a cash crop, mostly in high altitude regions with high amounts of rainfall. 800,000 smallholder farmers grow around 80% of the potatoes. Thus the cultivation of potatoes in Kenya contributes to the improvement of food security (Ng'ang'a, 2014 and Okello et al., 2016). Compared to countries with high-input production systems with yields of around 45 tons per hectare,<sup>6</sup> the average yield in Kenya of 12 to 22 tons per hectare lags far behind (Economic Review of Agriculture, 2015); other sources even indicate average yields as low as six to ten tons per hectare (Okello et al., 2016).<sup>7</sup> A big issue in Kenya is the usage of uncertified seeds, which keeps yields low (Devaux et al., 2014).<sup>7</sup> However, Kenya is experiencing a rapid increase in potato demand (Janssens et al., 2013). This is due to population growth, changes in consumption habits and increased levels of urbanisation. In rural areas potatoes are consumed in traditional dishes, whereas in cities the demand for processed potatoes is high (Ng'ang'a, 2014). Farmers who are able to directly sell their potatoes to the industry receive much higher prices than farmers selling to local brokers or traders.<sup>8</sup> The nominal prices are comparable to Swiss potato prices showing that potato is a crop with a high return on investment. There is evidence that processors in Kenya have difficulties sourcing potatoes that meet their high quality standards. Hence, they are motivated to engage with farmers and to start contracting them.<sup>9</sup>

In Colombia, potato is a traditional crop that has been grown for many centuries by smallholder farmers for subsistence.<sup>10</sup> Today it remains an important food crop (Norton et al., 2017 and Rodríguez and Ramírez, 2011). However, the per capita consumption is declining.<sup>11</sup> Around 250,000 people are directly and indirectly employed by the potato business, and the major portion of potato producers are smallholder farmers (Jiménez, 2014). However, small-scale producers tend to have higher

production costs per land unit than medium to large-scale farmers (Norton et al., 2017). As a result, the high number of smallholder farmers engaged in potato production diminishes the competitiveness of the sector. By looking generally at the agricultural sector in Colombia, mechanisation is rather low (OECD, 2015). Furthermore, most potato farmers in Colombia do not use certified seeds while 95% of producers in Europe and North America do so (OECD, 2015). This might explain part of the gap between the actual and potential yield. In Colombia average yields of around 20 tons per hectare<sup>12</sup> (Jiménez, 2014) are far below potential yields. While the total area under production is decreasing in Colombia, yields have been slightly increased, resulting in a small growth of total production.<sup>12</sup> The biggest portion of potatoes is consumed as fresh potatoes, with only around 10% are being processed due to free trade agreements of Colombia with Canada, the US and other countries.<sup>12</sup> The processing industry is controlled by ten medium to large-scale companies (Jiménez, 2014). However, the processing industry is under high pressure since the import of processed potato products is on the rise (Ibid). Processors in Europe, the USA and Canada are more competitive<sup>12</sup> and therefore able to penetrate the market. Until now, the import of fresh potatoes has been marginal.<sup>12</sup>

### 1.3 Syngenta

Syngenta is one of the largest agro-business companies in the world. It is active in 90 countries in the fields of seeds and crop protection. More than 27,000 employees work in 107 production and supply and 119 research and development sites. The sales of the company are around 12.8 billion (Syngenta, 2017). Considering the size and reach of the firm, it becomes clear that Syngenta has a high-level influence on agriculture worldwide and thus on millions of farmers and consumers of agricultural products. Therefore, externalities originating from the company's operations are of high interest. With its commitment to "bringing plant potential to life" Syngenta aims to increase agricultural productivity and save natural resources at the same time. The main goal of the company is to "improve global food security by making better, more sustainable use of available resources" (Syngenta, 2017). This should be

attained through innovative crop solutions that transform the way crops are grown.<sup>13</sup>

## 2. Research Question and Design

At the centre of this research is the question of how well Syngenta's subsidiaries are locally embedded in Kenya and Colombia and what kind of positive externalities (sustainability effects) result from this embeddedness.

As there exists no ready-to-use method to assess embeddedness together with sustainability, these two case studies use a mixed method approach including different qualitative and quantitative surveys. First, a value chain analysis was conducted to find the important stakeholders concerning the potato business (upstream value chain) of Syngenta in Kenya and Colombia. The internal view of the company was provided by Syngenta in a subsidiary questionnaire. The external perception of Syngenta's operations and collaborations in Colombia and Kenya was measured by an expert survey. The experts were asked about their perception of the extent and quality of embeddedness as well as the resulting sustainability effects. Four stakeholder groups were interviewed by means of questionnaires that included open and closed questions. The stakeholder groups included representatives from academia, business, government agencies and NGOs. In Colombia from 43 contacted stakeholders (experts), 15 completed the questionnaire. The same number of answers was received in Kenya. The small number of respondents prevented a representative statistical analysis but did allow a descriptive analysis.

Because the operations of Syngenta influence smallholder farmers, these farmers were interviewed to indirectly verify the information gathered from the subsidiary and the expert survey. The smallholder questionnaire thereby served to assess sustainability effects on local communities, the environment and the local economy resulting from Syngenta's activities. In Colombia data was collected from farmers in two of the major potato production departments of Cundinamarca and Boyacá. In this case, the smallholder farmer survey sample size was 20, containing ten households where at least one member attended Syngenta's trainings (treatment group) and ten households where no one attended Syngenta's trainings (control group). The farmers

share the same geographical, agro-ecological and cultural characteristics. The small number of surveyed farmers reduced the power of statistical analyses. In Kenya farmers were not divided into a treatment and control group and the questionnaire was filled out in focus group discussions or individually. The sample size is 78, from which 18 individually filled in the questionnaire and 60 were interviewed in four working groups. Due to the research design, data was analysed in a descriptive way.

## 3. Results

### 3.1 Subsidiary's Perspective

According to Syngenta's annual report 2016, sustainability and the creation of value for employees, the communities where they live and customers are at the centre of its business strategy. Through its so called Good Growth Plan<sup>14</sup> the company has set clear targets in the areas of crop efficiency, soil degradation, biodiversity, empowerment of smallholder farmers, human safety and workers' rights. These areas are also related to the sustainable development goals (SDG). Syngenta claims in its report that the Good Growth Plan is not a corporate social responsibility (CSR) initiative at the periphery of its operations but linked to its core business. Furthermore, it states that the company has a long-term view on technologies, which it develops to meet demand without resources being depleted.

The results displayed below are extracted from an extensive questionnaire filled out by Syngenta Colombia, Syngenta Kenya and the Syngenta Foundation for Sustainable Agriculture (SFSA), which is active in Kenya. They refer to the activities of Syngenta in Colombia and Kenya and not to the general activities of Syngenta worldwide. However, Syngenta's activities related to the potato production business in Colombia and Kenya can be easily connected to the Good Growth Plan's commitments (e.g. Farmer Safety, Empower Smallholders, Resource Efficiency, etc.), which is the global strategy of Syngenta.

#### 3.1.1 Colombia

Syngenta started its activities in Colombia in the year 2000. The subsidiary has an annual turnover of USD 75 million and a market share in the Colombian

potato business of around 22%. This means that it reaches about 20,000 potato growers. The subsidiary has almost 350 employees out of which 20 are working in the potato business. In this area 90% of the local employees are skilled workers. Syngenta Colombia has a programme for skills management and lifelong learning in which 20 employees could participate so far. A 100% employee working for the firm earns on average about 3500 USD a month whereas the national minimum is around 246 USD per month.<sup>15</sup> Syngenta runs no special programme in the area of equality, gender and minorities but has a diversity and inclusion policy in all the work they do, internally and externally. Syngenta Colombia provides trainings to ensure the personal safety of its employees and suppliers. Furthermore, all business partners have to fulfil certain internal standards in order to collaborate with Syngenta. On the production side, the standards of the Fair Labour Association are followed. In order that suppliers fulfil the standards, Syngenta also provides trainings for them in this area. So far, 80% of its suppliers could be reached. Generally, Syngenta Colombia is following the ILO standards to fight corruption and promote transparency. However, in 2015 it started a strong promotion of compliance in Colombia through all its business areas including all suppliers.

Overall, in areas where Syngenta has special programmes, it is working together with local entities. Whereas Syngenta used to develop its initiatives on its own in Colombia, it now works together with local partners in order to be supported with knowledge, people and resources and to share results. The integration of local partners is a slow but steady process and leads to the gain of local knowledge, which can be used to expand the business impact. Syngenta rates this collaboration as very important. Business relations concerning the potato business include 12 companies and four government agencies or NGOs. With most of the entities Syngenta with which is collaborating, it has formal contracts. In order to keep its license to operate, the department of Corporate Affairs within Syngenta maintains close relations with several governmental institutions. Additionally, Syngenta Colombia is part of an industry association called "Procultivos"<sup>16</sup> in the case of crop protection and "Acosemillas"<sup>17</sup> for seed issues.

It is important for Syngenta to move away from charity programmes and to focus on local sustainability initiatives linked to agriculture, environment and safe use. Therefore, Syngenta collaborates with partners on the development of new technologies, services and products related to the potato business for the local market and provides regular trainings for potato farmers to facilitate the delivery of its technologies at the field level. So far, they have reached around 16,000 potato growers. Additionally, Syngenta has a special programme where more than 2,000 youths are targeted.

Syngenta Colombia is reinvesting about 15% of its earnings in Colombia and it has growth strategies for its potato business in Colombia. Furthermore, it rates its performance in the area of provision of products and services to underserved markets as good. However, Syngenta sees the lack of a clear political framework in the agricultural sector as a hindering factor for investments from the side of Syngenta Colombia.

Syngenta has set targets in the areas of air pollutants, greenhouse gas emissions, water consumption and withdrawals, water pollution and waste for the whole territory of the north of Latin America. The targets focus on production sites of the company (i.e. Cartagena). Furthermore, it has set targets to improve the quality of water, soil and air in areas where it is operating. In Colombia it participates in two programmes, "Ecoaguas"<sup>18</sup> (water) and "Conservando mi Territa"<sup>19</sup> (soil). These programmes are locally implemented in the agricultural zones. Through these programmes, best agricultural practices are brought to the growers, including potato producers.

Syngenta Colombia has not invested in infrastructure so far but has plans to do so in the future. The only project related to infrastructure is the donation of computers to rural schools. However, this is more of philanthropic nature than an investment in infrastructure.

### 3.1.2 Kenya

Syngenta's business development unit for the potato production sector was just recently created in Kenya. At the time of the study (2015) Syngenta Kenya

employed 131 people in total of which three are related to the potato business. Nearly all local people working for Syngenta are skilled. The average salary of around 1300 USD is very competitive compared to the national average. The “Talent Development Program” which is run yearly offers specific trainings and possibilities for skills development to employees. Additionally, personal safety and security trainings are conducted. Furthermore, employees profit from medical health coverage, provision of cars and fuel, and a canteen.

Syngenta Kenya complies with national and international standards. In addition, business partners must also uphold those standards in order to collaborate with Syngenta. In the areas of gender, minorities and diversity, Syngenta Kenya complies with Syngenta’s global ethical codex. However, Syngenta Kenya does not run special programmes in the area of human rights. Syngenta claims that its business partnerships and political interactions are corruption-free. Furthermore, Kenya has a legal framework that allows the enforcement of the law. This is an important framework condition for the company to operate. The compliance with the law legitimates Syngenta’s operation and increases its acceptance. However, Syngenta also tries to influence politics and decision makers. This is done via lobbying through trade associations.

In the potato sector Syngenta is working closely together with local seed multipliers, the local logistics sector, cooperatives, farmer groups, processors, distributors, governmental and parastatal institutions. Over fifty public-private partnerships (PPP) are carried out (including the relationships of SFSA). Besides monetary support, the exchange of information, knowledge and technology, insight and understanding can be transferred. Through its contribution to the “Agribiz4Africa” event, Syngenta is supporting young people to establish their own business in the field of agriculture.

Community development activities and other specific activities that are not directly business-related are carried out by the SFSA in collaboration with a variety of organisations. The activities serve to obtain local legitimacy and give Syngenta its license to operate. The common approach of the SFSA is similar to the one of international development

organisations. The initiatives include “Operation Smile”<sup>20</sup> and the “Mater Heart Run”<sup>21</sup> which are purely philanthropic and not related to Syngenta’s commercial unit. Initiatives connected to the core business but which are also carried out by the SFSA include trainings and other services for farmers. The trainings cover subjects like best agricultural practices, basic profit and loss calculations, health and safe use of chemicals and environmental protection, use of new technologies and empowerment. To support farmers, the SFSA is closely collaborating with other agricultural development organisations, donors that contract NGOs, governmental organisations and local farmer organisations. The SFSA is also active in fostering entrepreneurship.

Syngenta Kenya has a high number of business relations associated with potato production in Kenya. Most of these ties are formal. The most important technological innovation Syngenta brings to Kenya’s potato sector is the evaluation of new potato varieties. The business unit is engaged in the area of seed and tuber propagation and hence collaborates with local entities in this area. Furthermore, it is important for Syngenta to link farmers to processors. Farmers who are able to comply with industry standards and who are directly linked to processors receive higher prices for their produce. Additionally the procurement security for processors is increased and Syngenta profits by selling seeds and agrochemicals to these farmers.

Syngenta does not run any infrastructure projects nor does it contribute to the implementation of any such efforts, since it does not perceive this as its responsibility.

### 3.2 Experts’ Perspective

The following sections display the aggregated results from the expert interviews. While Figure 2 and 3 show the results obtained from the highly structured questionnaires, the open discussion with the experts is also considered. The survey is divided into four parts with questions about the extent and quality of Syngenta’s embeddedness, potential positive externalities appearing from the presence of Syngenta, and the embeddedness of Syngenta compared to other companies/competitors active in the region.

### 3.2.1 Colombia

The aggregated results of the perception surveys among experts are displayed in Figure 2. Each pentagon shows five embeddedness dimensions.

On average across all expert groups, Syngenta is perceived as moderately embedded within the Colombian potato value chain besides in the area of infrastructure. Syngenta Colombia reaches the highest scores in the area of technological embeddedness followed by economic embeddedness. When considering extent and quality, experts perceive Syngenta to be a good employer and have a good collaboration with local research institutions and universities.

Figure 2 Colombia: Aggregated results of the expert surveys.



Figure 2 Colombia: Aggregated results of the expert surveys. The size of the pentagon indicates the level of embeddedness. The bigger the pentagon, the greater the degree of Syngenta’s embeddedness. The dots in the corner indicate the number of respondents on every dimension. The greater the number of experts who answered the questions, the bigger the dot. SE= Social Embeddedness, EcE= Economic Embeddedness, TE= Technical Embeddedness, EnE= Environmental Embeddedness, IE= Infrastructural Embeddedness

Furthermore, they see Syngenta as an economically stable entity that helps to improve the efficiency of potato production. Syngenta’s membership in national industry associations and umbrella organisations (e.g. Fedepapa<sup>22</sup>) are perceived as positive economic embeddedness by experts. Comparing Syngenta to competitors like Bayer, Monsanto or Dow Chemical reveals that the experts perceive Syngenta as doing a little bit more in the technological dimension than its competitors, but doing about the same in the other areas.

Also, the environmental embeddedness is identified by experts as moderate. Initiatives like “Ecoaguas, Suizagua Colombia”<sup>23</sup> or “Conservando Mi Tierrita” are positively rated by experts collaborating with

Syngenta in these areas. However, the externalities resulting from the initiatives of Syngenta regarding the environment are rated as only slightly positive.

Further, experts perceive that Syngenta Colombia is not doing much in the area of infrastructure. Interestingly, experts think that Syngenta is doing about the same in this area as its competitors. It seems that the establishment of infrastructure is not a priority and should be provided by the Colombian government.

### 3.2.2 Kenya

The aggregated results of the perception surveys among experts in Kenya are displayed in Figure 3. Each pentagon shows five embeddedness dimensions.

Figure 3 Kenya: Aggregated results of the expert surveys.

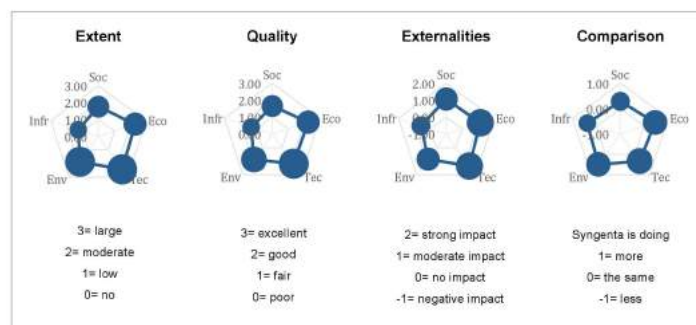


Figure 3 Kenya: Aggregated results of the expert surveys. The dots in the corner indicate the number of respondents on every dimension. The greater the number of experts who answered the questions, the bigger the dot. SE= Social Embeddedness, EcE= Economic Embeddedness, TE= Technical Embeddedness, EnE= Environmental Embeddedness, IE= Infrastructural Embeddedness

Generally, Syngenta is also seen as moderately embedded in Kenya showing a fair to good performance in the different dimensions of embeddedness. Compared to other companies, Syngenta is perceived as doing slightly more than its competitors.

The technological dimension – as well as the economic dimensions – scores highest. The technology Syngenta brings to Kenya (e.g. crop protection means, potato variety, trainings on good farming practices) is welcomed and has a positive impact on the productivity of potato farmers. However, Syngenta has no research and development unit in Kenya. The Ministry of Agriculture, Livestock and Fisheries (MoALF)

observed that the demand for extension services was growing faster than the number of available extension agents from the government. Consequently, the MoALF welcomes private or public-private organisations doing trainings and perceives them to have a big impact on the livelihood of farmers.

The extent of economic embeddedness is perceived to be between moderate and strong with an overall good quality and associated positive externalities. Farmers can get a high return if they follow the planting procedure suggested by Syngenta. Additionally, experts think that Syngenta has a bigger impact on agricultural development than the government. Business relations with Syngenta are considered to be stabilising and long-lasting and therefore worth pursuing.

The extent of embeddedness in the environmental dimension is rated to be between moderate and strong and the quality is perceived to be good. Experts think that Syngenta is sensitive to environmental issues. Yet experts state that there are problems with the handling and storage of chemicals and the disposal of empty chemical containers. However, they see a decline in poor handling of pesticides despite the growing number of farmers using agrochemicals. Positive externalities in this dimension are mainly attributed to the offered trainings about environment, health and safe use of chemicals, and agricultural practices. Compared to its competitors, experts rate Syngenta's performance to be clearly better.

The social dimension is considered to be moderately embedded with a good quality. The most frequently cited positive externalities are knowledge transfer and the long-lasting relationship, which creates trust among stakeholders. Respondents from academia and NGOs voice criticism that the SFSA is used as a vehicle to create trust among stakeholders and to pave the way for Syngenta's commercial unit, which is then able to more easily penetrate the markets.

Syngenta's infrastructural dimension is perceived as not being embedded with a poor quality and no positive impacts. Interestingly, comparing Syngenta's infrastructural embeddedness to competitors, experts perceive Syngenta's performance as slightly better.

### 3.3 Smallholder's Perspective

The following sections show the results extracted from the smallholder surveys. Whereas the case study in Colombia considered a treatment and control group, in Kenya a more exploratory approach was chosen.

#### 3.3.1 Colombia

Nearly all potato farmers use agrochemicals and/or included a certain degree of mechanisation in their farming practices. While only a few farmers experienced technological changes since the last growing cycle, more expect such changes in the near future. Furthermore, all farmers from the treatment group and half of the farmers from the control group use Syngenta's products. In general, farmers state that the usage of crop protection means and pesticides leads to a reduced pest pressure, higher quality of potatoes and higher efficiency. A significant difference between the treatment and control group is found when asking farmers about their work efficiency. The treatment group responded that they work more efficiently compared to the same growing cycle a year ago, and they think this is due to the use of inputs and technologies. However, no difference can be found between the two groups when looking at the income. However, farmers from the treatment group tend to have a more diverse income and are more likely to grow multiple varieties of potatoes.

For the majority of the interviewed farmers from the treatment group (eight out of ten) their relationship with Syngenta is based on mutual trust. For these farmers, Syngenta and the government – followed by research institutions – are the most important actors fostering economic progress and improving living standards in the long run. The control group identifies the government as the major actor supporting their future development. Regarding their well-being, farmers from both groups think that their well-being has improved compared to the last three years. However, while six farmers from the treatment group indicate Syngenta as one of the main contributors to their well-being, farmers from the control group tend to see the government or other factors as contributors.

The treatment group is evidently convinced of the knowledge transfer through solid trainings provided

by Syngenta. There is a tendency that farmers from the treatment group attended more trainings than the ones from the control group. More farmers in the treatment group stated to have discussed multiple topics in the trainings than from the control group. Both groups report positive impacts from the trainings on all the different topics. Especially the trainings on the environment, health and safety at work are seen as beneficial for the farmers. Also, the farmers from both groups state that they apply quite a lot of the lessons learned during the trainings on their farms. The questions focusing on the storage of the pesticides and the use of protective equipment show that farmers in the treatment group have a slightly better understanding and awareness of safety and health issues. In general, the farmers state that their knowledge about environmental issues increased due to the trainings. However, farmers that attended Syngenta's trainings are clearly more aware and informed about environmentally friendly practices.

Regarding aspects of food security, the findings indicate that both treatment and control groups did not experience food scarcity in the last three months, nor unhealthy meals. Farmers in both groups state that they spend on average around 30% of their income on food. The vast majority of both the treatment and control group have access to basic health services. Also a large percentage of both groups have health insurance. The housing situation of both the treatment and control groups is good. Access to electricity, water and sanitation is provided by the local government.

### 3.3.2 Kenya

Potato is seen as an opportunity by farmers, which often leads them to increase their potato plot size. Fertiliser and agrochemicals are the most commonly used technologies and all the interviewed farmers changed their agricultural practices in the last three years. However, the change does not automatically mean that they increased their usage of agrochemicals. Agrochemicals are attributed to higher yield and quality as well as the reduction of labour.

The majority of farmers think that their economic situation will improve in the future. They link their economic success to the now stable political

situation of the country and think that diversification, marketing and selling potatoes through farmer groups clearly increases their income. However, they also directly connect their improved economic situation to the products of Syngenta as well as to the trainings. At the same time, farmers also mention the high costs for the inputs required to achieve good quality produce and the labour intensity as constraints. Additionally, farmers state that their individual bargaining power is small and mainly buyers and brokers determine the price. Hence, they wish for stronger regulations in this area. NGOs and the government are expected to make the greatest contribution to the economic success of the farmers.

Farmers claim that most trainings they attended were conducted by Syngenta, followed by the government and NGOs. Generally, farmers appreciate the high quality of the trainings and up-to-date knowledge that is transferred to them by Syngenta. On one hand, farmers value the close and direct contacts with the extension officers of the SFSA and the practical advices. On the other hand, farmers are aware that Syngenta is business-oriented and hence tend to view governmental extension services as giving more neutral advice.

Trainings, independent from the executing organisation, are considered by farmers to have an impact on productivity and efficiency. Furthermore, farmers claim that the trainings have effects on their health through safe use instructions. Farmers also state that their knowledge about environmental issues has increased due to trainings. However, they argue that trainings on environmental issues were mainly organised by the government. Farmers are applying what they have learned and are willing to change their production system.

Most farmers have access to basic health services and for the majority the nearest health centre is within walking distance. However, only around 30% have health insurance. Almost all farmers have access to a clean water source, but 60% have no access to electricity and around 70% use wood as the main energy source. The farmers wish for more support from the government regarding infrastructure. Only when it comes to infrastructure related to potato production, such as storage and



cooling houses, do they wish that companies would become more active.

#### 4. Discussion

Since the two case studies discussed in this paper focus on positive externalities created through the embeddedness of the company, these positive externalities are first and foremost discussed. This does not mean that no negative externalities result from the operations and activities of Syngenta in Colombia and Kenya. However, the study reveals that Syngenta has positive effects on the local community in these two countries. These positive effects are likely to result from the embeddedness of the company in the national and local context. While some of the positive externalities can be directly linked to the operation of Syngenta, others are more indirect.

Since potato yields are rather low and smallholder farmers involved in the business tend to be poor in both countries under investigation, interventions that focus on the efficiency of the potato production are welcome. Hence, Syngenta can play an important role in improving the situation of these farmers.

Through its presence in Colombia and Kenya, it creates jobs for local skilled people in its production plants and extension services. Syngenta is an attractive employer offering competitive salaries and other benefits to its employees. This is also recognised by experts. Furthermore, it follows national and international standards in the area of working conditions, health and safety and business relations. Thus, Syngenta's business partners must also follow these standards. This creates a trickle-down effect of good operation practices and international standards and positively influences local businesses.

##### 4.1 Colombia

In Colombia only the business unit of Syngenta is active, hence this case study focuses on the embeddedness and the resulting positive externalities relating to the core business of Syngenta.

For Syngenta Colombia it is important to collaborate with local partners, especially in the area of research and development. Also experts rate the embeddedness in the area of technology highest.

The membership of Syngenta in local associations can be rated as positive in regard to embeddedness, which is confirmed by experts.

Since the core business of Syngenta is the sale of agro-inputs, its focus lies on initiatives linked to agriculture, environment and safe use of agrochemicals and not on charity programmes. Hence, the training of farmers using its products is at the centre. Farmers from the treatment group seem to receive more trainings than farmers from the control group although other entities are also offering trainings. Farmers that benefited from these trainings and use Syngenta's products state that their work efficiency on the farm has increased. They connect the higher efficiency to the usage of agrochemicals and technologies, which leads to a reduced pest pressure and higher quality of their crops. Furthermore, farmers from the treatment group see a connection between their economic success and well-being and Syngenta. Thus, it can be argued that Syngenta's operation positively influences the productivity of the farmers. This overlaps with the statements of experts. They rate the embeddedness of Syngenta in the area of technology and economy highest. Beside the general trainings of farmers, Syngenta Colombia collaborates with other entities in special programmes about water usage and soil conservation, which is welcomed by experts. Interestingly, there seems to be a perception gap between experts and farmers regarding positive externalities resulting from Syngenta's engagement related to environmental issues. While experts state that Syngenta's operations only provoke few positive externalities in this area, very clear differences can be found in the environmental awareness of the treatment and control group of farmers. Hence, the positive impact of Syngenta on the environment might be underestimated by experts.

Since Syngenta is not engaged in the area of infrastructure, experts also rate its embeddedness in this area as low. However, the farmer surveys reveal that basic infrastructure is provided by the government. Hence, there is no urgent need and reason for Syngenta to become active in this area.

## 4.2 Kenya

In Kenya, besides the business unit of Syngenta, the SFSA is also active. The SFSA and Syngenta Kenya are legally different entities. While the foundation acts like a developmental aid organisation, the business unit is coupled to the economic success of its operations. Thus, the mission and focus of both entities are very different. This fact complicates the ability of this study to correctly interpret the results. Not only was the embeddedness of Syngenta Kenya assessed, but it is mixed with the embeddedness of the SFSA since the two entities closely collaborate with each other.

In Kenya the SFSA is involved in community development activities and collaborates with a variety of organisations to carry out projects focused on the farmers' needs, but also takes care of the training of potato farmers. In this way, the activities of the SFSA pave the way for the business unit to enter the market. The initiatives of the SFSA build up trust among local communities associated with the brand name of Syngenta. This is criticised by experts. The business unit is collaborating with local entities in areas related to its core business, especially in the area of potato seed propagation and logistics. In this area, Syngenta is seen as a stable business partner by experts.

However, experts welcome the training offered by the SFSA, since governmental extension services alone cannot cover the request for trainings. Also, the farmers appreciate the trainings and especially the direct contacts with the extension officers. Overall, they link positive effects on their health and improved productivity to trainings. According to experts, farmers that follow the recommendations have a high return. However, farmers see the high input cost and labour as restrictive. The usage of inputs and mechanisation can help to solve this problem since it makes potato production more efficient. Nonetheless, potato is seen as a profitable crop and farmers tend to expand their potato production. Farmers think that their economic situation will improve in the future due to diversification and higher sales prices. Hence, the planned strategy of Syngenta to directly link farmers to processors might help to achieve better prices and addresses the need expressed by farmers to have better regulated sales prices. Furthermore, farmers

link their economic success to trainings and the usage of Syngenta's products. However, farmers wish for better seeds and agrochemicals. Here, the business unit of Syngenta can step in and bring the requested changes and technologies to these farmers. Some experts even claim that Syngenta might have a bigger impact on the development of the agricultural sector than the government. This indicates that Syngenta has close relations to important actors and understands the problems and needs of the farmers and can tackle them. This is also reflected in the collaboration between Syngenta and the local private sector in the area of potato seed propagation and overlaps with the perception of experts who rank the technological and economic embeddedness highest.

Regarding the environment, farmers mostly associate trainings covering such issues with governmental extension services. Also, experts attribute only a moderate effect of Syngenta to the environment. In the area of infrastructure, Syngenta is not active. Generally, farmers expect the government to improve the infrastructure. However, they wish support from the side of the private sector and thus also from Syngenta for specific infrastructure connected to potato production.

## 4.3 Comparison

By looking at the case studies, it becomes clear that the economic and institutional framework conditions are very different in both countries. While potato is a traditional and well established crop in Colombia with decreasing area under production, it is on the rise in Kenya with farmers expanding their potato plots. Furthermore, the processing of potato is also growing in Kenya, whereas processors in Colombia are struggling to compete with companies from abroad. Additionally, Syngenta Kenya has the advantage of SFSA being active there and sponsoring activities that are carried out by the business unit in Colombia (e.g. farmer trainings). Hence, it is not surprising that the embeddedness of Syngenta in Kenya is generally ranked higher than in Colombia since it is hard for experts and farmers to distinguish between the activities of Syngenta Foundation and Syngenta Kenya.

Nonetheless both studies show that Syngenta has a positive influence especially regarding technology

and economic aspects on the livelihood of local people in Kenya and Colombia. In both countries, Syngenta is able to bring higher efficiency to potato farmers through its trainings and products. However, in Kenya a great contribution comes from the side of the SFSA and to a smaller extent from Syngenta Kenya.

## 5. Conclusion

Potato production in Kenya and Colombia is having some major constraints that keep productivity low and the income of the potato farmers small. Hence, initiatives from the side of the private sector are welcome and needed to increase the efficiency of potato producers. The activities and operations of Syngenta in Kenya and Colombia have positive influences on the potato value chain of both countries. Syngenta creates attractive jobs for local people and positively influences the operation practices of its business partners through the implementation of standards. In this way, it avoids over-embeddedness and the uptake of negative practices such as corruption but spreads good business practices. This leads to a more sustainable value chain.

Through its products and trainings it brings innovations to potato farmers and helps them to improve their production and quality of produce. This in turn might enable small-scale farmers in the future to connect to processors and to receive higher prices for their potatoes, which will help to improve the economic situation of farmers. Generally, access to innovations and technologies fostered by Syngenta makes the potato value chain more productive and competitive.

It can be claimed that Syngenta is highly motivated to understand the needs and constraints of potato farmers who it targets with its products. Helping these farmers to overcome their constraints results in a business case for Syngenta. However, to understand and meet these needs, Syngenta has to collaborate with local partners and in this way embed in the country of operation. However, through the activities of the SFSA in Kenya, the need for embeddedness of the business unit is reduced. Through the close collaboration with the SFSA, Syngenta Kenya receives the necessary information and license to operate its business. Thus, Syngenta

Kenya is locally embedded via the SFSA. In contrast, Syngenta Colombia has to directly engage at all levels, hence directly benefiting from its own embeddedness.

Thus, it can be concluded that Syngenta is well embedded in Colombia and in Kenya as well, thanks to its close collaboration with the SFSA. This results in positive externalities for its employees, the private sector and potato farmers and improves the overall competitiveness of the value chain.

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### Footnotes

<sup>1</sup> The studies discussed in this paper were carried out by Daniele Polini (Colombia) and Luca Costa (Kenya) and not by the author. Part of the work of Daniele Polini and Luca Costa was used for this paper. Further information about the field study in Kenya can be found in: Costa L. (2016) Positive Sustainability Effects Resulting from Embeddedness. A Case Study of Syngenta's Potato Business in Kenya. Master thesis, Agricultural Sciences, ETH Zurich, Switzerland. The case study by Daniele Polini (2016) on "Positive Sustainability Effects Resulting from Embeddedness: A Case Study of Syngenta's Potato Business in Colombia", CCRS, Zurich, is unpublished.

<sup>2</sup> See <http://www.bpb.de/politik/wirtschaft/wirtschaftspolitik/64281/arbeitssteilung?p=all>

<sup>3</sup> This chapter is built on the work of Daniele Polini. It is a shortened and adapted version of a draft elaborated by D. Polini.

<sup>4</sup> See also <http://www.fao.org/land-water/databases-and-software/crop-information/potato/en>

<sup>5</sup> See FAOSTAT

[6](#) See FAOSTAT

[7](#) See also <http://nqxms1019hx1xmtstxk3k9sko-wpengine.netdna-ssl.com/wp-content/uploads/2017/04/SO-3-Seed-Potato-for-Africa-Eng-2017.pdf>

[8](#) Information gained from farmer interviews.

[9](#) See <http://www.potatopro.com/news/2017/potato-processors-kenya-contract-23000-farmers-meet-consumer-demand>

[10](#) See <https://research.cip.cgiar.org/confluence/display/wpa/Colombia>

[11](#) See <https://www.fedepapa.com/recursos/Documento%20estrat%C3%A9gico%20Plan%202020.pdf>

[12](#) See <https://www.fedepapa.com/recursos/Documento%20estrat%C3%A9gico%20Plan%202020.pdf>

[13](#) See <http://www4.syngenta.com/how-we-do-it/corporate-responsibility/frequently-asked-questions/our-business-faq>

[14](#) For more information visit <http://www4.syngenta.com/what-we-do/the-good-growth-plan>.

[15](#) See <http://www.reuters.com/article/us-colombia-economy-idUSKBN14J1U4>

[16](#) For more information visit <http://www.andi.com.co/es/PC/Paginas/default.aspx>. ((why full stop here but not in other places? – check all footnotes and make consistent.))

[17](#) For more information visit <http://www.acosemillas.com>.

[18](#) For more information visit: <https://www.syngenta.com.co/news/noticias/ecoaguas>.

[19](#) For more information visit: <http://www4.syngenta.com/site-services/our-stories/conservando>.

[20](#) For more information visit <http://www.operationsmile.org>.

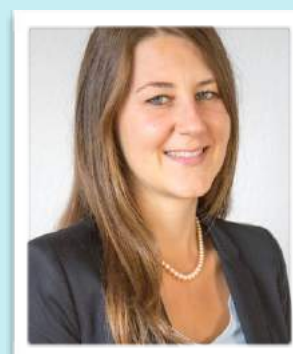
[21](#) For more information visit <http://materheartrun.com>.

[22](#) For more information visit <http://www.fedepapa.com>.

[23](#) For more information visit <http://www.suizagua.org/b/colombia>.

## TANJA SOSTIZZO

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# Beyond Corporate Social Responsibility – A Human-Centred Approach to Business Ethics in the 21<sup>st</sup> Century

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## Abstract

This article examines the assumptions behind our understanding of ethics in corporate social responsibility (CSR), particularly the meaning of ‘ethical responsibility’ to do what is ‘right’, ‘just’ and ‘fair’. We argue that the presuppositions of human needs, motivation and rationality under the dominant economic paradigm hamper our understanding of ethics in CSR. Using a linguistic perspective, we inquire into the ways in which language, human rationality and normativity can be misinterpreted. We take issue with fundamental assumptions of a neoclassical economic man model. The relentless pursuit of self-interest not only distorts the meaning of laws and ethics but also limits the ideas of social responsibility and disconnects CSR from essential human values. To overcome the constraints of CSR, we propose a shift from compliance and avoidance of violation to integration and embeddedness of human-centred norms and institutions. Properly conceptualised, business human rights responsibility can engender business ethics and better equip companies to deal with the social and economic anxieties of the 21<sup>st</sup> century.

Keywords: business & economics; business ethics; corporate social responsibility; language; human rights

Please note that:

- words in italics are lexical entries
- words in “” are citations
- word in “ are referring to meanings / semantic fields

“Ethics is knowing the difference between what you have a right to do and what is right to do.”

Potter Stewart, Associate Justice of the U.S. Supreme Court  
(1958–1981)

## Introduction:

### he Crucial Role of Business Ethics in the 21<sup>st</sup> Century

As the corporate world still searches for its moral conscience, a plethora of breakthroughs and challenges occurs alongside an unprecedented level of socio-economic anxieties across the globe<sup>1</sup>. Leaders are pulling resources to harness emerging technology while struggling to deal with the impact of its disruptions on social and economic institutions. As the founder of the World Economic Forum puts it, we are experiencing “nothing less than a transformation of humankind”. Not only are we forced to enter the “beginning of a revolution that is fundamentally changing the way we live, work, and relate to one another”<sup>2</sup>. The mounting dilemmas and anxieties in the age of the unknown have also made us confront “who we are”, individually and collectively<sup>3</sup>.

While much has been discussed about the need for business to capitalise on new technology, much less attention is paid to the rationality and assumptions behind corporate social performance in the age of anxiety. Lesser consideration is given to what constitutes an ‘ethical responsibility’ for companies to do what is right, just and fair, at the social and human levels. This is worrisome given the weak track record of corporate social performance (CSP) and corporate social responsibility (CSR) in addressing the negative effects of business activities on the

external environment, such as natural resources, raw materials, employment and distribution of wealth<sup>4</sup>. In many circumstances, businesses are seen as widening income inequalities and even turning social problems into economic opportunity<sup>5</sup>.

We believe that the ability of companies to meet societal expectations lies in their paradigmatic understanding of business ethics. To elaborate this point, we submit two questions: 1) what are the assumptions behind the ethical responsibility to do what is 'right', 'just' and 'fair' in CSR? and, 2) to what extent does CSR embody a positive and constructive notion of human needs and capacity and embed in the social norms and institutions which represent collective human values?

Our main hypothesis is that businesses can meet the human and societal challenges of the 21<sup>st</sup> century if they align their objectives and strategies with human-centred values, as opposed to purely making profits and complying with legal regulations. We attempt to answer the above questions by inquiring into the prevailing assumptions of ethical responsibility and rationality drawn from the mainstream thinking in business and economics.

Our two positions will be elaborated in this article:

- 1) Ethical responsibility in CSR requires the embeddedness of human-centred values, not legal compliance or avoidance of violation.
- 2) Business human rights responsibility provides a new paradigm that can transform companies into effective social enterprises better equipped to deal with societal challenges.

### 1. Business Ethics and Corporate Social Responsibility: Rationality and Assumptions

Although defining business ethics is as difficult as "nailing Jello to a wall"<sup>6</sup>, there are different ways in which one can approach ethics in the context of business. As a recent discipline, business ethics has multidisciplinary contributions from various branches of social sciences, such as moral development, behavioural psychology, organisational theory, business and economics, among others<sup>7</sup>. Contemporary business ethics is known less for finding moral principles of what is right and good and more for addressing ethics management and

organisational theory. Institutionalised concepts, such as corporate responsibility, sustainability and governance, have largely represented corporate efforts to improve business social performance through crisis management tools. As ethical issues are often seen as peculiar scenarios or on a case-by-case basis, there is a considerable confusion over how companies' social responsibilities are interpreted due to underlying value-judgements and ideologies<sup>8</sup>. Despite the existence of national policy frameworks on CSR, many companies remain reluctant to integrate the concept into their core strategy and operations.

We look at Carroll's influential pyramid of corporate social responsibility that became the basis for modern definitions of CSR<sup>9</sup>.

Figure 1. Carroll's "Pyramid of Corporate Social Responsibility"



Source: Carroll (1979, 1991).

In this pyramid, corporate social responsibilities are conceptualised into four types. The first and most fundamental type at the bottom of the pyramid is the 'economic responsibility.' A company has to be profitable to ensure its survival. The second type is the 'legal responsibility' of a company to abide by the laws and regulations of the respective country. According to Carroll, this can be construed as partially fulfilling a social contract<sup>10</sup>. The third type is linked to the moral standards not formalised through laws, that is, the 'ethical responsibility' to do what is right, just and fair, even when companies are not legally required to do so. Lastly, companies have 'discretionary responsibility' to contribute to various

kinds of social, educational, recreational or cultural purposes – that which are not economically, legally or morally required<sup>11</sup>.

It is clear that companies are instructed to consider primarily the first two forms of responsibilities depicted as the base of the pyramid, namely making profits and complying with the law. Although Carroll admitted that society expects companies to behave over and above legal requirements, the concept of corporate ethical responsibility remains “ill-defined” and became the most difficult topic to discuss in the business world<sup>12</sup>. It is to no surprise that CSR is seen as a corporate “strategy of being seen to be ethical” – akin to having no ethics at all<sup>13</sup>.

The premise of corporate responsibility as reflected above does not sufficiently deal with the normative components of economic ethics and, as a result, prevents the ethical dimension of CSR from developing. This is because business ethics and institutionalised concepts such as CSR, despite multidisciplinary contributions, still rely heavily on the mainstream rational theory of economics. Many companies subscribe to the neoclassical ‘value-free’ understanding of the economy and the absence of any ethical and moral precondition in doing businesses<sup>14</sup>. While CSR, by its definition, should be connected with human and social values, the priorities in most companies are tied to effective use and control over resources, competitiveness and profits. As moral considerations are less relevant, social and environmental costs can often be justified under business objectives. This raises serious concerns over how any formulation of ‘social responsibility’ can ever be meaningfully asked of businesses.

We feel compelled to raise some very basic yet fundamental questions related to how we consider something to be ethical, right and responsible in today’s business practices.

### 1.1 What is ‘Right’ and ‘Responsible’? A Linguistic Perspective

The central question in ethics is essentially the question of the right conduct. When we speak of ‘ethical responsibility’, we often apply the notion of what is right without questioning how it has come to dictate our understanding of CSR and business ethics. A linguistic approach can remind us that

words carry meanings by relating a sign form to their meaning and shaping their content through social and historical conventions<sup>15</sup>. Lexical entries such as right and responsibility are “collective products of social interaction, essential instruments through which human beings constitute and articulate their world”<sup>16</sup>.

It is helpful to understand the development and evolved meaning of ‘right’ as a lexical entry in Indo-European languages<sup>17</sup>. The notion of ‘right’ presents a polysemic development carrying multiple meanings. Its origin in English can be traced back to the early 12<sup>th</sup> century Old English *riht*, which means ‘good, proper, fitting, straight’, from the semantic field of \**h<sub>3</sub>reǵ-*<sup>18</sup> meaning ‘straight’ and denoting ‘to direct in a straight line’, thus ‘to lead’, ‘to rule’ and, in a legal sense, ‘to establish by decision’ and ‘to rule by law’. The basic notion comes out of the perception of the right hand as the ‘correct’ hand<sup>19</sup> because of its property of being the physically dominant hand<sup>20</sup>, hence ‘strong’ and ‘correct’; the left hand usually being the weaker hand<sup>21</sup> takes its origin in the forms of Old English \**lyft* ‘weak, foolish’, found also in *lyft-adl* ‘lameness, paralysis’<sup>22</sup>. In the Middle Ages the use of right created semantic variations and patterns that amplified its original denotation as an influence of its Germanic origin. The latest development of right as opposition to left in politics is a loanword from French *La gauche* first recorded in English in 1837 in reference to the French Revolution and the 1789 seating of the French National Assembly in which the nobility took the seat on the President’s right.

The figurative ‘right hand’ was even more elevated in the Christian usage<sup>23</sup>: the right hand of God (*Dextera Domini*) is Jesus Christ’s honoured placement in heaven accentuating the divine ‘omnipotence’ in the Bible<sup>24</sup> and the highest authority of morality in Christian work ethics<sup>25</sup>.

The lexical entry responsibility, as a noun, means ‘ability to respond’, the ‘condition of being responsible’, ‘that for which one is responsible’ or ‘answerable’ and can be compared also with entries in other Indo-European languages i.e. German *Verantwortung*. Responsible, means ‘accountable in one’s actions’, ‘reliable, trustworthy’ and approximates the sense of ‘obligation,’ which



includes 'legal obligation' and over time to be responsible has come to signify 'answerable to another, for something'. The notion of responsibility has approximated the 'obligation to be just in front of a supreme instance, to give answers and to ask forgiveness.' This came from the Greek and Latin origin that implies the relation to divine judgment<sup>26</sup>.

Linguistic accounts of right and responsibility demonstrate that both terms have come to signify 'good' and 'just' and carry meanings closely intertwined with law and regulation and the ability to 'respond to the legal systems'. Throughout history under the force of natural and moral law, the concepts of 'right', 'responsibility', 'law' and 'justice' have come often to legitimise the divine-like power of a 'king' or 'rightful ruler' to rule people by way of 'regulation, law and justice'<sup>27</sup>. These concepts often appear at first glance to be self-evident, either natural (i.e. natural givens of human life), authoritative and real (i.e., a king) or moral and metaphysical (i.e., a god). For example, the law is considered a priori ethical and just when a god or a king gives the law to common people.

In addition to the bias towards law compliance, an understanding of 'ethical responsibility' in CSR is further affected by the use of binary oppositions and semantic contradictions. Oppositions of two seemingly mutually exclusive terms like right and wrong, ethical and unethical or good and evil can be organisers of human philosophy, culture and language<sup>28</sup> and be used to frame and limit realities but also create biases. For example, if compliance with the law is legal and 'legal' includes 'ethical', law adversity or defiance is therefore not only illegal but also unethical. Based on this pattern, we observe the following assumptions:

- compliance is right; defiance is wrong
- compliance is legal; defiance is illegal
- compliance is ethical; defiance is unethical
- compliance is just; defiance is unjust
- compliance is fair; defiance is unfair
- compliance is good; defiance is evil
- compliance is responsible; defiance is irresponsible and so on

The above binary logical pattern of 'right', 'just', 'fair', 'legal', 'good' and 'responsible' points to the same

connotation that laws and regulations should be morally positive. Adherence to the law by companies is therefore considered sufficient to fulfil a social contract while their corresponding social obligations are left vague and discretionary<sup>29</sup>. Such biases are amplified and reinforced by corporate communications and marketing strategies in order to appeal to the wider public, maximise sales and avoid negative impact on their business and branding<sup>30</sup>. Preoccupation with compliance can lead companies to make false judgements and overlook certain social and environmental issues which have been obscured by the nature of laws and regulations<sup>31</sup>.

When 'ethical responsibility' is conflated with 'legal responsibility' in CSR, we arrive at contradictions and questionable morality. This is because legal systems and laws can appear, on the surface, to be just and fair, while perpetuating the status quo and substantive inequalities. In theory, law derives its legitimacy from complex normativity and authority which should evolve over time to reflect the changing values of society. However, in many circumstances, unjust laws can be difficult to change because of the powers that sustain them. In a democratic society, substantive inequalities can be challenged by procedural laws and check-and-balance mechanisms. However, in this same democratic society, individuals and groups are also invited to participate in the legislative process to advance their particular interests. Businesses will lobby for passing the law that supports their particular interests. Business ethics are only validated by corporations when they are supported internally by a well-implemented internal compliance programme.

We argue below that the ambiguities inherent in business ethics are a result of the long-standing aversion to morality in the dominant theory of economics<sup>32</sup>. Unlike the societal moral construct in a social contract which is determined by society as a collective, CSR is created as a "construct of moral responsibilities" for society while its content is determined by corporations<sup>33</sup>. This runs counter to the premise of a social contract<sup>34</sup>. If businesses are genuinely conceptualised as part and parcel of a society, the society can reasonably expect businesses to not only advance their interests in a manner that is not detrimental to its social fabric and welfare, but

also contribute to the environment and the communities involved<sup>35</sup>.

### 1.2 Assumptions of Human Rationality in Business

The commonly held framework of corporate social responsibilities (economic, legal, ethical and discretionary) is subjected to the paradigm of an economic man who is presumed to be primarily rational and self-interested<sup>36</sup>. When appropriated by neo-classical economists, an economic man extends his focus on maximising wealth to maximising utility, that is, connecting efficient means with wealth described as benefits for the individual<sup>37</sup>. By extension, his economic reasoning is considered a neutral process and “the science which studies human behavior as a relationship between ends and scarce means which have alternative uses<sup>38</sup>”. Economics became a system of thinking which is only concerned with what is, rather than what ought to be.

This deductive methodology took a narrow view of human needs and motivation and built a simplified grand scheme of the economy that primarily serves two types of actors. On the one hand, businesses are assumed to maximise their profits from producing and selling goods and services. On the other, individuals and their households are assumed to maximise their utility or satisfaction from consuming goods and services. These two different economic agents are supposed to interact in perfectly competitive markets. Within this paradigm, only the social and economic agents and institutions that uphold this rationality can optimise self-interest and presumably create maximum benefits and welfare for society<sup>39</sup>. The entire system is deduced from one essential axiom: “rational economic man maximizes his utility”<sup>40</sup>.

Such a narrow view of human nature and lack of contextual awareness are largely criticised for contributing to today’s most serious structural problems. Neoclassical economists almost uniformly failed to detect the growth of the financial and real estate bubbles, the dramatic increase of income and wealth inequalities and an ever-greater concentration of economic and political powers in ever-larger corporations<sup>41</sup>. Much has been written on how a relentless pursuit of self-interest is fundamentally at odds with the development of

human societies and is destined to lead human species towards the “tragedies of the commons”<sup>42</sup>.

CSR is set up for failure in a paradigm where economics is believed to be value-free and devoid of normative values<sup>43</sup>. As we have seen, the inability of modern economic institutions to connect with human needs and motivation beyond production and optimisation has led to widespread disenfranchisement, fear and anxieties<sup>44</sup>. According to Illich, modern institutions created to uphold the rationality of an economic man contradict social ends and erode the dignity and competence of peoples and communities who were perfectly capable of trading in a friendly and lively way<sup>45</sup>. Without human and social connections, business-related advertising activities increasingly reduce people to a category of incompetent consumers, lacking the ability to satisfy their well-being and livelihoods. While business transactions continue to produce unintended consequences for communities affecting every aspect of social life<sup>46</sup>, the idea of ethical business responsibility, if such exists, is more responsive to the needs of shareholders than to the spirit and moral questions of society.

A powerful theory on human rationality and human-centred values is needed to contest the premise of the economic man paradigm. From a linguistic perspective, the generative principles of the human brain, as advanced by Noam Chomsky, see the structural mechanisms of the human brain and our language acquisition as corresponding to rationalist principles<sup>47</sup>. In contrast to the neoclassical economic notion of human motivation, his theory of the human capacity in language builds on a classic liberal tradition of Humboldt, which sees human natural capacity as “self-perfecting, enquiring and creative”<sup>48</sup>. Understanding the generative structure of the human brain in relation to language can shed light onto how humans have evolved with the ability to create social conditions and forms to maximise the possibilities for freedom, diversity and individual self-realisation.

Freedom, according to Chomsky, is the condition under which the human brain limits and applies constraints to understand language and other things by following specific rules<sup>49</sup>. In this sense, the inner form of language (the rules) is the mode of denoting the relations between the parts of the sentence and

it reflects the way people regard the world around them. The human brain has these innate rules that allow it to conjure up the world where human beings are able to survive and be free within its natural limits. However, the human brain has its limits of understanding in the same way that the human body grows and develops within the limits of its nature. Human freedom is therefore subject to limits because the human brain uses specific rules making an “infinite use of finite means” to create an understanding of the world<sup>50</sup>. This rational capacity is limited by the set of attributes, the rules, that the human brain applies in its development. For example, the human comprehension of the economy is essentially developed and limited by the constraints regarding this understanding<sup>52</sup>.

Chomsky connects his theory of human language capacity and rationality for free thought and self-expression to the classical liberalism of Rousseau. Rousseau viewed the human consciousness of freedom and the ability to strive for self-perfection as unique to the human species because they distinguish us from the “beast-machine”<sup>53</sup>. To Chomsky, the same human capacity for creating language and assigning forms is also used to maximise the possibilities of human freedom, diversity and individual self-realisation. The condition of freedom is a prerequisite for deriving motivation and pleasure from any creative and self-fulfilling undertakings in our social life.

## 2. Business Ethics in the ‘Human’ and ‘Social’ Paradigm

Chomsky’s rationality of freedom provides a humanist counter-narrative to that of the economic man, which rewards the exploitation of others and which is, by definition, “anti-human”<sup>54</sup>. To be more attuned to human values, companies have to go beyond the CSR paradigm of profits and compliance and appeal to the personal and human agency of stakeholders. Companies can be part of a rational social order which adopts an optimistic and protective approach to the human capability to envision and create a meaningful and productive life for everyone. A deliberate choice by companies, as opposed to a vague and discretionary one, to align their business objectives and strategies with human-centred values such as freedom and dignity should be taken seriously by business ethicists.

Although freedom carries an intrinsic value for an individual and is fundamentally personal, the concrete benefits of personal freedom can only be manifested and amplified at a collective level. This means that individual freedoms can be realised in the form of personal interdependence<sup>55</sup> and that members of a community can increase their individual freedoms by enlarging their community’s freedom<sup>56</sup>. If there is a social contract regulating the relationship between individuals, society and government, a corporation as a natural person and member of society should be part of that relationship. The theory of political social contract should have bearing on the social responsibilities of corporations<sup>57</sup>.

But how can businesses justify their alignment with commonly held human values such as the respect for the dignity and freedom of others?

### 2.1 Social Embeddedness

The idea of social embeddedness can be used to contrast the idea of an atomised economic rationality and to better align organisational decisions with social action and institutions. Granovetter proposes an approach of embeddedness which neither reduces social actions and behaviour of social choice to abstract optimising rationality (formalist) nor subjugates social relations and actions to over-socialised conceptions or a fixed set of monolithic normative principles (substantivist)<sup>58</sup>. An ‘embedded’ individual will have their choices and actions conditioned by ongoing actions and expectations of others<sup>59</sup>. For Granovetter, a social choice is interpersonal and relational and is conditioned through the idea of trust, thus making up a social reality within a system of economic actors. Based on trust, actors choose to act, whether good or bad, on the basis of expected cooperation from other actors. According to Granovetter, it is possible to have an embeddedness approach which underlines the role of concrete personal relations and structures or “networks” of relations and how trust plays a role in confirming or dismissing certain normative choices<sup>60</sup>.

Granovetter’s idea of relational embeddedness can help companies probe their ethical parameters through an understanding of how a social choice can be made deliberate to promote human values. If

individuals choose how to act based on cooperative consideration of the likely action of others, concrete social relations will become critical to individual actions. Importantly, when actors react and respond to ongoing social relations, their actions are also constructed through their convictions, consciousness and purposes. If purposive social actions can be embedded through concrete and ongoing systems of social relations, social connections can affect purposive action and challenge previous results that occurred in an atomist rationalist paradigm<sup>61</sup>. His critique leads us to reconsider social norms and institutions in light of social actors' convictions, consciousness and purposes<sup>62</sup>.

Importantly, to move businesses towards a human-centred social order, an alternative paradigm of socially embedded corporate responsibility is required. Below we look at another powerful alternative narrative of 'business and human rights' where markets are believed to work optimally only if they are "embedded within social rules, customs and institutions"<sup>63</sup>. Grounded firmly in the theory of business and society, this approach sees companies as requiring social rules and institutions in order to thrive and successfully manage the adverse effects of market dynamics and to provide the public goods that markets undersupply. Under this new paradigm, businesses "must learn to do many things differently"<sup>64</sup> under some structure of conviction, consciousness and purpose.

## 2.2 From CSR to Human Rights

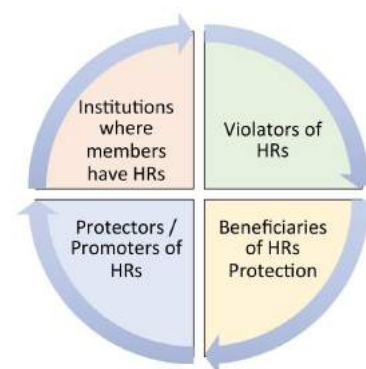
It is no coincidence that the principles of social contract are central to the organisation of the international human rights regime, where the concepts of freedom and equality are powerful forces<sup>65</sup>. Human rights have been understood as the "flip side" of duties under a social contract<sup>66</sup>. Their natural and universal basis has already been firmly established as norms and institutions indispensable for international peace and security<sup>67</sup>. These norms and institutions, which states have committed to apply for everyone, can serve as an authoritative catalyst for companies to connect corporate responsibilities to human-centred social values.

As corporations have taken a form of global institution, business leaders are increasingly expected to elaborate on their role in the protection

of human rights. International human rights obligations require states to not only uphold democratic institutions and advance certain liberal values but also involve businesses in the consensus-seeking process on human rights. With mounting criticisms against transnational corporations and the effects of business activities on communities, businesses have incentives to engage. Both sides of the CSR and human rights debates agreed at the very least on the need to move beyond the old CSR to a new, more meaningful platform and action on business and human rights<sup>68</sup>.

According to Bottomley<sup>69</sup>, the relations between corporations and human rights can be approached in four distinct but interrelated dimensions:

Figure 2. Corporations and Human Rights: Bottomley's Four-dimensional Relationship Matrix



Source: Bottomley, 2002.

This matrix offers a good starting point for exploring possible ways corporations can be related to human rights norms and institutions. While they are often thought of as violators of human rights, corporations and their employees are also beneficiaries of human rights under national or international laws. They may also be the subjects of the protection of human rights in a human rights agreement. This dynamic relationship is supported by CSR literature which highlights a global CSR trend towards human rights-enhancing developments in the 21<sup>st</sup> century<sup>70</sup>. Important developments include the incorporation of human rights measures in transnational and international trade and investment, the shaping of various UN norms and guiding principles on business conduct and the creation of tools for incorporating

human rights issues in corporate operations, reporting, supply chains and due diligence<sup>71</sup>.

While there remains general support for integrating a voluntary code of conduct with strong human rights dimensions into corporate structure and cultures, a new agenda of corporate human rights responsibilities is different. Propelled by the works of John Ruggie leading to the adoption of UN Guiding Principles on Business and Human Rights (UNGPs)<sup>72</sup>, the 'business and human rights' paradigm is a departure from the old approach to corporate responsibility. Vague and discretionary concepts, which lack specificity and were a source of confusion in CSR such as corporate 'sphere of influence', were clearly rejected<sup>73</sup>. Ruggie's deliberate approach to corporate responsibilities is significant because, for the first time, there exist coherent underlying principles of human rights responsibilities which can be concretely assigned to states and corporations based on their respective societal roles.

The UNGP provides important guidelines for companies to prevent human rights abuses and address human rights concerns in their business operations. It covers all business enterprises, regardless of size, industry or location. Companies are asked to identify and assess negative human rights issues and ensure that their policies are adequate to address them<sup>74</sup>. In order to prevent and mitigate abuses, companies must not only know their actual or potential adverse impacts but also demonstrate how they respect human rights in all their operations.

One important benefit for aligning corporate responsibility with human rights is the protection of children and vulnerable groups and the communities affected by business activities<sup>75</sup>. Due diligence requires companies to identify and address the human rights impacts across their operations and related products through their suppliers and networks. Wherever possible, they should also engage with the communities or groups potentially affected by their operations<sup>76</sup>. In conflict-affected areas where gross human rights abuses are often connected to business enterprises<sup>77</sup>, states also have obligations to put in place assistance and enforcement mechanisms to ensure that businesses are not engaged in such abuses in conflict-affected areas. The due diligence approach reinforces the

existing international human rights obligations which protect minorities, indigenous groups and vulnerable non-citizens such as asylum seekers, migrants, refugees and displaced persons who are prone to human rights abuses by businesses.

### 2.3 Beyond CSR: Business Human Rights Responsibility

As aptly put by Ruggie, "embedding the corporate responsibility to respect human rights is about making respect for human rights part of the company's DNA<sup>78</sup>". In the figure below, we outline possible transitional concepts and tools which businesses can use to move beyond CSR and frame their corporate responsibilities for human rights.



Figure 3. Moving Beyond CSR: Towards Human Rights Responsibilities of Businesses

To move beyond the old paradigm of CSR, companies must adapt their leadership and operational capacity to effectively respond to unforeseen circumstances in ways that respect the human rights of all stakeholders to the greatest extent possible. To fulfil the corporate responsibility to respect human rights, companies are required to be accountable in three ways<sup>79</sup>. First, companies should have a clear public statement on their policy commitment to respect human rights that is also reflected in companies' core structure of values, philosophy, principles of conduct and key performance indicators, among others<sup>80</sup>. To this end, leadership from the highest levels plays a critical role in embedding the corporate responsibility to respect human rights, internally and externally. On the one hand, effective leadership can transform a high-level policy statement into company-wide commitment and robust

operationalisation plans. On the other hand, a company's leadership can signal the paradigmatic shift in its value creation and proposition to other stakeholders. The authenticity of leadership commitment to human rights can be observed and validated, for example, through how often CEOs speak about human rights issues in their speeches; whether CEOs report on human rights issues to their boards of directors and investors; how CEOs invest organisational resources; or how the performance of employees and suppliers are measured and rewarded<sup>81</sup>.

Second, companies must employ specific human rights activities, such as human rights due diligence processes, as the principal means of satisfying corporate responsibility to respect human rights. There are different ways in which companies can set up a human rights function to ensure the implementation of human rights activities. Companies can assign an existing function or department, such as legal, human resources, procurement, CSR/sustainability, compliance or community relations, to take the lead. Alternatively, companies can also establish cross-functional working groups involving multiple departments<sup>82</sup>. What is important is that specific human rights activities such as due diligence be owned by the operational business units and departments, rather than being conducted from the top down in order to ensure ownership of issues and measures. This is particularly crucial where a corporation has geographically dispersed operations.

Third, companies must have processes in place to enable access to effective remedy for victims of any adverse impacts they cause or contribute to. Grievance mechanisms can include a recourse to government labour relations bodies or national human rights institutions when a private, local mechanism is unable to provide resolution<sup>83</sup>. Importantly, companies can use the implementation of grievance mechanisms as "an entry point for internal conversations" about the relevance of human rights. Human rights concerns can be integrated into 'the language of business' through references to transparency, early warning systems, risk management and efficiency<sup>84</sup>.

The approach to corporate responsibilities on human rights under UNGP features a balance between hard

and soft law, combining mandatory with voluntary measures and industry and company self-regulation. Its normative reach is extensive; the responsibility to respect human rights by businesses applies to all internationally recognised human rights in the International Bill of Human Rights<sup>85</sup> and the International Labour Organization Declaration on Fundamental Principles and Rights at Work<sup>86</sup>. It represents a more specific and deliberate global agenda on business and human rights which demands state responsibility to hold businesses accountable, on the one hand, while requiring businesses to improve in the area of self-regulations, on the other.

### 3. Conclusions: A New Paradigm of Corporate Responsibility

Using a linguistic perspective, we found some inherent theoretical and conceptual constraints which hamper the notion of social and ethical responsibility in CSR. First, the focus of ethics in CSR has been eclipsed by the economic responsibility to be profitable and suffered from the conflation between 'ethical' and 'legal' responsibilities, on the one hand, and between 'ethical' and 'discretionary/philanthropic' responsibilities, on the other. Second, the relentless pursuit of self-interest not only distorts the meaning of laws and ethics but also limits the ideas of social responsibility and disconnects CSR from essential human values. Third, CSR is a construct of moral responsibilities by corporations instead of society. As a result, the unclear focus of 'ethical responsibility' becomes about crisis management, not contributing to or advancing the values of society. Fourth, this is due to the assumptions of human rationality within the prevailing paradigm of self-interest and competitive economic man, which are incomplete, largely misinformed and essentially anti-human.

We propose a fundamental shift in the narrative in order for business ethics to move beyond CSR and be connected with human-centred values such as human rights. To this end, we view the agenda of 'human rights responsibility' as providing a powerful and legitimate new paradigm of corporate responsibility. Businesses can strive to advance human intellectual development, grow moral consciousness and mutual respect, highlight cultural achievements and encourage public participation.

When business ethics is connected to commonly held collective values, companies will benefit not only in terms of ideas and innovation but also in terms of stakeholder relationships and public image. Respect for the dignity and freedom of others is essential for shaping ethical conduct and preventing malpractices. This requires a deliberate choice by companies to be humanistic and accountable to embed themselves with human-centred norms and institutions. It is an essential step forward for companies to move beyond the conceptual constraints of CSR.

Notwithstanding the progress on setting standards for business and human rights, the challenges in moving beyond CSR remain at all levels. At the level of international law, tensions continue to persist between state and non-state responsibility for human rights. On a practical level, tensions will also persist around the justification and operationalisation of human rights corporate responsibilities because the rationality and approach of human rights will be at odds with some unique characteristics of business such as profit maximisation, resource optimisation and dependency. A traditional approach to business does not favour extra regulations, transparency, disclosure of corporate information, access to remedy and grievance mechanisms and cooperation for official investigation, which are normally required in human rights investigation, documentation and reporting. A clear link between corporate responsibility, human rights and business ethics must be developed at the organisational level. An overall strategy of CSR with a holistic understanding of how compliance and ethics interact within business organisations is crucial.

The promise of corporate human rights responsibilities will ultimately rely on the commitment at the level of organisational decision-making. Business leaders can navigate appropriate social roles and move beyond ethics management to align more closely with the values of their stakeholders. Managers are required to adapt their strategies and objectives in order to make informed judgments at all operational and organisational levels. At the level of personal ethics, human rights concepts (such as freedom, dignity, equality, justice and fairness) can serve as decision criteria for what is right, wrong, fair and just in business practice. The

bottom line is: ethical decisions in business cannot be divorced from considerations of what it means to be a human and social being.

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### Endnotes

1. Nearly 10% of the world's population is suffering from depression and/or anxiety. Between 1990 and 2013, the number of people suffering from depression and/or anxiety increased by nearly 50%, from 416 million to 615 million. Mental disorders account for 30% of the global non-fatal disease burden. WHO and World Bank, (2016). *Investing in treatment for depression and anxiety leads to fourfold return*, joint news release: 13 April 2016, available at <http://www.who.int/mediacentre/news/releases/2016/depression-anxiety-treatment/en/>, accessed 20.10. 2017.
2. Schwab, K., (2017). *The Fourth Industrial Revolution*. Penguin UK, p. 1. Serious operational and policy discussions among leaders across public and private institutions have already taken shape. e.g. World Economic Forum Annual Meeting: Fourth Industrial Revolution (Davos, 2017): <https://www.weforum.org/events/world-economic-forum-annual-meeting-2017>.
3. Schwab, K., (2017), p. 3. See e.g. Bauman, Z. (2013). *Liquid Times: Living in an Age of Uncertainty*. Cambridge, Polity.
4. For an assessment of CSP in the past 50 years, see Stachowicz-Stanusch, A. (2016). *Corporate Social Performance: Reflecting on the Past and Investing in the Future*. Information Age Publishing. Charlotte, NC. See also Stachowicz-Stanusch, A., Mangia, G., Caldarelli, A. and Amann, W. (2017). *Organizational Social Irresponsibility: Tools and Theoretical Insights*. Information Age Publishing. Charlotte, NC. See also Stachowicz-Stanusch, A., Amann, W. and Mangia, G. (2017). *Corporate Social Irresponsibility: Individual Behaviors and Organizational Practices*. Information Age Publishing. Charlotte, NC.
5. e.g., San Jose Mercury News, (2017). 'Poverty rates near record levels in Bay Area despite hot economy', 1 April 2017, available at [http://www.mercurynews.com/business/ci\\_27830698/poverty-rates-near-record-levels-bay-area-despite](http://www.mercurynews.com/business/ci_27830698/poverty-rates-near-record-levels-bay-area-despite), accessed on 20.10.2017. Hetherington, J.A.C. (1973). *Corporate Social Responsibility Audit: A Management Tool for Survival*. London, The Foundation for Business Responsibilities, p. 37.
6. Lewis, V.P. (1985). *Defining 'Business Ethics': Like Nailing Jello to a Wall*. *Journal of Business Ethics*, Vol. 4, No. 5 (Oct), pp. 377–383. Out of 254 texts, Lewis found 308 concepts in the definitions of business ethics.
7. Business ethics became an established field in 1929 when Wallace B. Donham claimed to "start business ethics as a subdivision of general ethics". Donham, W.B. (1929), 'Business Ethics – A General Survey', *Harvard Business Review* 7(4):385–94. The development of today's business

- ethics can be divided into five main phases: 1) "Ethics in business" (before 1960); 2) "Social issues in business" (1960s); 3) "Emergence, definition, development" (1970s and 1980s); 4) "Ethical decision making and behaviour" (1990s); and 5) Maturity and application (2000s). Exceeding its purely philosophical roots, business ethics in the latter phase has come to concern itself with the application of developed concepts and assessment of ethics management tools for practice. Laasch, O. and Conaway, R.N. (2014). *Principles of Responsible Management: Global Sustainability, Responsibility, and Ethics*. Cengage Learning, pp. 114–6.
8. e.g. Visser, W. and Tolhurst, N. (2010). *The World Guide to CSR: A Country-by-Country Analysis of Corporate Sustainability and Responsibility*. Routledge; Horrigan, B. (2010). *Corporate Social Responsibility in the 21st Century: Debates, Models and Practices Across Government, Law and Business*. Edward Elgar Publishing, p. 39; Kristoffersen, I., Gerrans, P. and Clark-Murphy, M. (2005). *The Corporate Social Responsibility and the Theory of the Firm*. School of Accounting, Finance, and Economics. FIMARC Working Paper Series No. 0505, Edith Cowan University, p. 2.
  9. e.g. Moon, J. (2014). *Corporate Social Responsibility: A Very Short Introduction*. OUP, Oxford, Chapter 2. But in his review of CSR literature, Carroll cites Bowen's work as the basis for modern definitions of CSR. See in Carroll, A.B. (1979). 'A three-dimensional model of corporate social performance,' *Academy of Management Review*, 4 pp. 497–505. Citing Bowen, H.R. (1953). *Social Responsibilities of the Businessman*. New York, Harper & Row: xi.
  10. Carroll, A.B. (1979), p. 500.
  11. Carroll, A.B. (1979), p. 500. See also Carroll, A.B. (1991). "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders". *Business Horizons*, 34: 39–48.
  12. Carroll, A.B. (1979), p. 500.
  13. Aasland, D.G. (2004). 'On the Ethics Behind "Business Ethics"', in: *Journal of Business Ethics*, August, Volume 53, Issue 1, p. 3; Roberts, J. (2001). 'Corporate Governance and the Ethics of Narcissus'. *Business Ethics Quarterly*, Vol. 11, No. 1, Jan: 2001, pp. 109–127.
  14. Laasch, O. and Conaway, R.N. (2014), p. 118.
  15. Structuralism in sociology and linguistics is the school of thought that sees elements of human culture by way of their relationship to a larger, overarching system or structure. It is used to uncover the structures that underlie the assumptions and biases of what we do, think, say, perceive and feel. Not all meanings in a language are, however, represented by words. For example, in the Indo-European languages, semantic concepts are embedded in the morphology or syntax in morpho-syntactic forms of grammatical categories. The relationship between form and meaning is arbitrary.
  16. Harris, R. (1988) *Language, Saussure and Wittgenstein: How to Play Games with Words*. London, Routledge, p. ix.
  17. We focus on Indo-European languages, especially English, because they have been key in the development of classical and neoclassical economic models and advanced the idea of globalised market economy.
  18. Right: 'morally correct' derives from the Old English *riht* 'just, good, fair, proper, fitting, straight, not bent, direct, erect'. This derives from the Proto-Germanic *\*rekhtaz* (source also of lexical entries in Old Frisian, Old Saxon, Middle Dutch and Dutch, Old High German, German, Old Norse, Gothic) which takes origin from the Indo-European root *\*h<sub>3</sub>reǵ-*, which constitutes one of the two roots for many Indo-European languages including Greek and Latin. The second root is *\*deks-*. Online Etymology Dictionary, accessed 26.7.2017, <http://www.etymonline.com/index.php?term=right>.
  19. The usual Old English word for this was *swiþra*, literally 'stronger'. Similar notional evolution exists in Dutch *recht*, German *Recht* 'right (not left)' from Old High German *reht*, which meant only 'straight, just'. Compare Latin *rectus* 'straight; right', also from the same PIE root. Online Etymology Dictionary, accessed 26.7.2017, <http://www.etymonline.com/index.php?term=left>
  20. Up to 90% of the human population is estimated to be right-hand dominant: Holder, M.K. (1997), *Why are more people right-handed?*. Sciam.com, Scientific American Inc.
  21. Such meanings are found also in expressions like to have two left thumbs or in German *zwei linke Hände* (haben) that carry meanings like 'clumsy fellow', 'awkward', 'uncoordinated', 'ungainly', 'graceless', 'inelegant', 'inept', 'maladroit', 'unskilful'. This derived sense is also found in cognate Middle Dutch and Low German *luchter*, *luft*. Compare Lithuanian *kairys* 'left' and Lettish *kreilis* 'left hand' both from a root that yields words for 'twisted, crooked'. Online Etymology Dictionary, accessed 26.7.2017, <http://www.etymonline.com/index.php?term=left>
  22. Compare East Frisian *luf*, Dutch dialectal *loof* 'weak, worthless'.
  23. The usual Proto-Indo-European (PIE) root *\*dek-* is represented by Latin *dexter* (also *dexterity*). Other derivations on a similar pattern to English *right* are French *droit*, from Latin *directus* 'straight', Lithuanian *labas*, literally 'good' and Slavic words (Bohemian *pravy*, Polish *prawy*, Russian *pravyy*) from Old Church Slavonic *pravu*, literally 'straight' from PIE *\*pro-*, from root *\*per-* 'forward' hence 'in front of, before, first, chief. Online etymology dictionary, accessed 23.6.2017, <http://www.etymonline.com/index.php?term=right>
  24. Council of Constantinople, Creed of Constantinople 381 a. Chr.: "he was crucified for us under Pontius Pilate, and suffered, and was buried, and the third day he rose again,

- according to the Scriptures, and ascended into heaven, and sitteth on the right hand of the Father”.
25. “Since, then, you have been raised with Christ, set your hearts on things above, where Christ is seated at the right hand of God.” Colossians 3:1. The Bible. The New Oxford Annotated Version, 3rd ed., Oxford UP, 2001. In terms of work ethics, Christians were historically commanded to put in their best efforts in whatever they do to “work at it with all their heart” as they are always subject to reward by the Lord. Colossians 3:25–25, *ibid*.
  26. The original meaning of responsible came from the Latin stem *respons-*. The verb *respond* goes back to the 12<sup>th</sup> century’s *respon-* carrying the meaning ‘respond, answer to, promise in return,’ from *re-* ‘back’ + *spondere* ‘to pledge’. *Respons-* is past participle stem of verb *respondere* ‘to respond’. *Sponde-* means ‘solemn libation, a drink-offering’ and denotes the ‘metrical foot consisting of two long syllables’ originally from Greek *spondeios* (*pous*) the name of the meter originally used in chants accompanying libations. The verb *spendein* ‘make a drink offering’ from PIE root *\*spend-* ‘to make an offering, perform a rite’ hence ‘to engage oneself by a ritual act’, which were seen as an act for forgiveness in front of the divine judgment. Online etymology dictionary, accessed 23.6.2017, [http://www.etymonline.com/index.php?term=respond&allowed\\_in\\_frame=0](http://www.etymonline.com/index.php?term=respond&allowed_in_frame=0)
  27. From Sanskrit *\*raj-* ‘a king, a leader’ in many Indo-European languages we observe similar development: i.e. Latin *regere* ‘to rule, direct, lead, govern’, *rex* (genitive *regis*) ‘king’, *rectus* ‘right, correct’, Greek *oregein* ‘to reach, extend’, Old Irish *ri*, Gaelic *righ* ‘a king’, Gaulish *-rix* ‘a king’ (i.e. *Vircingetorix*), Old Irish *rigim* ‘to stretch out’, Gothic *reiks* ‘a leader’; Old English *rice* ‘kingdom’ *-ric* ‘king’ *rice* ‘rich, powerful’ *riht* ‘correct’, Gothic *raihits*, Old High German *recht*, Old Swedish *reht*, Old Norse *rettr* ‘correct’. Online Etymology Dictionary: *right*, *\*h3reg-* *\*deks-*. Online etymology dictionary, accessed 15.6.2017 [http://www.etymonline.com/index.php?allowed\\_in\\_frame=0&search=right](http://www.etymonline.com/index.php?allowed_in_frame=0&search=right)
  28. Binary oppositions are pairs of related terms or concepts that are opposite in meaning. They form the system in language and thought by which two theoretical opposites are defined and set off against one another.
  29. Carroll, A.B. (1979), p. 500.
  30. Some companies follow the assumption of CSR as a communication strategy due to the external need to manage stakeholders’ image and reputation. Stachowicz-Stanusch, A., Mangia, G., Caldarelli, A. and Amann, W. (2017), p. 147.
  31. Stachowicz-Stanusch et al. (2017), pp. 103–104.
  32. In the past decade, the problems and failure of economic rationality to account for the realities have prompted economists to search for more robust formulations that consider morality and socially conscious behaviours through the use of game theory. See, e.g. Samuelson, L. (2002). “Evolution and Game Theory”. *Journal of Economic Perspectives* 16(2): 47–66. Prior to game theory, consideration of moral codes in economics was internationally well-known through the work of an Indian economist and philosopher, Amartya Sen. e.g. Sen, A.K. (1982). *Choice, Welfare, and Measurement*. Oxford: Basil Blackwell.
  33. Amao, O. (2011). *Corporate Social Responsibility, Human Rights and the Law: Multinational Corporations in Developing Countries*, Taylor & Francis, p. 83.
  34. The social contract concept, as originally developed by Hobbes, Locke and Rousseau, is seriously discussed in the context of corporate social responsibilities. See, e.g. Dahl, R.A. (1972). ‘A Prelude to Corporate Reform’. *Business & Society Review*, Spring issue, pp. 17–23; Amao, O. (2011), pp. 106–109.
  35. Matten, D. and Crane, A. (2005). *Corporate citizenship: Toward an extended theoretical conceptualization*. *Academy of Management Review*, 30(1), 166–179; Altman, B.W. and Vidaver-Cohen, D. (2002). A framework for understanding corporate citizenship: Introduction to the special edition of *Business and Society Review* “Corporate Citizenship for the New Millennium”. *Business and Society Review*, 105(1), 1–7.
  36. The homo economicus archetype was first conceived in 1836 by John Stuart Mill, who saw an economic man as “... solely as a being who desires to possess wealth, and who is capable of judging the comparative efficacy of means for obtaining that end”. Mill, John Stuart. (1836). ‘On the definition of political economy and the method of investigation proper to it.’ Reprint in 1967, *Collected Works of John Stuart Mill*, 4, University of Toronto Press, Toronto, p. 321. It should be noted that for Mill, the meaning of wealth is not only about material pleasures but also other pursuits such as leisure, luxury and procreation.
  37. e.g. Cohen, D. (2014). *Homo Economicus: The (Lost) Prophet of Modern Times*. John Wiley & Sons.
  38. Robbins, L. (1945). *An Essay On The Nature And Significance Of Economic Science*. London: Macmillan and Co. Limited, p. 16.
  39. Adam Smith (1776) suggested that humans can unintentionally promote public interests by acting on their own self-interest. This narrative underpins mainstream economic theories. In *Microeconomics*: e.g. von Neumann, J. and Morgenstern, O., (1944). *Theory of Games and Economic Behavior*, Princeton University Press; Arrow, K. and Debreu, G. (1954). Existence of an Equilibrium for a Competitive Economy, in *Econometrica*, 22:3, 265–290. In *Macroeconomics*: e.g. Walras, L. (1877). *Éléments d’économie politique pure, ou théorie de la richesse sociale*, L. Corbaz, Lausanne; Marshall, A. (1890). *Principles of Economics*, Macmillan and Co.; Keynes, J.M. (1936). *The*

- general theory of interest, employment and money, Macmillan Cambridge University Press; Lucas, R. and Sargent, T. (1979). After Keynesian Macroeconomics, in: *Quarterly Review*, Federal Reserve Bank of Minneapolis, 3(2); Mankiw, N. and Romer, D. (1991). *New Keynesian Economics: Coordination failures and real rigidities* (Vol. 2), The MIT Press.
40. Economists substitute for “utility” another term such as “self-interest”, or “well-being”. Samuelson, P.A. (1948). *Economics, an Introductory Analysis*. McGraw-Hill Book Company.
  41. Etzioni, A. (2011). ‘Behavioral Economics: Toward a New Paradigm’, *American Behavioral Scientist*, 55 (8), 1099–1119, p. 1108; Frey, B.S. and Stutzer, A. (2007). ‘Economics and Psychology: Developments and Issues’ in Frey, B. and Stutzer, A. (eds.). *Economics and Psychology: A Promising New Cross-Disciplinary Field*. Cambridge, MA: MIT Press, p. 3.
  42. The term “commons” connects the elements of the natural and the social or cultural world. As an alternative basis for the law of nature, it is not based on deterministic ideas of optimisation and growth, but “an intricate understanding of embodied freedom and its relationship to the whole”. Hardin, G. (1968). ‘The Tragedy of the Commons,’ *Science*, 162, 1243–1248. See also Weber, A. (2012). ‘The Economy of Wastefulness: The Biology of the Commons’ in Bollier, D. and Helfrich, S. (eds.), *The Wealth of the Commons: A World Beyond Market and State* (Levellers Press, 2012), part I.
  43. Modern behavioural economists acknowledge some relations between economic behaviour and ethical considerations. See Dixon, W. and Wilson, D. (2013). *A History of Homo Economicus: The Nature of the Moral in Economic Theory*, Routledge.
  44. Howie, L. and Campbell, P. (2017). *Crisis and Terror in the Age of Anxiety: 9/11, the Global Financial Crisis and ISIS*, Springer; also Bauman, Z. (2013).
  45. Illich, I. (1973). *Tools for Conviviality*. New York, Harper and Row; (1973). *Energy and Equity*. Calder & Boyars; (1971). *Deschooling Society*. New York, Harper and Row. Illich’s social critique was developed primarily in response to international development efforts when Illich was serving as a Catholic priest in Mexico. See also essays in Bollier, D. and Helfrich, S. (eds.) (2012). *The Wealth of the Commons: A World Beyond Market and State*. Levellers Press.
  46. Illich, I. (1973). *Energy and Equity*. Calder & Boyars.
  47. Chomsky, N. (1970). *Language and Freedom*. Lecture at the University Freedom and the Human Sciences Symposium, Loyola University, Chicago, 8–9 January 1970. Published with permission from Peck, J. (ed.) (1987). *The Chomsky Reader*, in: Chomsky.info, accessed 25.07.2017.
  48. The basis of Humboldt’s social and political thought is his vision “of the end of man” as “the highest and most harmonious development of his powers to a complete and consistent whole”. For Humboldt, “Sounds do not become words until a meaning has been put into them, and this meaning embodies the thought of a community”. The Heterogeneity of Language and Its Influence on the Intellectual Development of Mankind’ in Weissbach, M.M. (1999). *Wilhelm von Humboldt’s Study of the Kawi Language: The Proof of the Existence of the Malayan-Polynesian Language Culture*, *Fidelio Magazine* VIII (1).
  49. Chomsky, N. (1970), p. 93; Chomsky, *Language and Problems of Knowledge*, 1988 in: *the Managua Lectures*, Cambridge, Mass: MIT Press, p. 155); Chomsky, N. (1979). *Reflections on Language*, p. 6.
  50. Von Humboldt, W. (1836). *On Language*. Cambridge, UK: Cambridge University Press.
  51. “The quest for better explanations may well indeed be infinite, but infinite is of course not the same as limitless. English is infinite, but doesn’t include Greek. The integers are an infinite set, but do not include the reals ...” Chomsky, N. (2014). *Science, Mind, and Limits of Understanding in: Foundation (STOQ)*, The Vatican, January, in: Chomsky.info accessed 27.07.2017.
  52. Relevant to our arguments, it should be noted here that Chomsky’s rationalist conception of human nature provides the basis for a “nontrivial” theory of human nature. Nonetheless, his theory proposes a sound empirical hypothesis about human faculty of language which gives no room for superficial preconceptions or a priori dogma and will be subject to debates in behavioural sciences and empirical confirmation. Otero, C.P. (1994). *Noam Chomsky: Critical Assessments, Volumes 2–3*, Taylor & Francis, pp. 279, 289.
  53. Rousseau, J.J. *Discourses on Inequality* in: Chomsky, N. (1970), pp. 90–93.
  54. Chomsky, N. (2008), p. 89.
  55. Illich, I. (1973). *Tools for Conviviality*.
  56. Weber, A. (2012), part I.
  57. Amao, O. (2011), p. 106, who discussed the theory of social contract and argued from the legal standpoint based on the jurisprudence of corporations being similar to a natural person (pp. 98–106).
  58. Granovetter, M. (1985), *Economic Action and Social Structure: The Problem of Embeddedness*, in: *American Journal of Sociology*, Vol. 91, No. 3 (Nov.), pp. 481–510. His approach to embeddedness diverges from the formalist and substantivist thinking of the market which he criticised both as under- and over-exaggerating the role of human and social relations. On the one hand, the formalist approach to the market is critiqued for taking too little account of socialised aspects of human action as social relations are treated as impediments to competitive markets (pp. 483, 484). On the other, the substantivist approach in economic embeddedness also misrepresents

- “social influences” as “processes in which actors acquire customs, habits, or norms that are followed mechanically and automatically, irrespective of their bearing on rational choice”. (p. 485) Substantivist embeddedness in anthropology is often associated with Karl Polanyi and the idea of “moral economy” in history and political science. Polanyi, K. (1944). *The Great Transformation: The Political and Economic Origins of Our Time*. New York: Farrar and Rinehart.
59. Granovetter, M. (1985), pp. 482, 485.
  60. Granovetter, M. (1985), p. 490.
  61. Granovetter, M. (1985), p. 487.
  62. When we think of norms and institutions, it is important to make distinction between the two. Norms “are mental representations stored in individual brains that got there through some form of learning” and “could be composed of a combination of preferences and beliefs, mental models (or scripts and schema) and motivations or decision rules and expectations.” Institutions are thought of as established collective values and practices distilled from actors’ interactions, decisions and learning process. Institutions can be formal such as those established and reinforced by written laws, policies and sanction mechanisms. At the level of individual and localised norms and beliefs, institutions can also be informal – which by definition do not necessarily conform to logical reasoning and prescription provided by formal institutions. See in Ensminger, J. and Henrich, J. (2014). *Experimenting with Social Norms: Fairness and Punishment in Cross-Cultural Perspective*. Russell Sage Foundation, p. 20.
  63. Ruggie, J. (2008). *Protect, Respect and Remedy: A Framework for Business and Human Rights Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises*. UN Doc A/HRC/8/5, para 2.
  64. Ruggie, J. (2008), para 7.
  65. The most important document is the Universal Declaration of Human Rights (UDHR), adopted by the United Nations General Assembly in Paris on 10 December 1948 (General Assembly resolution 217 A). The UDHR is a cornerstone document in the history of human rights, sets out fundamental human rights to be universally protected and was proclaimed as a common standard of achievements for all peoples and all nations. It was drafted by representatives with different legal and cultural backgrounds from all regions of the world and has so far been translated into over 500 languages. For the drafting history and discussions on the role of freedom and equality in the Declaration prior to its adoption in Morsink, J. (1999). *The Universal Declaration of Human Rights: Origins, Drafting, and Intent*. University of Pennsylvania Press. See also Amnesty International, (2011). *Freedom: Short Stories Celebrating the Universal Declaration of Human Rights*. Random House.
  66. Amao, O. (2011), p. 106.
  67. See the Preamble and Arts 1, 2 and 55 of the UN Charter.
  68. Ruggie, J. (2008). *Protect, Respect and Remedy Framework*. UN Doc A/HRC/8/5, para 8.
  69. Bottomley, S. (2002), ‘Corporations and Human Rights’ in Bottomley, S. and Kinley, D. (eds.), *Commercial Law and Human Rights*, Aldershot, Ashgate, p. 47.
  70. See Horrigan, B. (2010), Chapter 9.
  71. These refer to, among others, Draft UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights, UN Resolution 2003/16.2; Voluntary, Ethical Codes of Conduct (VCCs). Horrigan, B. (2010), p. 302.
  72. See, e.g. Ruggie, J. (2008). *Protect, Respect and Remedy Framework*. UN Doc A/HRC/8/5; UN Guiding Principles on Business and Human Rights (2011).
  73. Horrigan, B. (2010), p. 320.
  74. In March 2017, FIFA announced its establishment of an independent Human Rights Advisory Board to help strengthen its efforts to ensure respect for human rights. The Board comprises international experts in human – including labour – rights and anti-corruption issues from the United Nations, trade unions, civil society and business. The Board provides FIFA with advice on all issues that it considers relevant to the implementation of FIFA’s human rights responsibilities under Article 3 of the FIFA Statutes. This development came as a result of the published independent report by Professor John Ruggie in April 2016. See, Ruggie, J. (2016), “For the Game. For the World”. Shift Project/Harvard Kennedy School.
  75. e.g. ABB applied human rights considerations in its supply chain investigation and found two suppliers involved in child labour. They immediately introduced corrective measures. ABB Group. (2011). *Sustainability Performance*. Zurich, ABB.
  76. e.g. Intrust Global’s INDI Fund partners with indigenous and rural communities in Latin America to package projects for investors. It features a unique private equity model that gives poor indigenous communities in Latin America an equity stake in projects in exchange for use/contribution of their land and natural resources. It has been referred to as successful ‘ethical funds’ for the human rights of indigenous peoples in Latin America. Ayoubi, T. and Acuna, F. (2010). *Sustainable Equity Fund Investments within Latin America – Case of Indigenous People*, School of Management Blekinge Institute of Technology.
  77. International Labour Organization (ILO) and International Organisation of Employers (IOE), (2015). *How to do business with respect for children’s right to be free from child labour: ILO-IOE child labour guidance tool for business*. ILO, Geneva.

78. John Ruggie speaking as Shift Chair and workshop participant in Shift, (2012). Embedding Respect for Human Rights Within a Company's Operations. Workshop Report No. 1, p. 2.
79. United Nations (2011). UN Guiding Principles on Business and Human Rights. UN Doc. HR/PUB/11/04.
80. The Taisei Group has integrated human rights in its overall principles of conduct, CSR and core structure of values to implement the company's philosophy as well as the corporation KPI. The company has developed its Human Rights Policy with reference to international human rights standards such as the Universal Declaration of Human Rights, the eight fundamental conventions of the International Labour Organization (ILO) and the ISO 26000. The company also incorporated international labour standards on prohibiting child labour, compulsory labour and discrimination in employment and occupation and on guaranteeing the right of association and the right to bargain collectively. The respect for human rights is also a requirement in its supply chain and procurement activities. Taisei Group, (2016). Annual Report, pp. 41–43, 54, 65. Accessed 6.11.2017 at [http://www.taisei.co.jp/english/ir/image/ar2016/taisei\\_annual\\_2016\\_all.pdf](http://www.taisei.co.jp/english/ir/image/ar2016/taisei_annual_2016_all.pdf)
81. See further discussions and examples in Shift, (2012). Embedding Respect for Human Rights Within a Company's Operations. Workshop Report No. 1, pp. 3–4.
82. According to lessons learned from different companies that participated in a Shift workshop, the question of how to organise the human rights function and where to locate it is very much context-dependent. Shift, (2012). Embedding Respect for Human Rights Within a Company's Operations. Workshop Report No. 1, p. 7.
83. African good practices: Tesco's fruit supply chain in South Africa has farm-level labour grievance mechanisms which included recourse to a government labour relations body, namely the Commission for Conciliation, Mediation and Arbitration (CCMA), when the farm-level mechanism was unable to provide a resolution. In Ghana, Newmont's community grievance mechanisms include a recourse to the Commission on Human Rights and Administrative Justice (CHRAJ), the national human rights institute of Ghana, as well as community-level committees for dealing with certain sub-sets of issues. See Shift, (2014). Remediation, Grievance Mechanisms, and the Corporate Responsibility to Respect Human Rights. Shift Workshop Report No. 5. New York, pp. 6, 17.
84. Shift, (2012). Embedding Respect for Human Rights Within a Company's Operations. Workshop Report No. 1, p. 11.
85. The International Bill of Human Rights refers to the Universal Declaration of Human Rights (1948), the International Covenant on Civil and Political Rights (1966) with its two Optional Protocols and the International Covenant on Economic, Social and Cultural Rights (1966). Available at <http://www.ohchr.org/Documents/Publications/Compilation1.1en.pdf>, accessed 21.09.2017.
86. Adopted by the International Labour Conference at its eighty-sixth session, Geneva, 18 June 1998. The Declaration commits Member States to respect and promote principles and rights in four categories, whether or not they have ratified the relevant labour conventions. Available at [http://www.ilo.org/declaration/info/publications/WCMS\\_467653/lang--en/index.htm](http://www.ilo.org/declaration/info/publications/WCMS_467653/lang--en/index.htm), accessed 21.09.2017.

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