

Corporate Social Responsibility and the Role of Voluntary Sustainability Standards

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24.1 Introduction

Corporate Social Responsibility (CSR) is becoming a standard feature particularly for large and consumer-oriented firms. What started in the late 1960s as something closer to charity or philanthropy has evolved dramatically in recent years. Yet, as actualisation of the CSR concept is increasingly explored and becoming better defined, there is limited understanding of how to operationalise CSR and how to manage it for desirable results at the ground level. This gap is particularly salient in the purchasing relationships with producers in developing countries. Voluntary Sustainability Standards (VSS) such as Organic, Fairtrade, Rainforest Alliance, Forest Stewardship Council, Ethical Tea Partnership, GlobalG.A.P., and UTZ Certified present an important step in this process but, like many tools, require some learning.

The business environment is radically altering. Vague concepts of sustainability and CSR are giving way to specific and auditable standards. More firms are now employing what Kolk (2005) calls “a cascade of codes of conduct”. Clear definitions are useful and it is worth noting the distinction between codes of conduct and a VSS. Codes of conduct can be internally developed or externally. They are a set of practice guidelines characterised by flexible implementation rules that tend to lack enforcement mechanisms and may not have audit or reporting criteria. VSS are here defined as the independent and publicly determined standards that have, as primary criteria of compliance, multiple aspects of sustainability defined as specific social,

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Note: for the purpose of proper citation, the pagination bars denote the format and page numbering to be used in the published chapter

environmental and economic guidelines that feature transparent auditing and more credible (typically external) third-party enforcement mechanisms.

The general research and discussion on CSR to date does not adequately address the recent evolution of both CSR approaches and their interface with a broadening range of external standards or VSS. Part of the recent story is that VSS have become prominently intertwined and increasingly integrated with CSR into the strategy of many firms. This chapter explores the roles and challenges of VSS within the objectives of a firm and its CSR strategy and contributes a practical understanding grounded in the authors’ combined experience in both the private sector and in the public sector.

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The overall purpose of the chapter is to elucidate several key areas of understanding:

- How and why the VSS have come to prominence for CSR applications.
- How critical shifts in corporate strategy, driven in part by better consumer understanding and greatly expanded levels of communication and supply chain transparency are leading corporations to look externally for operating standards that not only help them reach their goals but that also confer social legitimacy.
- Most VSS were not designed as corporate tools, and their integration into procurement and corporate supply chains while often successful, can also be a challenge.
- Impact measurement will be an integral part of the next evolution of CSR as firms and public agencies move toward more effective use of VSS tools and a greater understanding of how to measure and manage their impacts.

The next section of the chapter starts by exploring the roots of CSR and its relationship to VSS. It covers their common and divergent objectives and also how firms have put them into practice, discussing notable successes and how even large firms can sometimes get it wrong. Section 24.2 also outlines the distinctions between public standards and private or corporate standards. Section 24.3 illustrates the rise of the main VSS for food and agriculture and how pervasive standards have become in terms of numbers and market share. Section 24.4 describes new approaches to understanding how VSS can serve the specific objectives of their stakeholders, including producers, consumers, and firms. Section 24.5 highlights the main conclusions and offers recommendations for enhancing the symbiosis and effectiveness of the corporate relationship with these voluntary standards.

24.2 A Search for Credibility: The Roots of CSR

About a century ago, most people lived in proximity to a town or village wherein most of their and their neighbours' actions were known—like it or not—to all of the community. Community members were interdependent on each other personally for most food and services. If the grain miller cheated or was fair, the results were usually evident and the corresponding consequences were obvious and direct. For

much of the world, daily needs were locally met and everyone lived at a scale where self-regulation was plausible within the community.

The guidelines for day-to-day interactions and transactions were locally established and enforced as part of the social code that found its legitimacy in custom and in the daily presence of institutions that included religious and temporal authority. As such, the social norms were adapted to the needs of the community and were easily understood and usually followed. But something had already begun to shift.

By the late nineteenth century the twin factors of specialisation and economies of scale had already emerged from military theory and, along with a burst of diverse technologies, were driving the engines of the Industrial Revolution. The basic fuels necessary for this revolution

were labour and capital. Capital came from the increased scope and freedom of the corporation¹ while labour came from the migration of growing and relatively poor rural communities often living under feudal conditions. The ensuing concentration of labour, capital, and outputs fed the rapid expansion of cities and the deracination of many smaller communities. The social fibres that had held families and communities together and ensured a certain level of shared well-being began to unravel with the many threads gathering in urban areas. The speed of growth and considerable scope of these developments quite literally re-created town and urban communities making them more transitory and heterogeneous. The novel diversity undoubtedly offered considerable benefits but came at a price.

The social conventions of mutually agreed upon limits or boundaries for the purpose of longer-term and common benefit—what today might be called sustainability—began to lose their power. Even religious authority for most fast-urbanising society gradually devolved toward a level of some disregard.² The definition and influence of ethics and morality were migrating from their source of localised legitimacy and now the closest expression occurred within state or governmental control. While such coalesced power had existed since ancient times, it evolved in recent centuries to supersede local societal controls in new and more complete ways. The apex of the power of the state in this regard may have occurred in the late twentieth century. More recently, in the current age of global capitalism, governmental or political boundaries have begun to dissolve as the corporation has taken on new and more powerful roles and, in some cases, corporate influence may even surpass that of the state (Glasbergen 2011). These shifts of power, in a relatively short period of time, mean that it is no longer clear who decides social legitimacy and ethics and on what basis.

Box 24.1: New Limits

Problems created by booms and busts in supply and demand, which are due to economic, political or speculative reasons, are actually dwarfed in comparison to those created by environmental limits. Because when it's gone, it's gone; meaning "no resources = end of business".

(A. Ionescu-Somers 2012)

This presents an understandable concern particularly when it is abundantly clear that our technology now permits a scale of human activity or intervention that can rapidly and profoundly alter our way of life. It can be enormously positive or it can put not just a single community but society as a whole at risk. In just a few decades, the stakes have become formidable. The threats to food and agriculture range from climate change and depletion of natural resources to

¹ See, for example, the 1856 UK Joint Stock Companies Act that served as a template for similar company laws in the US and other nations.

² There are clear exceptions, especially among the more fundamental segments of Christianity, Judaism, and Islam, but these stand in contrast to mainstream life of society in most cities.

population explosion and chronic malnutrition. Some of the key issues for business revolve around scarcity of basic non-renewable resources including water and arable land leading to higher commodity prices and protectionism. This is particularly relevant in the realm of agriculture and ecology where the evidence is stark in every region of the world. A few examples include:

- a decades-long and possibly irreversible decline of many major fresh water sources in key US farm regions;
- persistently high prices for multiple agricultural commodities with resulting civil unrest and export bans in a number of countries;
- a rapid removal of the forests in the biodiversity-rich areas of South America, Malaysia, and Indonesia for more soy, timber and palm oil;
- the reduction of one of the world's great rivers to a toxic trickle, nearly destroying the sea and fisheries that it once fed, due primarily to Central Asia's cotton farming practices.

From these challenges, new opportunities have emerged. Some leading corporations have come to understand that responsible stewardship is necessary to ensure their own longevity in terms of both resources and public opinion. But putting this understanding into action has not been easy, particularly for publicly held firms where many shareholders focus more on short term profit than long-term success. In 2003, the CEO of Starbucks Corporation, one of the world's most popular beverage brands, noted that while it made sense for the business to invest even more in the sustainability and the long-term well-being of coffee farmers (Starbucks is a major buyer of coffee from dozens of developing countries), the pressure to deliver positive quarterly financial reports made that very difficult.³ The resistance to enduring viability for firms may thus come from their own shareholders who are often relatively anonymous and unaccountable to the firm, the community, or the environment and whose private gain can therefore easily compromise public and

corporate good without personal consequence. However, it is untenable to put all of the blame at the feet of shareholders; the firm's leadership clearly has a say and can also be responsible. Paul Polman, CEO of consumer goods giant Unilever, responded to the demands of short-sighted analysts and shareholders by ordering his company managers to stop delivering quarterly results to the financial markets, thus instilling a longer-term view of the company's success factors.⁴ Fuller and Jensen (2010) concur and suggest that it is necessary for leaders to make more socially responsible, value-focused decisions.

In recent decades, business thinking is evolving—at least in branded food and consumer goods sectors—beyond the sclerotic grip of short-sighted corporate theories (see, for example, Friedman 1970) that were better suited to an age of robber barons than they are to today's emerging need to cooperate as much as to compete with regard to our finite resources. Harvard Business School professors Porter and Kramer (2006), for example, make a strong case for the value of CSR as a source of long-term competitive advantage. One of the world's top business

³ Personal discussions between Daniele Giovannucci and Starbucks CEO Orin Smith.

⁴ <http://www.guardian.co.uk/sustainable-business/unilever-ceo-paul-polman-interview>.

school deans, INSEAD's Dipak Jain, firmly champions the emerging recognition of the multi-faceted value of a 'purpose driven' executive.⁵ Carroll and Shabana (2010) review the value of CSR from a business perspective. Well-known financial scholar, SSRN Chairman, and Harvard Professor Emeritus Michael Jensen posits that: "A firm cannot maximise value if it ignores the interests of its stakeholders." (Jensen 2001) Stakeholders, he states, include not only financial claimants or customers, but also employees, communities, government, and the environment.

The business environment is shifting. Vague concepts of sustainability and CSR are being replaced by better defined and more transparent standards that consumers increasingly expect of the brands they choose. Measuring and reporting are increasingly valuable. Various multi-stakeholder initiatives reinforce the principle that corporations must be transparent. This is especially relevant in terms of their support for human rights—including those related to discrimination, labour, water, and food. Such initiatives include: the UN Global Compact, OECD Guidelines on Multinational Enterprises, the ILO Tripartite Declaration on Multinational Enterprises and Social Policy, the European Union Strategy for Corporate Social Responsibility, the International Finance Corporation's Performance Standards, and the UN Guiding Principles on Business and Human Rights (WBCSD 2010).

More firms, particularly dynamic multinationals are now exploring and employing VSS. The opportunity is particularly interesting for those first movers that want to capture the benefit of such market positioning which appeals to the 'heart space' of consumers and can contribute to brand loyalty in unique ways.

By 2009, Mars, one of the world's largest privately-held food companies, announced that it would source 100 % VSS certified cocoa by 2020. In 2010, global giant Unilever launched an innovative and public 10-year Sustainable Living Plan to address environmental, social and economic factors and to halve the negative

environmental impacts of their products. Companies—especially brand-owning firms—are increasingly held responsible for the social and environmental performance of their supply chains (BBC News 2010; Muradian and Pelupessy 2005). Working conditions and environmentally unfriendly practices are among the major issues facing these companies. While many are trusted for their products or services, very few are trusted to be socially fair or to be good stewards of our natural resources. Meanwhile, governments, whether trusted or not, are barely able to keep up with the fast-paced change of the business world. In their World Bank report, Fox et al. (2002) note that governments—whose clear primary purpose is the common good—nevertheless struggle to effectively find policy options that foster productive and responsible corporate activity. Increasingly prominent social concerns mean that corporations are now being called upon to be more conscious of their impacts. The calls are coming from increasingly conscious consumers who have ever more information available to them (Fig. 24.1).

⁵ Personal communications between Giovannucci and Jain beginning January 2011.

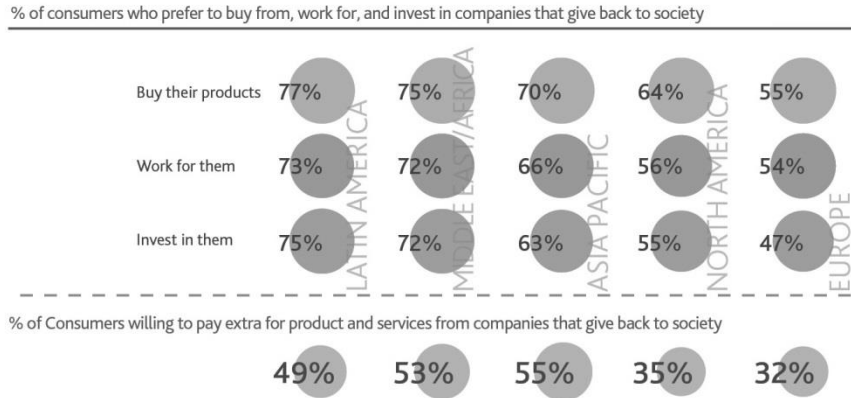


Fig. 24.1. Consumers’ preference for companies that “give back to society”

(Source: Nielsen Global Survey of Corporate Citizenship 2012)

For many firms the interest in VSS goes beyond social legitimacy to addressing even more demanding challenges, affecting the viability of the company itself. Four relatively recent phenomena are influencing the increasing adoption of VSS by all sorts of firms⁶:

1. A *consumer environment* characterised by strong interest in personal health and concern about the social and environmental conditions in the place of origin.
2. A concentrated and more competitive *business environment* requiring new methods of differentiation, more agile reputational risk management, and more sophisticated supply chain management where greater efficiencies in costs and logistics are only the beginning.

3. A *regulatory environment* with new and import rules and greater food safety requirements such as traceability while also struggling to keep up with fast-moving global trade developments.
4. Social *communications advances* that are global in scale, exposing corporations and individuals to greater levels of scrutiny that can alter reputations in a matter of hours and even offer tangible proof of civil or criminal responsibility regarding food safety, labour violations, and environmental impacts.

The combined pressure from consumers and civil or non-governmental organisations (NGOs) in tandem with increased corporate awareness led to the evolution of both the term and the practice of Corporate Social Responsibility (CSR). Dahlsrud in his review of CSR definitions (2008) notes that while these are generally congruent there is ample confusion in terms of how they are applied in specific contexts.

What was, until the late 1990s, a merely philanthropic corporate expression has today progressed to the integration of social and environmental ‘good practices’ into day-to-day

⁶ Based on similar ideas elaborated in Giovannucci (2008) and also Giovannucci and Purcell (2008).

business operations (Porter et al. 2007). While laudable from a humanistic perspective, there is nevertheless little evidence that this charitable approach makes much of a difference in the long term sustainability of a business or the environment in which it operates—and few firms are yet good at doing this (Economist 2008). This is because the contributions are often short-lived, relatively modest to the scale of the challenges, and do little to alter the actual business operations where corporate impact can be greatest. On this latter point, altering corporate messaging is easy but companies' incentive systems have often not been sufficiently oriented to encourage or reward desired behaviour (Lorne and Dilling 2012). In the work of the Committee on Sustainability Assessment (COSA) in many developing countries, this disconnect between the intention of senior management and the reality of distant line operations is often evident regardless of the firm's size or CSR orientation.

Addressing sustainability as an integral part of business means treating sustainability as a core operational issue that is no different than inventory, cycle time, cost of materials, and logistics. It means going beyond saying that a firm has “sustainability in its corporate DNA” to actually reworking a supply chain's structures and incentives so that it actually can behave in a socially and environmentally responsible manner. The work of Andersen and Skjoett-Larsen (2009) looking at one of the world's most successful supply chains states that integration of all staff is critical for the success of any CSR approach. Strategically involving active inputs from both management and workers in a firm is not a new concept in corporate theory and evidence for its value dates back several decades to the work of business pundits W. Edwards Deming and Peter Drucker (Deming, 2000; Drucker, 1989). Drucker is noted for his related comment about the difficulty of making tough choices: “Management is doing things right; leadership is doing the right things”. Pronouncements from top management are necessary but hardly sufficient as prescriptions to generate a sustainable enterprise.

Most firms—in stark contrast to their subtle understanding of their financial situation—do not understand the actual social or ecological impacts of their business, and fewer still are experienced in managing them. For leading firms, this is changing fast. Sustainable development efforts are increasingly seen in supplier training programs, innovative product development, and new logistics for distribution. Important innovations include new business models and new partnerships as a solution to sustainability issues (Seuring and Müller 2008). Corporate-NGO partnerships were almost unknown just a few decades ago.

NGOs are the new actors with a unique value proposition. They tend to have relatively little economic power but instead they have valuable social credibility among consumers and media. Drucker (1989) referred to NGOs as the “third sector” (the first two being private and public or government) that would increasingly play a very valuable role for both firms and society. It is NGOs that fill the vacuum of trust as representatives of credible social and ethical positions. Because of this, NGOs are serving to create a certain level of social legitimacy for corporations and have increasingly become as a trusted conduit between firms and the perceived desires of the individual or community.

Via different forms of public–private partnerships NGOs have evolved VSS to provide the normative framework that corporations use for social legitimacy and essentially constitute a social contract whose compliance is assured by independent certification (Giovannucci and Ponte 2005). Meanwhile the state, rather than being directly involved, tends to focus on basic guarantees or regulations such as contract rules and food safety. There are however, many more roles that can be played by the public sector to facilitate and encourage CSR as a powerful complementary tool for public policy. Fox et al. in their World Bank report (2002) present an array of viable options for more active and supportive public sector participation in this process.

24.2.1 The Objectives of Standards and How Firms Use Them

The many different VSS, although often lumped together, are not at all alike. Yet, they do as a whole tend to deal with the areas not functionally addressed by most firms and global trading structures. Figure 24.2 shows the average number and type of sustainability criteria covered by some of the fastest-growing and more prevalent sustainability standards: Fairtrade International and Fair Trade USA, Forest Stewardship Council, Rainforest Alliance and UTZ Certified.

Mayer and Gereffi (2010) and Jaffee et al. (2011) are among the many scholars recently reporting on the proliferation of businesses adopting standards and codes of conduct and the array of relationships that they have with standards. It is likely true that many firms have a simply transactional relationship with VSS in which they purchase products that are certified to a particular standard in order to fulfil a procurement necessity. These are often followers in the CSR arena. They can

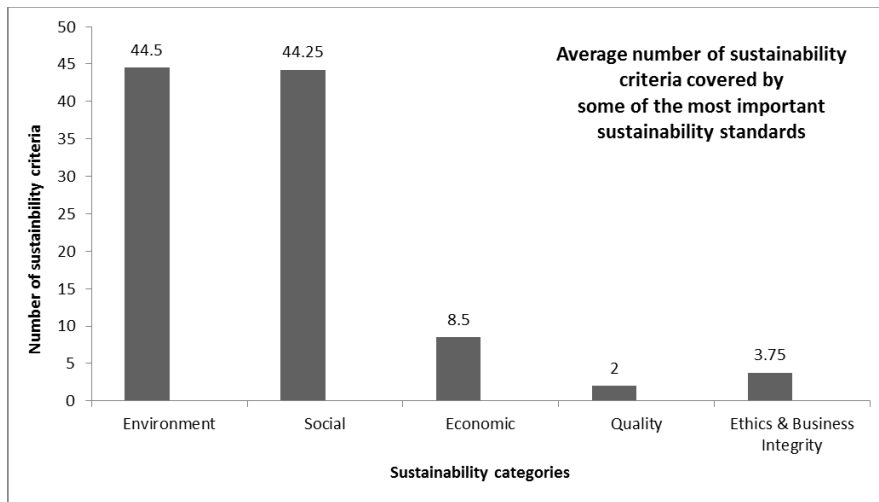


Fig. 24.2 Sustainability criteria covered by major VSS

[Source: Association Materials Management, Purchasing and Logistics (2010) Standards Map, ITC]

nevertheless serve to influence standards, especially if they are large. The Wal-Mart choice to have organic versions of their most popular products resulted in the considerably greater

availability of organic cereals from major mainstream suppliers that had not invested in such VSS prior to the 2006 Wal-Mart announcement.

There is often a dynamic tension between firms and VSS. Some standards require change in the firm's practices or costs and may not meet all of a firm's needs. Firms, particularly large ones, can try to influence VSS and some go so far as to create their own standards. Yet some firms engage VSS as functional tools of change and integrate them to become a *de facto* part of the firm's CSR 'strategy'. In recent years, a number of successful companies have evolved a range of ever more intimate and interesting relationships with VSS.

Most of the VSS were not designed as corporate tools, and their integration into procurement and corporate supply chains can be challenging. The VSS organisations and many of the businesses they work with have fundamentally different origins, different values or intentions, and different operating models.⁷ They also may have varying types and levels of experience in particular areas as well as very different levels of resources to pursue their objectives and to collaborate. Fortunately, many VSS are built on working partnership models that can open space for cooperation. Some even learn from the firms they partner with.

In some cases, efforts to integrate VSS into business have led to unexpected outcomes. When Starbucks declared their position as the leading buyer of Fairtrade coffee in the early 2000s, it was attacked by consumer and student activists who

accused it of exploiting the Fairtrade name while only a very small percentage of its total coffee purchases were Fairtrade certified. Senior executives were surprised by the outcome and a likely result could be the firm's subsequent reticence about making claims for its own private standard: Coffee and Farmer Equity (C.A.F.E.) practices. Nestle, the world's largest food company faced its own challenges when it launched a small test of a Fairtrade certified product in England that garnered a mix of negative and positive reviews. On one side, the firm was praised for its efforts and for venturing to support a VSS while, on the other side, it was accused of creating only window dressing and pandering to the public with a gesture that actually represented only a tiny fraction of its business. Clearly, there are lessons to be learned about the relationship between CSR and VSS.

Mayer and Gereffi (2010) note that the push to engage with VSS are a response to increasing and more globalised social and environmental pressures and the inadequacy of governmental institutions in addressing these pressures. However, there are clear limits to what VSS can be expected to accomplish. They hypothesise that the effectiveness of such forms of private governance depends on four factors:

1. The structure of the value chain in which production takes place;
2. The extent to which demand for a firm's products relies on its brand identity;
3. The possibilities for collective action by consumers, workers, or other activists;

⁷ Notable exceptions exist including the certified B-Corporations that use the power of business to solve social and environmental problems and meet high levels of sustainability criteria. See: <http://www.bcorporation.net/>

4. The extent to which commercial interests of lead firms align with social and environmental concerns.

Mayer and Gereffi's hypotheses suggest that VSS as a form of private governance will only flourish in certain circumstances and need to reflect the interests of multiple stakeholders to succeed.

Firms that are practice leaders in CSR tend to take an active stance in regard to their supply chains and elect to partner with standards to evolve their procurement and even leverage standards to evolve their corporate persona. The world's largest banana brand turned around a dismal public reputation and low profitability partly as a result of its close partnership with Rainforest Alliance and adoption of its sustainability standards (Taylor and Scharlin 2004).

Other firms have moved in the same direction. A number of large brands such as Sara Lee, Mars, and Tchibo and global retailers such as Ahold, IKEA, and Rewe work closely with UTZ Certified and have all significantly grown their business with the UTZ Certified label from year to year especially in coffee, cocoa and tea.

Access to higher value markets is one reason for producers to participate, but the requirements can be daunting and even constitute barriers to entry for smaller and poor producers. Yet, rates of expansion among farmers continue to be remarkable. The Dutch Sustainable Trade Initiative (IDH) expects that 22 % of total worldwide exported tea will be certified by 2015. Considering that in 2007 about 1 % was certified, the growth is impressive.

The approaches adopted by firms tend to depend on whether they are brand owners, consumer-facing or in the business-to-business markets. Some take bold initiatives. A leading U.S. brand, Ben and Jerry's Ice Cream, has recently overhauled its procurement to align the global sourcing of more than 3,000

ingredients with the company's mission and core values. The firm's Values-Led Sourcing initiative includes a commitment to source Fairtrade certified ingredients for its entire global flavour portfolio by the end of 2013 (Alvarez et al. 2011).

Consumer products giant Unilever's collaboration with Rainforest Alliance was the product of its decision to invest in its current suppliers' capacity rather than seeking new sources. As a major buyer of tea, it actively engaged local NGO partners to train small and large scale tea farmers and supported them to become Rainforest Alliance certified, Unilever thus established a measure of supply security and likely a first mover advantage in tea. Competitors such as Tata, Tetley, and Twinning's followed and soon after also started purchasing and selling certified tea.

Two of the world's leading chocolate brands have made commitments to fully source from suppliers meeting the VSS of global NGOs (Cadbury with Fair Trade and Mars with several VSS⁸). Similar examples of large-scale corporate commitments include: Mondelez's claim to

⁸ <http://www.mars.com/global/press-center/press-list/news-releases.aspx?SiteId=94&Id=1482>.

sustainably source all its European coffee by 2015⁹, Nestles’ commitment to only source sustainable palm oil and Unilever’s promise to source 100 % of agricultural raw materials sustainably by 2020.¹⁰

Some initiatives go beyond the firm level. Efforts such as the Keystone Field to Market, SAI Platform, and Sustainable Food Lab are platforms generated primarily by the private sector taking a strategic opportunity approach to VSS and the challenges of sustainability as a pre-competitive issue and working to advance industry-wide behaviour in a collaborative way. A survey of 254 senior leaders in procurement and supply chain management indicates the current and emerging rationale for their adoption of sustainability criteria or VSS in their procurement (see Fig. 24.3). What the VSS bring to companies and brands is not only some assurance of functional benefits such as traceability and better practices but also the goodwill of a public that is increasingly aware of such standards and that generally trusts the NGOs that manage them.

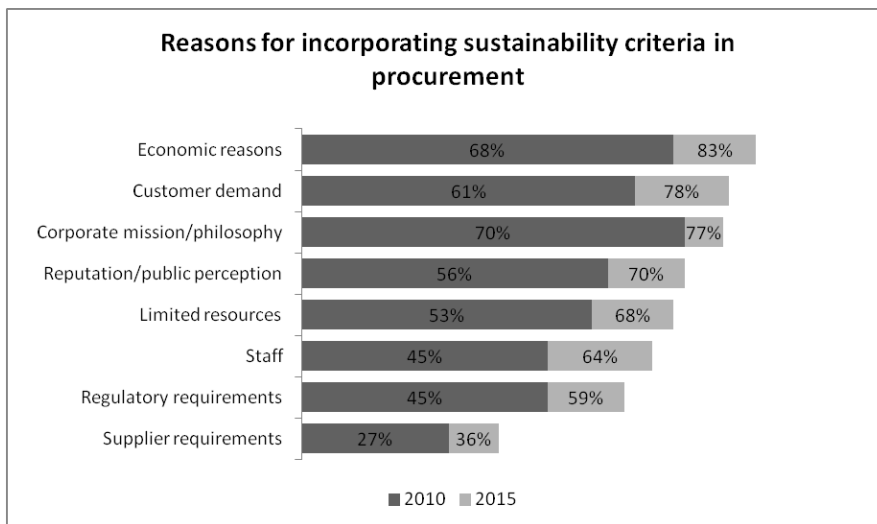


Fig. 24.3 Reasons for sustainability criteria in procurement
 (Source: Roland Berger Strategy Consultants 2010). This figure appears originally on page 370.

24.2.2 The Distinction Between Public and Private or Corporate Standards

Some corporations have elected to create their own standards either independently or as part of associations. A number of labels are propagated by individual firms and it is not clear whether they have an impact in terms of global trade since they are often internal standards or sometimes they can be primarily marketing-oriented efforts. Supermarkets often create their own labels as a distinctive communication to their consumers. Association or industry-wide standards have broader effects. Most are business-to-business standards such as GlobalG.A.P., the Round Table for

⁹ <http://www.mondelezinternational.eu/well-being/agriculture-commodities/coffee-made-happy>

¹⁰ <http://www.unilever.co.uk/sustainable-living/sustainablesourcing/>.

Sustainable Palm Oil (RSPO), and Ethical Tea Partnership (ETP) that raise awareness and establish minimum guidelines. GlobalG.A.P. has become so widely used that it is now routinely incorporated into other standards and in some sectors and markets e.g. fruit and vegetables to the EU, it is becoming a *de facto* business requirement for some segments of trade.

There are distinctions between consumer-facing VSS and B2B standards or codes of conduct. The latter are typically more concerned with quality, food safety, and traceability than with more comprehensive aspects of sustainability and they have not needed to prioritise transparency and independent audits. While they provide a useful base, most of the B2B standards are modest on social and environmental requirements when compared to the consumer-oriented standards and set the bar for compliance at a fairly low level.

Most, but certainly not all, standards and verification programmes that are established exclusively within the corporate arena are often excluded from discussions of VSS because they tend to differ from the salient values of VSS in several ways:

1. They are often imposed on producers and supply chains and rarely include the serious input of producers in their design;
2. The lack of independent oversight or third-party certification suggests that the private firms that control them can alter, dilute, or simply not fully apply the standard at their prerogative;
3. When lacking adequate support or remuneration for sustainable production practices, they can serve as significant barriers to entry for producers;
4. They are rarely transparent and if they lack accountability that engages consumers, they are limited as a market mechanism that drives sustainability.

Some firms do not avoid the temptation to launch their own standard. For those, it is often a cost with little measurable benefit. Even giants such as Wal-Mart, Nestle, Unilever, Kraft Foods and Mars have elected to not create such efforts. Their research suggests, and some have stated, that consumers do not want them to compete in this space and prefer them to align with a VSS as a more accepted arbiter of sustainability.

24.3 The Growth and Pervasiveness of Standards

In 1967, in a remote area of Chiapas, Mexico the first VSS certification (Organic Demeter) by an independent third party was granted to a coffee farm. Organic is, by several measures, the grandfather of agricultural VSS (Giovannucci and Koekoek 2003). Fair Trade later emerged to be standardised in the 1980s and also began with coffee.¹¹ Today both of these seminal VSS are globally recognised multi-billion dollar segments that have spread to nearly every type of agricultural product from cocoa to cheese to cotton. By 2011, global sales of Fair Trade topped

¹¹ First with the Max Havelaar label and a more formalised Fair Trade system launched in the Netherlands in 1988 but had been functioning informally, as had organics, for decades prior.

US\$6 billion¹² and Organic is estimated to have topped US\$60 billion, both more than tripling their value in a single decade.

The 1990s and early 2000s saw the seeding of several new VSS for food and agriculture including the standards associated with the Rainforest Alliance and with UTZ Certified¹³ that offered related objectives but somewhat different sustainability theories. In the most traded commodities these have provided arguably less challenging requirements in some areas and more business-friendly approaches. As a result, their growth rates have skyrocketed particularly as large mainstream firms engage more actively with them. While no VSS approaches the global range of products, depth of market awareness, or global recognition that Organic has achieved, both Rainforest Alliance and UTZ Certified are growing much faster than Organic or Fair Trade.

Among the major global food firms in terms of consumer brands, there has been a remarkable consensus on the commitment to certified products with notable exceptions. Kraft Foods has pledged that all of its coffee brands in Europe will use fully certified sustainable sourcing by 2015. In 2011, 28 % of the tea purchased for all Unilever brands was sourced from Rainforest Alliance Certified farms and it plans to have 100 % of its tea certified by 2020. Mars has made a public commitment to certifiably source 100 % of the cocoa, coffee and tea for all of its global brands by 2020. Hershey has made a similar commitment. Starbucks has about

90 % of its coffee certified to its own standard. Chiquita banana, the world's largest banana brand, is fully certified by a VSS. Cadbury's top selling confectionary products are also fully VSS certified. IDH has committed to having fruit and vegetable imports into the Netherlands being 100 % certified by 2020.

There are indications of further uptake at the mass-market levels. When Wal-Mart, the world's largest retailer demanded organic versions of their most popular products, major suppliers first said it would be extremely difficult but most had them on the shelves within 12 months. Global retail food-service giant McDonalds is already applying better standards to its poultry supply chains and exploring the effects of VSS for some of its liquid products, particularly in its fast-growing coffee business.

Coffee has been the leading commodity to apply different VSS. Trend indications are also coming from different products such as tea (noted above), seafood, and cotton. VSS certification for coffee, the world's most valuable export crop, and for bananas, the most important fruit in global trade have both seen substantial growth in the past decade and these multi-billion dollar markets expect similar tendencies in the future (see Fig. 24.4).

¹² Reuters Article accessed Nov 1, 2012 online: <http://uk.reuters.com/article/2012/07/16/uk-fairtrade-softs-idUKBRE86F19P20120716>. In the original chapter 24 of Voluntary Standard Systems this footnote appeared on page371.

¹³ Originally started in coffee as Utz Kapeh.

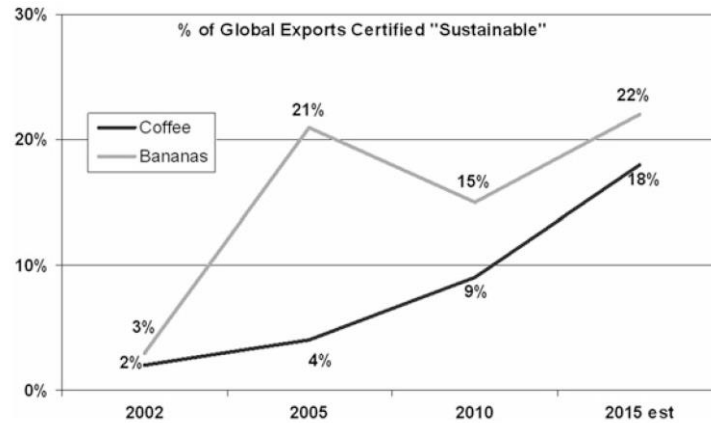


Fig. 24.4 Growth of sustainability certifications for two major export crops

[Source: Daniele Giovannucci, for coffee. For banana: FAO, COMTRADE, Rainforest Alliance, ACP-EU Technical Centre for Agricultural and Rural Cooperation, FLO, Agritrade.cta, Forschungsinstitut für biologischen Landbau (FiBL)]. N.B. percent of exports (green coffee and bananas) certified by independent third parties as complying with VSS. Estimates for 2015 are not linear projections from the current data; instead, they reflect calculations based on the stated commitments and expectations of leading buyer firms or their representatives and related trade experts

An emerging trend is the formulation of new national sustainability standards such as China's Green Food, Indonesia Sustainable Palm Oil, Brazil's Certifica Minas Café, and the Sustainability Initiative of South Africa (SIZA). These are now emerging as local alternatives but because these domestic standards tend to be less

restrictive and less credible to markets, they are not commonly useful for international trade. They may have some relevance for national domestic markets especially in light of an increasing sentiment, particularly, but not only, within the BRICS (Brazil, Russia, India, China and South Africa) countries that some international standards may be too expensive or burdensome to implement or lack certain domestic market relevance. Perhaps the most common complaint is that the benefit of international standards accrues to brands and to traders but not to producers themselves. National standards can be a step toward international VSS, but if they do not serve to compensate producers or improve their conditions, they may be imposing yet another layer of burden on farmers.

24.4 Do Standards Serve the Firm's CSR Objectives?

24.4.1 It Is Important to Have Objective Assessment of VSS

While there are a number of guidelines or frameworks for social accounting, environmental reporting, and even 'auditing', most are self-reported and only a few use independently verified

measures to ensure clarity or comparability.¹⁴ Until recently, there have been no reliable and globally comparable metrics to understand the *actual* impacts of the VSS as distinct from their stated objectives.

In an increasingly performance-oriented society, metrics matter. What we measure affects what we do. If we have the wrong metrics, we will strive for the wrong things.

Mismeasuring Our Lives (2010) by Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi

24.4.2 VSS Align with CSR, but Are More Useful When Understood Objectively

The evidence and experience to date indicates that VSS align well with CSR concepts. They can serve corporations as an already formulated and pre-vetted approach. Market-driven solutions are promoted by many as the ideal ways to drive sustainable practices and VSS or certifications have become the mechanism of choice (Hartmann 2011). However, little is known about the actual impacts of VSS, including the effects on productivity and risk. There is still little scientific literature on how effective VSS are as a tool to further a firm's CSR objectives in the food and agriculture sector. Recently, concerns have begun to emerge about the direct and

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indirect costs and the extent of the benefits of the diverse sorts of VSS. Given the scope and scale of the markets for VSS, it is imperative that firms using them comprehend how they work and how to use them.

Sustainability in agriculture may evolve from predominantly environmentally-related processes such as transportation, energy and packaging where results have a clear relationship with the financial bottom line¹⁵ to include more socially-oriented choices whose economic value may at the moment appear less obvious especially in a world with growing labour pools and less stability.

24.4.3 Firms and Public Agencies Want Access to Objective Evaluation of VSS

Having sound information on impacts is becoming a priority for firms and also for investors. JPMorgan's Impact Investor Survey (Saltuk et al. 2013) tracks a fast-growing business segment by polling investors who committed US\$8 billion to impact investments in 2012. The majority of respondents report that they seek market rate financial returns but want to have positive social or

¹⁴ For example: ISEAL Alliance Impacts Code, AccountAbility AA1000, Fair Labour Association Workplace Code of Conduct, Fair Wear Foundation, Global Reporting Initiative, Carbon Disclosure Project, SA8000 (Social Accountability International), ISO 14000 and 23000, and United Nations Global Compact.

¹⁵ Association of Materials Management, Purchasing and Logistics (2010).

environmental impact as well. The survey found that 70 % of respondents hold that standardised impact metrics are ‘important’ or ‘very important’ to the development of their industry.

The question of impacts is a significant one for governments and policymakers as well because these standards are not only part of fast-growing, multi-billion dollar market segments, they are also being adopted by millions of producers. Until recently, most of the publicly available measurements of the effects of the VSS were either very specific case studies of one point in time or anecdotal assessments. The resulting lack of time-series data or data that is comparable across countries or regions allows only a fragmented understanding of these VSS or certifications and an inadequate evaluation of their impacts. This lack of clarity hinders the ability to move efficiently toward sustainability.

24.4.4 The Importance of Common International Standards

In the ever more complex situations of global production and trade, good business runs on good data. It follows that succeeding at sustainability requires the same: an understanding of not only costs and benefits but also of the results or of particular investment or operational choices. To effectively improve sustainability, we need to understand it much better than we currently do. The answer does not lie only in scientific experimentation. Like any successful business, effective sustainability

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relies on the day-to-day application of sound management feedback loops. To extend the business analogy: having clear and consistent standards (i.e. International Financial Reporting Standards) is vital for efficient business controls. The same is true regarding a business’s CSR practices, but the challenge is that the field of sustainability has not had clearly defined metrics for its intrinsic social, economic, and environmental dimensions. That is quickly changing.

24.4.5 COSA and ITC Provide Tools for Objective Evaluation and Understanding

Two complementary and mutually supportive initiatives are contributing a critical new and transparent understanding of sustainability. The global partnerships of the Committee on Sustainability Assessment (COSA) have developed innovative ways to understand the myriad of possible impacts to sustainability at the ground level with producers, organisations and communities. The International Trade Centre’s Standards Map is part of its pioneering initiative: Trade for Sustainable Development (T4SD) and provides a unique way to understand the distinct features of the most important VSS on a single platform.

24.4.6 ITC’s Tools

With the proliferation of sustainability labels—436 available in 2011—it is important for both consumers and firms to distinguish what is trustworthy and to have access to neutral information for understanding them. The T4SD’s Standards Map provides independent and credible information on the relative features, requirements and compliance policies of the most important

VSS as well as audit protocols and retailer codes of conduct.¹⁶ T4SD is also developing diagnostic and self-assessment tools that can help producers and companies make better decisions on the implementation of standards.

Box 24.2: Understanding the Basics of VSS: A New Map

Standards Map is the new International Trade Centre market analysis tool on voluntary sustainability standards. It provides information on more than 130 standards and allows users to compare VSS on diverse social, environmental, economic, and quality criteria (among others). The tool offers geographic and product-related scopes, as well as up-to-date coverage of compliance policies and requirements for implementation.

<http://www.standardsmap.org/>

24.4.7 COSA's Tools

The new tools developed by the Committee on Sustainability Assessment complement the Standards Map with a standardised approach to getting information about the actual effects of such standards—going beyond the written or paper standard to ascertain what happens in practice. The ability to scientifically measure the results of VSS—and the result of any approaches to improve sustainability—paves the way for better management so as to achieve corporate objectives as well as the wider societal or ecological benefits to which the VSS are intrinsically dedicated.

Beginning in 2006, the Committee on Sustainability Assessment, a non-profit consortium, set out to alter the knowledge gap by formulating a consistent and reliable metrology based on exhaustive scientific review of methods and multi-stakeholder consensus on the most important key indicators to measure. The result is a set of neutral, state-of-the-art assessment tools to generate science-based information on the social, economic and environmental impacts of agricultural practices. These are captured year to year and because the methods and indicators are standardised, the resulting information can, for the first time, be compared across time and borders. As COSA partner institutions add thousands of data sets each year, they will be able to more acutely discern trends and patterns as well as determine what approaches work for sustainability and which do not.

Appropriate to its public beginnings under the umbrella of the International Institute for Sustainable Development and the United Nations Conference on Trade and Development,¹⁷

¹⁶ The International Trade Centre that houses the T4SD and the Standards Map initiatives is an agency created to provide independent technical advisory services under the auspices of the United Nations and the World Trade Organization.

¹⁷ COSA and its projects have had the support of multiple research and development agencies; since 2009 these include the Swiss State Secretariat for Economic Cooperation (SECO), International Institute for Sustainable

COSA gleans expert input from a global array of scientists, producer groups, private firms, NGOs, and development agencies. Ensuring balance among the diverse needs of stakeholders has gained it widespread acceptance and recognition. COSA focuses on developing countries and has already been tested and applied in 12 countries (Fig. 24.5).



Fig. 24.5 Map of COSA operations 2010–2012

24.4.8 COSA Indicator Groups

COSA’s consistent methods and comparable metrics facilitate more structured learning and enhance the ability to test almost any investment or project interventions. COSA’s broad set of more than 130 indicators offers diverse insights and access to new ways of understanding the impacts of various efforts. These can be used selectively as needed. For example, one set of indicators can provide total costs and net income; another set can identify basic risk factors, while another can offer insight into training and gender. COSA indicators help to discern efficiencies such as the relative use of labour for the net income achieved or the amount of inputs such as fertilisers or pesticides used relative to yields. The correlations to vital factors such as food security, education levels and good governance are also available in order to understand the less direct effects of the selected practices (including VSS practices or any other approach). The main categories, within which multiple specific indicators exist, are shown below in Table 24.1.

Table 24.1 Major Categories of COSA Standardised Indicators

Economic	Social	Environmental
Revenue	Health and Safety	Conservation
Costs	Living Conditions	Quality
Income	Labor Rights	Waste Management

Development, Ford Foundation, ENTWINED International Research Consortium, International Finance Corporation, NORAD, Solidaridad, and the InterAmerican Development Bank Multilateral Investment Fund (list is not complete).

Diversification	Education	Input Management
Information	Gender	Soil Health
Credit	Food Security	Biodiversity
Volatility	Participation	Carbon Sequestration
Vulnerability	Transparency	Climate Risk Mitigation
Business Development	Investing in Capacity	
Differentiation	Social Situation	
Efficiency		
Governance		
Producer	Economic, Social, and Environmental Perception	

This figure appears originally on page 378.

24.4.9 How COSA Surmounts the Challenge of Reliable Data in Developing Countries

Getting consistent data is a challenge and COSA believes that this challenge should be met at two distinct levels. First, the most basic data can be gathered by companies or co-operatives in the course of their work and used for real-time decision making. This is a basic monitoring function and is no different than basic bookkeeping functions for those who aspire to be more sustainable. Second, each country needs the basic scientific capacity to do occasional in-depth impact assessment (similar to a financial audit) to improve or refine what is gathered at

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the business level and thus add to the quality and relevance of the data and also to the scientific understanding of the country's sustainability. With this critical function in place, scaling up can occur with much more confidence. COSA integrates both of these functions into its operations. It trains firms and farmer groups to conduct credible monitoring using standard tools and it also partners with top-notch institutions in developing countries so they can achieve world-class capacity to measure.

As a non-profit research organisation, COSA fosters such global networks to provide reliable information permitting stakeholders to make better and more informed choices so that they can be drivers of sustainability. Monitoring and Impact Assessment are therefore used as tools for learning that enable better decisions in the service of economic, social and environmental sustainability. The resulting aggregated information is then collated and will be publicly available via COSA's own network as well as via its partnerships with agencies such as the International Trade Centre.

24.4.10 Using Data for Better Decision Making and CSR Strategy

The early data is already providing interesting results and some examples are outlined below. It is important to note that these are preliminary and intended primarily to be illustrative of the range of knowledge available from the COSA efforts, rather than to be interpreted as concrete or

definitive conclusions. COSA work is still at the beginning stages, and as data and efforts expand, this increased knowledge will allow for much more reliable conclusions.

For example, COSA data will easily offer a broad sectoral understanding as illustrated in the work of COSA's Colombian partner CRECE. They wanted to

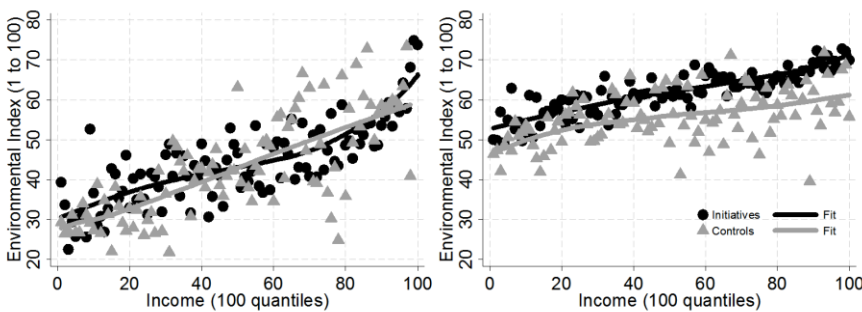


Fig. 24.6 Relating environmental indicators to income, years 1 and 4

(Source: CRECE and COSA)

know if certification really produced significantly better environmental results and whether good environmental results were correlated to better income; in other words, if improved environmental performance on the farm was related to simply having greater earnings. For several years CRECE collected COSA information from thousands of producers applying seven different VSS. CRECE calculated the outcomes for a basket of COSA environmental indicators and compared those to a matched control group (grey triangles in Fig. 24.6) that did not use any VSS and then mapped the results to the income levels of the 3,298 producers being measured. The results, indicated in Fig. 24.6, strongly suggest that the VSS (dark circles) develop significant environmental benefits and that higher income does not necessarily correlate to better environmental outcomes. With such an understanding, investors and policymakers would be better informed to select or design projects and investments. For example, they would be able to better consider that developmental interventions interested in positive environmental results should not expect to achieve those simply by addressing economic issue or increasing incomes.

Other data, when gathered in consistent manner, also begin to produce comparable results that can be tracked from year to year. Figure 24.7 shows an important social aspect of health and safety as measured by the difference in the use of one or more good safety practices for the application of pesticides, herbicides and other agrochemicals among VSS certified coffee farmers in Colombia and VSS certified cocoa farmers in Cote d'Ivoire. The graph shows the percent difference from the beginning of certification (Y1) when compared to very similar conventional farmers in the same respective regions. The Colombian farmers started with a higher level of achievement and show less relative improvement but both clearly suggest substantive change related to the certification process. In addition, the data shows the change over time and Y2 notes the percentage difference of applying one or more methods seen in certified producers compared to conventional producers (control). The consistency, especially if repeated in other assessments

that COSA and its partners perform could lead to a useful understanding of the important impacts of such VSS, even across different cropping systems.

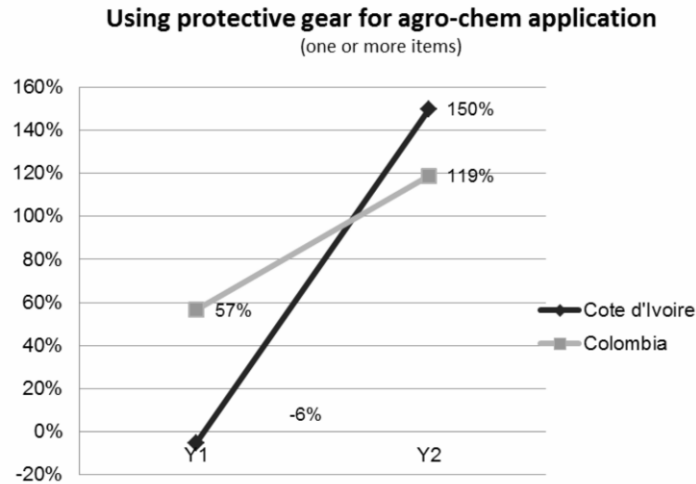


Figure 24.7 Farms using protective gear for agrochemical applications

Source: COSA and CRECE

Figures 24.7 and 24.8 are simple examples of what we could learn about the application of specific social or environmental measures across countries when the measurements and methods are consistent. Both indicate the percentage difference between VSS farmers and similar but conventional (not VSS certified) farmers used as control groups in each country.

COSA research is also results-oriented and can provide a sort of cost-benefit analysis. It can observe and report different types of outcomes simultaneously so that users can determine the appropriate level of trade-offs. This can be used to evaluate projects, assess the effectiveness of technical support, or compare different investments. It can even be used to calculate all the key costs and reveal actual producer net income—not just price premiums or revenue. Accordingly, such information can serve not only farmers and their organisations but also corporate managers who want to achieve better results with their farmer-suppliers. Clearly, this would also serve governments or development agencies that need to understand what works from country to country when it is clear that the same approach cannot always be applied elsewhere in a cookie-cutter approach. Figure 24.8 indicates how the average net income of producers applying a specific VSS (organic in this case) can be quite different when applied in different countries or conditions. One conclusion emerging from the initial COSA efforts is that it is difficult to generalise about results such as income advantages for VSS given the widely divergent conditions and contexts of developing country agriculture. By having consistent measures, we can assess the differences.

It is worth noting that these results are indicative of specific crops and regions because, relative to the hundreds of thousands (even millions) of producers in a country, the sampling (n) for much of the data presented here is a relatively modest proportion.

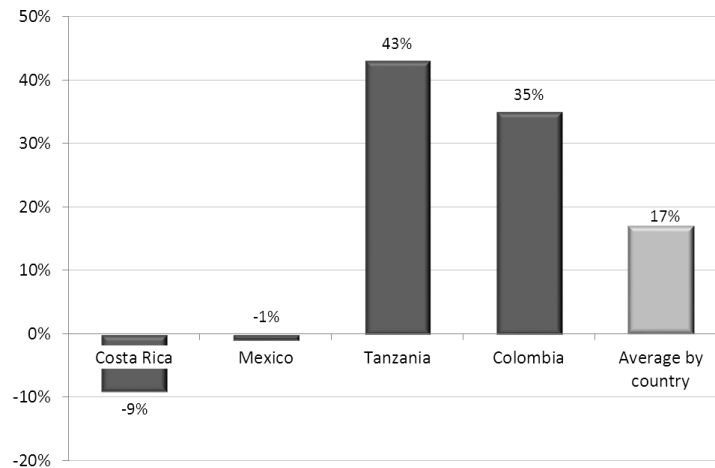


Fig. 24.8 Net income comparison of certified organic coffee farmers vs. conventional coffee farmers

Source: Committee on Sustainability Assessment (COSA)

The findings should not be extrapolated to make any firm assumptions about a country as a whole or about any particular VSS on the whole since conditions and applications can affect results. Nevertheless, one begins to see the enormous potential of the information coming from consistent methods and growing in scale over the coming years.

24.5 Conclusions and Recommendations

We are witnessing a co-evolution of CSR and VSS as they help serve each other's objectives. Both are relatively recent phenomena and both are still at the early stages of finding the means to be truly effective. VSS are demonstrating the potential to be very useful market-oriented mechanisms for achieving a number of the CSR goals that firms pursue; these range from traceability to safe working conditions to environmental stewardship. They are, however, far from perfect.

The VSS do not always meet their stated objectives. They can sometimes impose substantial requirements on producers for only modest returns. VSS, quite simply, are not the single complete answer to sustainability; instead, they are a useful tool. It must be remembered that the VSS are not well-resourced, globally-ubiquitous standards regulators. Instead they are typically

well-meaning and activism-oriented NGOs that simply cannot be expected to resolve all of the complex issues of sustainability for entire supply chains. Many have a few dozen or a few hundred staff to cover global operations for many products and typically receive modest sums

considering the scope of their work. As market mechanisms, they may nevertheless be as effective as large sums of development aid.

There is no question that companies that are operating in responsible environments, particularly with either consumer or government influence, will be increasingly accountable for their entire supply chains. They will be held responsible via new and sometimes disruptive technologies that are difficult to manage or control (Gorbis 2013). With satellite views of palm-oil plantations, internet-linked sensors on cotton crop sprayers and micro-cameras in cocoa farms, everything can be recorded and transmitted as never before. As evidence of this shift, consider that 60 % of all humans now send text messages by phone systems (mobile) that did not exist 25 years ago and that 10 % of all the photographs in history were taken in 2011.¹⁸ We are in the era of hyper-communication and ‘big data’.

There are many approaches to sustainability and in order to be effective, we need to better understand what does and what does not work. We can already see successful pilot approaches that are offering useful insights and practical tools for managing and advancing sustainability. The leading research institutions, firms, and development agencies that gather under COSA are working toward performance management that is much more agile and effective by being integrated into smart self-monitoring systems at the ground level that are themselves linked to reliable means of impact assessment or confirmation.

In the coming decades, the social and environmental processes that companies must manage will come to be as understandable as the economic processes they now manage, if not as controllable. Information, in many forms, but increasingly directly from the source, will help producers and firms to more efficiently advance their sustainability. The need for comparable credible data that can be verified will be fundamental. It will aid our understanding of sustainability and of how VSS can play an active role in CSR.

These combined interests will be best served by their articulation into a more seamless understanding of the landscape-scale complexity of our production systems. The advent of an age of clarity—where vast information is vetted—will help us to better understand the interdependence of resources, including human resources, and to better manage our systemic choices as companies and as a society.

¹⁸ Fortune (2012), pp. 69–75.

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