

# **The global economy: governance beyond conflict?**

## **1. CONCEPTUAL FRAMEWORK**

The perception of dwindling state-powers in a globalising world, in combination with the rise of numerous new social movements, who promote a variety of goals and stand for a plethora of interests, may lead to an appearance of disorganisation in the regulatory functions of contemporary societies. This research project was set out to investigate whether such disorganisation is an actual fact, or, alternatively, whether new modes of regulation are being developed that could compensate or complement conventional regulation by governments. Because the regulation of society is indeed dominantly perceived as being the primary task and purpose of a democratically and politically legitimate government, alternative modes of regulation can easily be overlooked. Nonetheless, New Social Movements (NSM) is increasingly coming to the fore. Such movements differ from traditional social movements in terms of ideology, organisation, modes of action and social composition. Since the seventies, an increasing amount of indications demonstrate that a process of institutionalisation is progressively taking place in many of these movements. An indication of this can be found in the outcomes of numerous conflicts between these movements on the one hand, and large multinational corporations on the other hand. In the course of such conflicts, firms are increasingly confronted with claims regarding their social and environmental responsibility, or with both claims simultaneously. Corporations may respond to such conflicts by way of negotiations that may eventually result in internal organisational changes, e.g. the introduction of environmental management systems, or the establishment of new forms of co-operation with external partners. Within the academic literature a consensus is emerging that these such patterns of conflict and co-operation in the relation between NSM and firms are structural in nature and will become more important in the near future. This is an important turning point in social sciences' conceptual frameworks. While researchers previously tended to assume that firms are unitary actors (monolithical) with similar responses to external incentives or without complex internal decision-making processes, the idea is currently gaining ground that these assumptions are theoretically and empirically invalid. In this perspective, political modernisation will not only occur within political systems, or in the relationship between states and firms or between states and civil society, but also and perhaps even more importantly, within economic systems (between firms) and between firms and civil society (citizens, neighbourhoods, new social movements, etc.). By analysing conflicts and co-operation researchers can gain insight into this new 'political' modernisation process which, at least partly, takes place outside the conventional or traditional political system.

Available studies demonstrate that theory should at least discriminate between on the one hand recursive effects, which are effects on the movements themselves (e.g. creating and exploiting new advantages) and external effects on the other hand, which are effects on the environment of the social movements (e.g. effects on external regulations and structures). Interestingly, the theory of the Political Opportunity Structure (POS) proposes that, when the POS is open, social movements tend to institutionalise and gain success in influencing politics, but that the social movement as such will dissolve in this institutionalization process. The theory of Resource Mobilisation (RM) holds that organizational factors are of primary importance in assessing the impact of particular social movements. As such, RM adopts the meso-level of the organisation as its unit of analysis. Likewise, the current research projects sets out to investigate the meso-level of the organisation. At this level of analysis, the empirical work aims at subpoliticised acts within conflictual relationships, but also, and at least as important, at the mechanisms of participatory regulation as well. In contrast to the top-down approach of

modernist regulation, participatory regulation allows the affected parties to effectively put their concerns on the agenda in the course of the decision-making process, either on their own behalf, or on the behalf of their constituencies. Additionally, the importance of economic and market dynamics as policy instruments (e.g. tradable permits, environmental taxes, subsidy reform, eco-labels, voluntary agreements) is increasingly stressed. Conferring with external stakeholders carries a potential for enhancing the firms' ability to gain and manage resources, achieving better cost-effectiveness, increasing compliance with normative frames, improving collaborative learning, promoting joint ownership of organisational outcomes, gaining support for the implementation of corporate decisions, improve communication and co-operation with useful partners, etc. The necessary condition for such a relationship is that NGOs as well as corporations are exposed to powerful incentives for engaging in the mutual exchange of ideas, as well as to incentives for furthering the translation of such ideas into concrete adjustments of behaviour. Analytically, this means that the determinants of firm behaviour must be conceptually clarified.

Following economic theory, all changes that increase the firm's expected value, or that allow the firm to better manage business risks, will be adopted. This implies that there are quantifiable gains to be obtained in beyond-compliance strategies in corporate sustainable development. Conversely, many companies may see environmentally or socially sustainable management processes as a business opportunity. The adoption of environmentally and socially sustainable business principles may, for instance, not only generate operational cost savings, but also an added value in the field of marketing.

An interesting empirical observation, however, is that several cases are known in which companies pursue beyond compliance strategies with uncertain or non-quantifiable profit gains. The analytical implication of such an observation is that the behaviour of firms cannot be comprehended, merely in terms of profitability. Explanations of such non-profitable behaviour of firms can be found in a.o. power-based accounts of the firm and new institutionalism theory.

## **2. METHOD & RESULTS**

Unfortunately, while quite a large number of theoretical accounts are available that make conceptual sense of various alternative regulatory mechanisms in society, these accounts depart from different premises. Furthermore, while an integrated conceptual framework could be ultimately attainable, methodological obstacles in assessing the impact of, for instance, the actions of NSM on the behaviour and actions of multinational enterprises are many. Social scientists' task in such a context is to clearly spell out the theoretical propositions, as well as the theoretical inferences derived from those propositions. These, in turn, must become translated in observable empirical implications that can be scrutinized by means of targeted and well elaborated empirical research. This study is thus aiming at illuminating the kind, the rate as well as the circumstantial triggers of regulatory change in societies. Being exploratory in nature, our empirical work was designed to generate new and empirically informed theoretical propositions that can serve as a valid input in new empirical work.

Regarding data collection, we have exploited a massive amount of public information from many different sources, most prominently the internet and daily newspapers. On the one hand, there is indeed an enormous source of data available via such public media, and on the other hand, the absence of information was most often an interesting indicator itself. Exploring the diversity of cases was done in a first data collection stage by means of the screening of Belgian daily newspapers. This resulted in two databases: one on events of conflicts, the other one on

events of cooperation between cooperation and external stakeholders or NGOs. While these databases provide a good descriptive overview of the mediated relationship between corporations and civil society, these also gave important guidance for the selection of cases in the second empirical round of the project. In this second data collection stage detailed and in-depth case-reports were produced on corporations, NGOs and, where available, multistakeholder institutions (MSIs). The following sectors were screened in accordance with this method: textiles, food-industry, petrol-industry, distribution-retail, forest & fishery and the pharmaceutical sector. In the selection of cases within these sectors, attention was paid to the methodological tension that often exists between the necessary requirement of variety of cases, as well as the need to have comparable cases.

The results suggest firstly that the differences between cases within sectors can be explained by taking into account the imbalances in scientific and technological capacity between the actors involved. For example, while pharmaceutical companies concentrate and shield off their scientific and technological capacities for competitive and strategic purposes, respective NGOs and MSIs mobilise a significant amount of technological and scientific capacity for advancing their objectives vis-à-vis fisheries or forest corporations. The diffusion of scientific and operational knowledge and information across actors is indeed a decisive factor in understanding the relationship between corporations and new social movements in all the sectors that have been observed.

A second inference from the data is that the power and the inclination of social movements is important to take into account. Social movements may differ widely in their attitude regarding towards politicians and corporations. Such attitudinal variation is an element of contingency in the analysis of new social movements. More structural indicators concern the level of resource mobilisation and the opportunity structure in the environment of new social movements. A first and necessary condition for new social movements to become an effective element in the regulation of societal development, is that these movements form dense and global networks that built on locally well-embedded organisations. Such local embeddedness is necessary in one form or the other in all localities where compliance of regulation needs to be monitored. Furthermore, in the context of a globalizing society, it is crucial that both the mobilisation of stakeholders and resources, as well as the exploitation of emerging opportunities, has international cross-boundary and cross-category outreach. It can indeed be observed in several of the studied sectors that different social movements (e.g. WWF) are connecting structurally to one another as well as to private corporations (e.g. Stora Enso) in the context of multistakeholder organisations (e.g. FSC), and that these multistakeholder institutions, in turn, form part of a multi-layered governance system (e.g. the International Social and Environmental Accreditation and Labelling Alliance). In this way top-down and bottom-up institutionalising of governance mechanisms is taking place simultaneously: global and international initiatives are reaching to local grassroots movements and stakeholders, as well as inversely. A second, and equally necessary, condition for the institutionalisation of new social movements is that there are certain opportunities for mobilising resources and for change. Hence, explaining the institutionalisation of new social movement also implies explaining the emergence of new opportunities for these movements to mobilise stakeholders and resources, and to set more or less desired societal developments in motion. Hence, the role of politicians and governments as well as the role of firms in generating opportunities for NSMs needs to be studied.

A third category of research results of the project is thus concerned with the role of politics and governments. Importantly, there are clear indications of the complementary nature of traditional 'politicised' and new 'subpoliticised' forms of regulation. Major cooperative relationships in multistakeholder institutions (FSC, MSC, WRC, etc.) is indeed more or less based on the enforcement of government regulation as an ultimate regulatory bottom line.

Political efforts to promote and enforce such regulatory bottom lines may create openings for NGOs to set up naming and shaming campaigns against private corporations that do not even live up to international or national bottom-requirements. Several other forms of action by governments are possible. Interesting linkages can for example be observed between corporations and governments. Not only are governments often important customers in the market, but they are also able to cooperate with firms directly in order to advance sustainable societal development. Governments may also act as a consumer, by setting a good example and adopt principles of sustainability or ethical concerns in the purchasing policies of government agencies. Governments can, however, also take action to increase the credibility and the reputation of regulatory work by new social movements and by multistakeholder institutions, as well as to support or enable the operations of these regulatory initiatives. Political institutions can also manipulate the context and the circumstances that have an impact on the international cross-boundary and cross-category mobilization of stakeholders and resources. An obvious way of doing this, is by creating forums that bring together a number of diverse actors that share a similar interest, or that are involved in similar developments from more or less adversarial positions. In yet other cases, political institutions are able to actively engage into mutually supportive processes of governance and/or enforcement of regulation.

Fourth, the analysis of data has revealed important variation within, as well as between sectors in terms of the nature and the number of the relationship between corporations and civil society. Within sectors, the empirical evidence suggests that the size of corporations and the realization of economies of scale is often decisive. Economies of scale are determinant because small economies of scale allow an alternative approach by NGOs, besides conflict or cooperation. Particularly, the fair-trade organisations adopt a parallel marketing approach that appears to be, slowly and gradually, gaining ground on the established large multinational corporations. Such a strategy is only feasible to put pressure on corporations for whom economies of scale are not pervasively advantageous. Partly but not entirely related to such economies of scale, is the size of corporations as a determinant. From the point of view of financial performance of the corporation, external claims for corporate social or environmental responsibility, constitute a business risk that must be dealt with adequately by the corporation's management. Size of the corporation is thus an important determinant of the seriousness of such claims in terms of business risks, because large corporations attract more attention in financial markets. In varying the degrees and kinds, evidence of a close connection between CSR-concerns of an enterprise, on the one hand, and the awareness by management of being monitored by financial stakeholders on how they deal with CSR claims, has been encountered in all studied large enterprises. Conversely, much less of this connection can be found in the data from smaller enterprises in the same markets. This in turn means that hostile claims from new social movements or from civil society in general, may be more effective with large corporations than they are in the case of smaller firms. Protest at larger firms may indeed create significantly stronger leverage, as a consequence of potential negative evaluation of company performance in dealing with business risks by financial analysts or investors that are vital to the firm. Regardless of size, however, the responses of firms to external claims of social and/or environmental responsibility varies according to sector. Such high visibility implies both the company's customer-base, as well as the company's reputation in financial markets is at stake. Obviously, this further necessitates a credible response on behalf of the corporation. Therefore, companies in the retail sector may be urged to respond forcefully and credibly to external claims of social and environmental responsibility by financial stakeholders in financial markets, as well as consumers in commercial markets. Such sectoral variation can be explained in terms of variation in the external visibility the company to the larger public and in the transparency of daily business operations, as is graphically presented in figure 1. The first dimension is the external visibility or presence of the business to its outside environment, and this can be grasped in terms of brand recognition and brand reputation by consumers and/or (potential) customers. In these terms, retail companies such as Carrefour and Sainsbury

are highly visible brands, while local fisheries or forest owners have very little outreach in terms of visibility. It is striking that those organisations that stand close to consumer markets, that is the retailing, textiles and some segments in food retailing and distribution, are more prone to engage in consumerism, fair-trade and corporate social responsibility. Companies that are less directly visible to consumers, notably companies in the pharmaceutical and petroleum sector and in the food industry, tend to adopt a less transparent, less comprehensive or less participatory CSR approach.

The second dimension is the transparency of the production process, which is related to the tactile nature of the products that are sold in the sector, on the one hand, and to the number of processing steps that a product or service has to undergo before it is fit for commercial transaction, on the other hand. For example, research and development for pharmaceutical products involves more intellectual than tactile labour, and involves many ‘processing steps’ that are only observable for those that are directly involved within the corporation, but not to the outside environment. Contrastingly, textiles are very tactile products, and the processing steps that need to be undertaken in order to produce textiles are rather easily imaginable, if not visible in one form or the other, to the general public. The food industry is an exceptional case in some respects. The large multinationals in these sectors do not have a tradition in illuminating the origins and the production recipes of its supply chain. Interestingly, however, transparency in the regulation of the supply chain is moved forward as a competitive edge by fair-trade distribution organisations. Such transparency as well as the comprehensiveness of the program allows to provide economic leverage in consumer-markets to the degree that these fair-trade distributors have been first-movers on the market that are as such responsible for bandwagon effects.

Figure 1: Transparency of the business process in relation to the external visibility of economic sectors

Transparency of the business process/ External visibility	High Transparency	Low Transparency
High visibility	Retail Textiles	Petrol Pharma
Low Visibility	Forest & Fishery	Food

Data analysis within this research project revealed that the two dimensions of figure 1 provide a very plausible explanation of intersectoral variation in the response of companies to external claims for social and/or environmental corporate responsibility. This explanatory power is a result of the fact that high visibility of corporations in the marketplace (in asset as well as financial marketplaces) guarantees a direct market incentive for firms to respond to CSR claims. Furthermore, high transparency of the business process to the outside world renders important levers for action available to new social movement that goes as far as monitoring and even intervening in the business process itself. The sectors of forestry and fishery provide good examples of this: multistakeholder institutions such as MSC or FSC are characterized by high degrees of scientific knowledge and high amounts of relevant information about production processes in these sectors. It is only because of such high levels of knowledge and information that the production process can be made transparent. Monitoring and certification

in a multistakeholder context then becomes a feasible mode of action. Such transparency is fully absent in the case of pharmaceutical corporations. The analysis indeed suggests that transparency of the production process is a necessary condition for social movements and MSIs to engage in monitoring and certification-activities.

A final conclusion from the data concerns Multistakeholder Institutions (MSIs). MSIs can be defined in the context of this research project, as structural and enduring arrangements for concertation and coregulation that involves actors from diffuse social and economic spheres - notably 'business' and 'civil society'- who share a potentially conflictual concern, stake or interest in a specific issue of social and/or environmental importance. An essential additional element of these MSIs, most importantly, is that they succeed in creating a common governance framework that involves the generation as well as the enforcement of regulation. MSIs have only come into being in the sectors of textiles, distribution-retailing and forestry & fishery, while no comparable institutions were encountered in the sectors of petrol, the pharmaceutical or the food-industry. Strikingly, in terms of figure 1 (above), this suggests that the transparency of the business and production process constitutes a necessary condition for MSIs to come into being. In analysing the conditions for the emergence of MSIs in greater detail, analytical distinction has been made between 5 dimensions that, together, constitute an area of negotiable dependencies between corporations and their external environments. Firstly, there is the *exchange value* of corporations in relation to its customers and its shareholders. This exchange value is obviously heavily related to brand recognition and the company's good reputation that is needed for continuously establishing and maintaining profitable exchange relationships with customers on marketplaces. Additionally, this exchange value is also dependent on the relationship between the corporations and financial stakeholders. The latter adopt a scope of evaluation of corporations' behaviour that extends well beyond the marketing process that is established in product and service markets. Corporations may evaluate the actions and campaigns of NGOs as a serious threat to its credibility in terms of investment. Interestingly, however, they may find that a partnership in the form of MSIs offers an effective way to neutralise or manage such threats and risks to the corporations' exchange value. Second is the issue of the *resource value* of goods and services that are held by external actors or organisations, to the corporation. It was indeed observed that NGOs and MSIs in the textiles and retailing sector take up a considerable number of tasks in the coordination, monitoring and management of the supply chains. Additionally in these sectors, MSIs also provide a strong resource component in the field of marketing via labelling. Companies in the petroleum and food-industry, by contrast, do not seem to perceive any clear resource advantages of NGOs or MSIs.

Third is the *performative value* of concertation and cooperation with NGOs or MSIs to the corporations. NGOs and MSIs hold assets or can provide services that can contribute demonstrably to the business performance of companies. This is most clearly seen in the case of the retail sector, where companies are noticing a growing market in fair-trade products. Somewhat less visible, and perhaps also less powerful, are contributions to business performance that can be found in the sectors of textile-production and forestry & fishery. Here MSIs and NGOs may enhance business performance by increasing the quality of important coordinating and organising tasks. None of such performative value is conceived in the food, petrol and pharmaceutical industry.

Fourth is the *actionable value* that corporations may find in cooperating with NGOs or MSIs. Such actionable value is important in forestry and fishery, as well as in textiles, where MSIs are active in auditing and resolving undesirable situations in cooperation and with the company itself. Similar intervention in the processes and procedures of operational units is not encountered in any of the other sectors under study.

Finally, there can also be some sort of *investment value* for corporations cooperating with NGOs or MSIs. Investment value in this context means that cooperation results in some sort of return to the company in the long term. The presence of such investment value signifies that companies can consider investing in strong and reciprocal relationship with NGOs and MSIs as an economically sound business strategy. Importantly, all the sectors that are characterised by a presence of MSIs are also the ones where such investment value may be highly relevant.

The general conclusion of the project is that companies in sectors that are exposed to a high degree of transparency of corporate brands and/or its companies' reputation in either financial or customer markets, or both, are exposed to multiple incentives to cooperate with NGOs and even MSIs. From the perspective of NGOs, however, this means that different corporations and different sectors present different business opportunity structures. The collected data demonstrate to some extent how and why things have been set in motion, but cannot predict however where this motion will ultimately land. Nonetheless, it is clear that there is some potential in terms organisational power that is emerging out of diffuse situations of conflict and cooperation. That such organisational mobilisation occurs does indeed not imply that the mobilised resources are effectively leading towards the attainment of envisaged goals. The modes in which mobilised resources are being canalised is based on mechanisms that, to date, are underspecified conceptually and has only been researched empirically in a fragmented fashion in social sciences. Yet, such mechanisms also play a crucial role in relation to regulatory initiatives by more traditional institutions such as the government.

The gathered evidence also provides some important indications of complementarity of new versus traditional forms of regulation on diffuse levels and distinct domains of social action. In other words, depending on the specific initial situation and the specific objectives of the different social groups and categories involved, some combinations of regulation will lead to better results than other kinds of regulatory efforts. Some regulatory initiatives indeed have a very mobilising outreach in some sectors, while very similar initiatives cannot carry much weight in other sectors. There is, for instance, little scope for MSIs in the pharmaceutical sector, and a strong need for political decision-making is consequently felt by the actors involved. Contrastingly, there is a rather large scope for MSIs in the textiles sector, and governments may accomplish a lot simply by stimulating or enabling such MSIs.

Summing up, it appears that new forms of cooperation (in particular in respect to the development of MSIs) have grown considerably in presence and in impact during the latest years. This cannot, however, be considered as an indication that previously emerging conflicts have vanished, nor that a linear evolutionary path of emerging MSIs can be perceived. Huge differences, for instance, exist between economic sectors, and, as yet, bandwagon or contamination mechanisms of diffusion have not been observed between sectors. Such diffusion effects are clearly hampered because of the very contrasting nature of different economic sectors (see figure 1.). Nonetheless, and even though methodological constraints in social science require some precaution in drawing conclusions, a considerable amount of evidence indicates that such new forms of cooperation (e.g. MSIs) will continue to develop and diffuse. One of the central reasons is that corporations, who engage more or less voluntarily in cooperative relationships, are rewarded for this in terms of competitive advantages that will attract more corporations into similar collaborations. Under pressure of several NGOs, the dynamics of social and environmental regulation of markets, though still a relatively minor today, seems to have made a solid take-off.