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Bananas Ethical Quality: Multi-stakeholders, Corporate Social Responsibility and Corporate Governance

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Abstract

This paper examines a recent and very specific development in the field of corporate governance. The regulation of “corporate social responsibility,” that is corporate compliance with society's expectations in regard to issues like working conditions and environmental impact has shifted from government agencies to civil society organizations, more specifically NGO's or Non Governmental Organizations. This means that standards are more often negotiated and the subject of voluntary agreements. Since corporations enter into these agreements on a voluntary basis, the enforcement of these arrangements must be at least partially carried out through internal corporate mechanisms. We examine these issues using the example of the banana industry.

KEYWORDS: Banana Industry, Corporate Social Responsibility, Labelling, NGOs.
Introduction

For more than a century the banana industry has developed a reputation for objectionable working conditions, low wages, long hours, unacceptable living conditions, suppression of trade unions, poor prices for local producers, damage to health and environmental devastation due to pesticides, agrochemicals and mono-crop cultivation. The banana trade has been surrounded by accusations of bribery and other legal controversies. All of these factors have contributed to an historic distrust of the banana industry in regard to their social, economic, ethical and moral responsibilities.

Since the beginning of the twentieth century, bananas have influenced South America, Central America and the Caribbean more than any other commodity. The transformation of much of the Americas into “banana republics” has been the rubric under which the United States has been described as the coloniser of the rest of the hemisphere (Fonnegra, 1980; Litvin, 2003; Striffler & Moberg, 2003).

The beginnings of banana cultivation coincided with a wide succession of diplomatic, military and economic changes and movements. In the process of transforming the tropical rain forest into mono-crop plantations, profound ecological, demographical, political and cultural changes took place. Also, bananas became connected to the process of capital formation, nation-building and labour migration both internally and internationally.

Due to the international character of the banana market, especially in the retail sector, and the extensive investment required in technology, logistics and marketing, more and more stakeholders are participating in the banana global production chain. Because of the importance of brands and private labels within a very competitive market, banana companies are becoming more sensitive to consumers’ opinions and concerns and more responsive to shareholders’ demands. The companies must respond to calls for greater
transparency, corporate governance, fair trade initiatives, the protection of human rights and sustainable environmental practices. Furthermore, the influence of secondary stakeholders (e.g. non-governmental organisations (NGOs), the media, social movement activists, “best of” rankings, global standards, researchers and academics) is growing.

1. Banana Dossier

Bananas and plantains are perennial crops that reproduce asexually, grow quickly and can be harvested all year round (Arias et al, 2003). Bananas are cultivated in about 120 countries, primarily in the developing world, and are the fourth most important agricultural crop in the world after wheat, rice and corn (Lustig, 2004). The world’s two largest producers of bananas, India and Brazil, grow bananas mainly for their domestic consumption and have so far had only limited involvement in international trade (Ransom, 2002). Together with China, their rapidly increasing domestic production may soon lead them to become net exporters.

The entire banana industry has been negatively affected by global over-production in recent years which has reduced profits and even generated losses. The large multinational companies have reduced their own production and are providing lower wages and benefits to their workers. Wages in Ecuador and the Central American plantations are roughly half the incomes of farmers in the Windward Islands (Ransom, 2002). The non-governmental organization English Banana Link points out that only the retail traders continue to make large sums of money (Lustig, 2004).

Small-scale farms represent 85 percent of the world’s banana production (FAOSTAT). The main markets for bananas are the United States, the European Union (EU) and Japan. The banana business is led by the “big four”: three of them “dollar companies” (Chiquita Brands Int. [formerly United Fruit Company]; Dole Food Company Inc. and Fresh Del Monte Produce) and one Irish corporation (Fyffes). Together these four control around
80 percent of world banana exports. In the EU, Chiquita Brands has a market share of 20 percent, Fyffes 15 percent, Dole 13 percent and Del Monte 9 percent.

World consumption of bananas and plantains in the period 1998 – 2000 was an average of 15.3 kilograms per capita. Developed countries ate some 13 kilograms per capita, and developing countries ate 21 kilograms per capita (Arias and others, 2003). The European Union produces almost 20 percent of its total banana consumption (in the Canary Islands [Spain], in the French overseas departments of Martinique and Guadeloupe, in Madeira and the Azores [Portugal] and a small share in Crete [Greece]). Eighty percent of the EU banana consumption, however, is imported from former Caribbean and African colonies and Latin American countries (Bananalink). European consumers are geographically, culturally and economically distanced from the social and cultural space of production in which their food originates and additionally from the practices of the corporations in which their pension funds and other financial instruments are invested.

The “Banana Protocol” was signed in 1975 in the Lomé Convention in order to ensure market protection for a group of 48 former EU colonies in African, Caribbean and Pacific (known as the ACP countries). The Convention conferred preferential trade arrangements permitting duty-free access for a range of commodities on which the economies of the ACP are exceptionally dependent. Some of the smallest Caribbean countries (Dominica, Grenada, St Lucia and St Vincent) depend on banana exports to the European Union for over half of all their export earnings and over one third of all employment (Daumas). This export trade depends on special terms of access to the European Union. In general, Caribbean banana production, essentially from small family farms, cannot compete on price with the vast plantations in Latin American, African and Asian countries. The Lomé agreement has been renewed four times (Ransom, 2002).

Following the formation of the Single European Market in 1992, the European Union became the world’s largest market for bananas (35 – 40 percent), and the dismantling of various countries’ preferential regimes for bananas has become one of the most controversial trade issues (Sheller, 2005). From July 1993 until February 2000, twelve
protected ACP countries which traditionally exported bananas to the EU market gained duty-free access to the EU market under the "Banana Protocol" of the Lomé Convention. Protected markets for former colonies and overseas territories existed in France, Greece, Italy, Portugal, Spain and United Kingdom (Bananalink).

Since 1995, the United States has sought the abolition of the special terms of access provided by the European Union to the ACP countries (Da-amas). Chiquita Brands, together with the governments of Ecuador, Guatemala, Honduras and Mexico, challenged the policy in the World Trade Organisation (WTO). The WTO’s General Agreement of Tariff and Trade (GATT) dispute mechanisms found that the EU protocol contravened GATT rules. In 1997 the WTO dispute panel found the EU’s tariff quota regime acted in a discriminatory way. A WTO ruling two years later allowed the United States (US) to impose $191.4 million in trade sanctions against EU goods which led to the ‘banana war’.

In June 2000, the EU and 77 ACP countries signed the Cotonou Agreement, which replaced the Lomé banana protocol; however, under this agreement traditional ACP banana exporting countries continued to obtain duty-free access for their bananas (Bananalink). In 2001 the EU agreed to change its import system and negotiated a unified tariff for all exporters. On October 2004, the European Union announced its intention to impose a duty of €230 per ton of bananas when the new trade policy enters into force in 2006. The initiative has been led by Spain, France, Portugal, Greece and Ireland. This tariff level when combined with tariff preferences granted to the ACP countries disadvantages Latin American producers. Latin American banana-producing countries have argued that an increase in the tariff “would bring about disastrous economic and social consequences for Latin American countries, eroding national incomes and destroying jobs throughout the region, where the banana industry is a substantial source of income and employment” (Bianchi, 2004).

In adjudicating the Banana War, the “WTO was given its most high-profile trial to date as the Supreme Court of Globalization” (Ransom, 2005. p.74). This banana war has enabled
the “fair trade” movement to shift the debate about globalization into a debate of the global relations between natures, landscapes, food, bodies and markets (Sheller, 2005. p.15)

2. Multi-stakeholders

CSR is defined by the European Commission as “a concept whereby companies integrate social and environmental concerns in their business operations and their interactions with their stakeholders on a voluntary basis” (Commission of the European Communities, 2002, p.3).

In July 2001, the European Commission published a Green Paper, the aim of which was to launch a wide debate on how the European Union could promote corporate social responsibility at both the European and the international level. During the following six month period, responses from a wide range of international organisations, such as EU institutions, NGOs, social partnership organisations, individuals and other interested stakeholders, were submitted to the European Commission. A year later, in July 2002, the European Commission on CSR drew up and proposed a new strategy, based on the responses to the Green Paper, designed to enhance the involvement of business in sustainable development. It also proposed the establishment of a CSR Multi-stakeholder Forum focusing on the discussion of CSR in Europe. The first CSR Multi-stakeholder Forum took place in October 2002, and brought together enterprises with other stakeholders including NGOs, trade unions, investors and consumers. The aim of the Forum was to promote innovation, convergence and transparency in existing corporate social responsibility (CSR) practices and tools such as codes of conduct, labels, reports and management instruments; and four specific themes were proposed: (1) improvement of CSR knowledge and facilitation of exchange of experience and good practice; (2) fostering the concept of CSR among small and medium-sized enterprise (SMEs); (3) diversity, convergence and transparency of CSR practices and tools; and (4) development aspects of CSR. (InfoBASE Europe, 2002).
For the purposes of evaluating corporate social responsibility stakeholders fall into three categories; primary; secondary; and social and institutional stakeholders. Waddock et al (2002) define primary stakeholders as those which have direct dealings with a company such as owners, managers, employees, customers, competitors and suppliers. Secondary stakeholders are those with some intermediary role such as trade unions, non-governmental organizations (NGOs), activists, community based organisations (CBOs), and governments. The third group are social and institutional stakeholders, reflected in the emergence of global standards, guidelines and principles, “best of” rankings, and reporting initiatives focused on alternative bottom lines.

3. Vulnerability of global brands…

The last two decades have seen an increase in the number and diversity of social movements reflecting a range of different issues (Kelly & Breinlinger, 1996), and at the same time, some have argued that there has been a corresponding decline in class-based social movements and a fragmentation of identity in a post-modern society (Hall, 1992 quoted in Kelly & Breinlinger, 1996). Kelly & Breinlinger (1996) state that instead of building on the common interests of large categories on the base of class, community or union, there is an emphasis on creating smaller scale, local interest groups reflecting particular needs and identities. An individual may belong to several different groups each meeting different and specific needs. This social fragmentation along with the increasing ability of both production systems and sales efforts to target niche markets has opened up opportunities both to corporations to target their branding to social concerns and activists to target brands to pressure for change. Currently, the all-observing digital world gives incentive to companies to behave well since anti-brand websites and e-mail campaigns can have dramatic impact within a few days (Barwise, 2003). Global brands are now supervulnerable to “Internetworked” protests around the world (Taylor & Scharlin, 2004).
Widespread knowledge of impoverished workers, terrible working conditions and environmental damage threatens the banana’s happy market image as a tasty, nutritious, funny, sunny and sexy fruit. Consumer awareness of the “ethics” of food production and trade has been increased by cases such as the second International Tribunal on Water in Amsterdam in 1992 which condemned Dole (Standard Fruit Company) for seriously polluting the Atlantic region of Costa Rica through its banana operations in the Valle de la Estrella and legal proceedings during the period 1965 to 1990 taken by former workers against Del Monte, Dole, Chiquita and agrochemicals firms for injuries sustained from direct exposure to ‘Nemagon’ a nematicide. Campaigns have been launched by various NGOs committed to human rights, environment, social development, aid, and “fair trade” advocacy (Chambron, 2005).

Supermarkets have become the main outlets for fresh fruit in many European countries (Kasteele & Stichele, 2005). Fresh fruit and vegetables are used by supermarkets to draw in new clients. Fresh produce provides the highest gross profit margin to supermarkets, which they mostly keep when they reduce consumer prices through pressuring their suppliers (Oxfam, 2004 quoted in Kasteele & Stichele, 2005). On the other hand, European retailers have increased demands for “certified” bananas, responding to the shift in consumer preference towards “eco-and-people-friendly” and “guilt-free” products (Chambron, 2005). Big supermarkets and retailers have the capacity to offer a diversified range of categories to “ethically demanding” consumers such as: “organic bananas”, “environmentally-friendly” and “fair traded”. It has become possible to pursue a higher priced strategy in conjunction with selling social and environmental responsibility and a consequently guilt-free product.

The Economist supplement “The Good Company – A Survey of Corporate Social Responsibility” published on 22 January 2005 shows how charities, non-governmental organizations and other civil society groups have gained a place on the corporate agenda. By embarrassing those companies that offend the principles of CSR and mobilizing the press against them, charities, non-governmental organizations and other civil society
groups have pushed the creation of the CSR industry, in which auditing agencies, certification bodies, consultancy firms and advisory companies together with charities, non-governmental organizations and other civil society groups are the main players.

Clive Crook (2005), deputy editor of The Economist, and author of the report states that “From an ethical point of view, a lot of corporate social responsibility is really just good management. Anything that advances the interest of a company, the company should be doing anyway. There shouldn't be any applause or special credit for this.” (Crook, 2005).

Nevertheless, social responsibility has been a controversial topic in the management literature (Gray and Smeltzer, 1989). One of most basic criticisms has been that put forward by Milton Friedman. In a now famous quotation, Friedman (1970) opined that “one and only one social responsibility of business [is] to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”. Friedman (1970) based his contention on economic and legal arguments. From the economic perspective, he asserted that if managers spend corporate funds on projects not intended to maximize profits, the efficiency of the market mechanism will be undermined, and resources will be misallocated within economy. On the legal side, Friedman (1970) contended that because managers are legal agents of the stockholders (the owners), their sole duty is to maximize the financial return to the stockholders. Hence, if managers spend corporate funds for social purposes, they are essentially stealing from the stockholders. Friedman suggested that if the stockholders want money spent on social causes they are free to do so as individuals using their dividends.

Friedman’s argument, however ignores the fact that beyond any philanthropic intention, social and environmental issues are becoming part of corporate risk analysis and part of corporate efforts to match societal expectations with the provision of commodities and services. Without these efforts their brand reputation may be negatively affected. Even though brands clearly belong in the “intangible” assets of an organisation, they are estimated globally to account for approximately one-third of all corporate valuation
(Clifton, 2003). The owners of brands increasingly receive commissioned reports of the company’s behaviour produced by consultancy and analysis bodies and agencies. Additionally, owners of brands gather accounts from civil society observers who from different angles, backgrounds and interests report companies’ behaviour in a broad range of bottom lines. Most multinational corporations have a portfolio of CSR publications including CSR annual reports and newsletters.

Chiquita’s assessment of its environmental, social and financial performance, focusing on its banana sourcing operations in Latin America, is available in Chiquita’s corporate responsibility reports. Chiquita has recognized that its high standards of environmental and social performance enhance the company’s reputation and ultimately its brands. They also recognize the benefit of acquiring investors who seek companies with track records in corporate responsibility. The company has an expressed commitment to continue to support its CSR programme and to evaluate ways in which it might further utilize CRS to benefit its business in a direct way (Chiquita Brands International, 2004).

Fyffes report on CSR is available in its Annual Report. Its commitment is to “provide finest quality produce, produced under the safer working conditions, following the fairest labour practices and the minimum environmental impact” (Fyffes plc, 2004. p. 9). Fyffes has addressed the social and environmental aspects of its operations through Code of Best Practice, Ethical Trade Initiative, and EurepGap accreditation. (Fyffes plc, 2004).

In order to address and improve brand image, most multinational corporations have created a senior executive position explicitly charged with coordinating corporate social responsibility (CSR) issues (Crook, 2005). On the board of directors, Chiquita Brands has a Senior Vice President of Government and International Affairs, and Corporate Responsibility Officer. Both were former Industrial Relations managers in the Panama division. Fyffes CSR affairs are managed by its Company Secretary who before his appointment as Secretary was the Managing Director of Corporate Affairs. In general CSR is lead and managed by either the public relations department or senior leaders with
CSR competence connected to corporate strategy. Occasionally, external stakeholders (NGOs, Community Based Organisations [CBOs], and government agencies) are directly involved. (Granger-Tyler, 2005).

4. “Voluntary commitments”: alliances and certification initiatives

In response to strong pressure from civil society and negative media coverage, many companies have joined the call for the development and implementation of systems intended to label and certify different environmental and social practices (Chambron, 2005; Kasteele & Stichele, 2005; Lustig, 2004). For instance, Kasteele & Stichele (2005) describe how public awareness of environmental and health risks related to the inappropriate use of chemicals in banana production led to demands that Integrated Pest Management become a standard requirement in such certification.

In 1992 Chiquita Brands formed an agreement with the non-governmental organization Rainforest Alliance, and corporate executives, banana workers, local leaders and conservation advocates began to work together (Taylor & Scharlin, 2004). Rainforest Alliance developed and established with Chiquita Brands the “Better Banana Project” to address environmental conditions such as soil improvement, water quality, and rainforest conservation as well as to enhance workers’ health and safety on banana farms in Latin America. This alliance eventually made a public commitment to the integration of a corporate responsibility culture across the company structure. In 1998 Chiquita developed a code of conduct, built based upon core values (integrity, respect, opportunity and responsibility). Chiquita Brands has also signed an important labour agreement with the IUF/COLSIBA federation of unions in 2001 entitled Freedom of Association, Minimum Labour Standards and Employment in Latin America Banana Operations (Kasteele & Stichele, 2005).

From the point of view of the IUF, the Colsiba involvement was crucial. It provided the agreement with credibility on the ground and also guaranteed a Review Committee
meeting at least twice a year (Revell, 2002). In year 2000 Chiquita adopted SA8000 as the labour standard in their code of conduct (Chiquita Brands International, 2004). In 2001 Chiquita Brands was the first shipping company to earn certification from the ABS for its Marine Safety, Quality and Environmental Management System (SQE) which the Chiquita shipping fleet adopted in 1998 (Chiquita Brands International, 2004). By 2002 Chiquita’s CSR initiatives were actively supported by the CEO, Mr. Cyrus Freidheim, and also by Mr. Fernando Aguirre, president and CEO appointed in January 2004. Chiquita uses internal social audits using expert observers and the Social Accountability International (SA8000) auditing team. COLSIBA (Co-ordination of Latin America trade union representing banana workers) and COVERCO (Commission for the Verification of Codes of Conduct, based in Guatemala) were invited to inspect the process. The IUF has recognised that the creation of partnerships like those with the Rainforest Alliance requires leadership from and within a company, and this leadership cannot be underestimated.

Chiquita has received three corporate responsibility awards. On 2004 Chiquita received the Corporate Citizen of the Americas Award from The Trust for the Americas¹, for its employee home-ownership project in Honduras which provided 600 families with new homes in 2003. Chiquita also received the Corporate Conscience Award for Innovative Partnership from Social Accountability International for its work with Rainforest Alliance, and its high standards of environmental and social stewardship. Chiquita has received the Award for Outstanding Sustainability Reporting from CERES-ACCA², a coalition of more than 80 environmental groups (Chiquita Brands International, 2004)

¹ The Trust for the Americas is the non-profit arm of the Organisation of American States.

² The Ceres-ACCA Awards for Sustainability Reporting aim to encourage better reporting on sustainability, environmental and social issues by corporations and other organizations across North America, to reward best practice and to provide guidance to other entities that are publishing or intend to publish sustainability, environmental and/or social reports, and increase accountability for impacts and responsiveness to stakeholders (Ceres-ACCA)
These agreements and initiatives may be associated with a recovery of its stock price as well as its financial, social and environmental reputation after Chiquita Brand’s bankruptcy in 2001.

Dole is also in the process of introducing Social Accountability International labour standards (SA8000). The SA8000 standard and verification system which became fully operational in 1998 is tool developed, implemented and overseen by Social Accountability International (SAI) an US based organisation. SA8000 aims to assure humane workplaces based on international workplace norms set out in the ILO conventions, the UN’s Universal Declaration of Human Rights and the Convention on Rights of the Child. The standard includes (1) no child labour, (2) no forced labour, (3) health and safety provision in the work environment, (4) freedom of Association and the right to collective bargaining, (5) no discrimination based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation, or age; no sexual harassment, (6) no corporal punishment, mental or physical coercion or verbal abuse, (7) regulation of working hours, (8) wages, and (9) integrating the standard into companies management systems and practices (Social Accountability International).

In 2000 Dole was awarded in the Ethical Workplace Award from Social Accountability International (SAI) for being the first agricultural operation in the world to obtain SA8000 certification for its subsidiary in Murcia, Spain which primarily produces lettuce, tomatoes and citrus fruit (Dole Food Company, 2000). In 2001 Dole was ranked eleventh in Fortune magazine’s 50 best companies for minorities, and in 2003, Standard Fruit De Honduras SA received the Certificate of Merit from the International Labour Organization (ILO) at the ILO’s regional conference for Good Labour Practices for the Promotion of Decent Work.

Fyffes has established a Code of Best Practices designed to reduce the impact of agricultural production on the environment and to ensure safe working conditions and fair
treatment for workers in compliance with international accepted labour standards, with which it requires its direct suppliers to comply (Fyffes plc, 2004).

Chiquita Brands, Dole, Fresh Del Monte and Fyffes are either certified or are in process of certification by EurepGap, whose main objective is to reinforce consumer confidence in food safety, and these corporations are committed to support suppliers who comply with EurepGap standards. EurepGAP started in 1997 as an initiative of retailers belonging to the Euro-Retailer Produce Working Group (EUREP). It establishes the minimum requirements to be met by growers of fruit and vegetables that supply European retailers. EUREP evolved into a partnership of agricultural producers and their retail customers, aiming to develop widely accepted standards and procedures for the global certification of Good Agricultural Practices (GAP) (EurepGap).

In addition Fyffes and Chiquita are members of the Ethical Trade Initiative (ETI). The Ethical Trade Initiative is a UK government-sponsored alliance of companies, nongovernmental organizations and labour unions working together to advance good practice in business ethics, corporate responsibility and human rights. It exists to promote and improve the implementation of corporate codes of practice which cover supply chain working conditions thus ensuring that the conditions of workers producing for the UK market meet or exceed international labour standards (Ethical Trade Initiative).

Dole, Fresh Del Monte and Chiquita have demonstrated environmental compliance according to the ISO14000. ISO 14000 is a series of environmental management voluntary standards developed and published by the International Organization for Standardization (ISO), providing guidelines or a framework systematizing and improving organisations’ environmental management efforts (International Standard Organisation).

Overall, certification has led to some social and environmental improvements (Lustig, 2004; Chambron, 2005; Kasteel & Stichele, 2005; Taylor & Scharlin, 2004; Tricks, 2005), but there is still much left to do, and the price pressure on the international market
means that the improvements made are not necessarily lasting (Kasteele & Stichele, 2005; Lustig, 2004). Certification initiatives have been criticized because, while they give an image of having high social and environmental standards, in some cases they do not match national and international legislation (Harari, 2005). Chambron (2005) emphasizes the need for further involvement of governments and unions to develop credible monitoring and compliance procedures as well as guarantee a minimum price that takes into account production costs as well as internalizing real social and environmental costs.
5. Wrapping up

The emergence of global marketing has created competition around the quality of the product. Unfortunately, this has had more to do with the size, shape and appearance of the banana than either taste or nutrition. Nevertheless a rising awareness of the issue of the ethical ‘quality’ of the product may have a positive impact in the future. From the corporations point of view company involvement in social concerns may also lead to the discovery of profitable market opportunities, and publicized social expenditure and activities tend to improve a firm’s public image although it is difficult to measure economic benefits. Certainly these activities favourably project the firm’s name before the public and may thereby improve its long-term growth potential.

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