Governance towards responsible forest business

Guidance on different types of forest business and the ethics to which they gravitate

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2006

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Executive summary

This paper is for government authorities with responsibility for the forest sector. It aims to clarify what ‘responsible forest business’ might mean. It proposes a bigger and bolder idea of responsibility than many notions of corporate social responsibility. It suggests broader ethical consideration of what business is responsible *for*, who business is responsible *to* and over what *time frame* business is responsible. The paper defines responsible forest business as “compliance with the set of values and principles held by local, national and possibly even international interest groups over the period for which the impact of forest business lasts”.

Different forms of business gravitate towards quite different notions of responsibility. Social cooperatives or environmental trusts might be expected to behave quite differently to profit-driven corporations under similar circumstances. For example, corporate law implies corporations are responsible solely to their investors (i.e., responsible solely for financial returns) and responsible over very short-term horizons (often quarterly returns). For this reason, scepticism often pervades notions of responsibility that arise from business itself. The emphasis on values and principles across multiple interest groups (and potentially multiple generations) sits more comfortably within frameworks of good governance.

Three main issues that affect responsibility are explored in turn: business forms (the extent to which the institutional architecture of a business affects its behaviour), market signals (the degree to which investor and consumer pressure can shape business outcomes), and government interventions (the main principles and tactics that public sector authorities can install to ensure responsible business practice).

The paper draws four major conclusions:

(i) It is the broad moral community of those affected by business impacts on the forest (not business itself) who might best define what ‘responsible forest business’ means in practice. Processes that govern forest responsibility should therefore be inclusive of different interest groups.

(ii) Some forms of business are more innately prone to responsibility than others. Certain types of small and medium forest enterprise (or enterprise associations) have greater potential than larger corporate business forms. It is both possible and desirable to discriminate in their favour through company law, taxes and incentives.

(iii) Voluntary compliance with market standards such as forest certification is useful for validating and spreading good practice. But it has limited potential to transform those business forms that are less prone to responsibility. In other words, market standards are no substitute for strong government intervention.

(iv) Governance towards responsible forest business requires a stable policy environment, in which fair and transparent processes of resource allocation are wedded to clear and enforced laws governing use. Strong corrective action may be required to maintain equity of business opportunity and redress inequities of scale.

The paper ends with some practical steps to improve governance towards responsible forest business.

Citation:[2] Macqueen, D.J. (2006) Governance towards responsible forest business: Guidance on different types of forest business and the ethics to which they gravitate. IIED, Edinburgh, Scotland.

[2] This paper evolved within a programme on “Small and medium enterprise” with support from The Swiss Development Corporation (SDC), the Danish International Development Agency (DANIDA), the European Union (EU) and the UK Government’s Department for International Development (DFID).

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Acknowledgements

Sincere thanks to all who made this publication possible, especially James Mayers and Sonja Vermeulen for their constructive comments and Marie Jaecky for her editorial inputs. Thanks to the many forest partners in Brazil, China, Ghana, Guyana, India, Indonesia, Malawi, Mozambique, South Africa, St Lucia, Trinidad, Uganda and Vietnam whose work or views have inspired and informed me in this endeavour. Thanks also to SDC, EU, DFID and DANIDA. The views within this paper are the author's own and do not necessarily reflect the views of IIED, SDC, EU, DFID or DANIDA.

1. Introduction

It is possible to address responsible forest business in different ways for very different audiences. This paper is for government authorities with responsibility for the forest sector. It argues that there is no substitute for governance towards responsible forest business.

Governance is sometimes narrowly defined – directed solely towards the human well being of its constituent members. But it is increasingly clear that human well being is inseparably linked to the fate of broader ecosystems (Reid *et al.*, 2005). Nowhere is this more apparent than for forest business. This paper assumes an ethical framework of governance that involves some responsibility towards all living organisms (biocentric). It evaluates outcomes in terms of the consequences on those organisms (consequentialism). In discussing notions such as responsibility, governance and ethics are natural bedfellows. Both share a common preoccupation with what 'ought' to be done. The aim here is to focus attention on the broad value judgements and principles that might underpin responsible forest business.

Concepts of responsibility provide this paper's starting point. The disposition of business towards responsibility is a second theme. The potential of market standards to drive responsibility provides a third focus. Concluding sections describe useful government intervention – measures to improve democratic respect, social and economic justice and ecological integrity.

This paper is not for business managers. It does not look at the scale of an individual business, nor at how to improve responsibility within a forest business. Plenty of good guides already do that (see Higman *et al*., 2005; Nussbaum and Simula, 2005).

1.1 Some ethical considerations in defining responsible forest business

Why start with ethics? Ethics applies scientific logic to issues of moral value and principles. It avoids some of the assumptions that prejudice other economic, social or environmental outlooks on responsible forest business. For example, neo-liberal economics assumes economic growth to be the aim of development. But economic growth is not necessarily environmentally sustainable – the starting assumption for many environmentalists (Arrow *et al.* 2003). Nor is economic growth an efficient way of achieving poverty reduction – the starting point for many development activists (Woodward and Simms, 2006).

In terms of *value,* ethics explores what is worthy of 'moral consideration'. Moral consideration can apply both to entities with intrinsic value (e.g. humans, living organisms, spiritual beings) and to utilitarian values for such entities (e.g. material subsistence, security). Those with the capacity to extend moral consideration form the 'moral community'. Prevailing value judgements within moral communities provide the platform from which ethics derives *principles*. Principles deal with what *ought* to happen because of such value judgements - what types of character, motive, act and consequences are to be preferred.

Moral communities and their ethics are rarely homogeneous. In practice, they may include competing or incommensurate value judgements and principles. Good governance invariably requires mechanisms for listening to, negotiating and trading off different value judgements.

The scope of the moral community defines the boundaries of ethical consideration within it (e.g. the breadth of values and principles). For example, global ethics attempts to explore and reconcile values held by the global community and develop relevant global principles (e.g. the Universal Declaration of Human Rights). Forest ethics attempts to explore and reconcile values held by those with a stake in forests (however small that stake might be) and develop principles that serve such values (e.g. the 1992 UNCED Non-legally binding authoritative statement of principles for a global consensus on the management, conservation and sustainable development of all types of forests). Business ethics attempts to explore and reconcile what is of value to the business community and derive principles that further such values.

It is important to get the boundaries of ethical consideration right. The arbiters of responsibility should include all those affected by an activity – not be restricted to those perpetrating it. Put another way, it is not business ethics that should prescribe responsible forest business. A much broader moral community has a stake in defining corporate responsibility than the business community.

In terms of ethics, responsibility involves compliance with the value judgements and principles within the boundaries of a particular moral community. Three elements are critical to any definition of responsibility:

- responsibility *for* – (the values and principles that ought to be observed)
- responsibility *to* – (the moral community whose consideration ought to be taken into account)
- responsibility *during* – (the time frame over which such obligations hold)

For forest business, I define responsibility as compliance with the set of values and principles held by the local, national and possibly even international moral community over the period for which the impact of forest business lasts.

1.2 Interpretations of 'responsibility' and how to toughen them up

Promoting responsibility requires that each of the three elements of responsibility be given adequate attention. For example, good governance must give consideration to the full complement of values and principles – that are held by the full moral community – over a timeframe that reflects the full impact of activities on current and future generations (see Table 1).

Table 1. Adequate and inadequate definitions of business responsibility

	Adequate definition of responsibility	Inadequate definition of responsibility
a) Responsibility *for*	The full complement of values and principles relating to forests as held by (b)	A subset of the values and principles that ought to be observed – perhaps only what is in market standards, national legislation or merely what can be readily detected
b) Responsibility *to*	The full moral community affected by business activity including current and future generations as defined in (c) – often requiring participatory negotiation and trade-offs about what is acceptable	The views of a subset of the moral community – perhaps only to land-use decision makers or to the business community itself
c) Responsibility *during*	The full time frame over which impacts will be felt in current and future generations	Present impacts, neglecting impacts on future generations and ecosystems.

Business decisions frequently fail to consider values and principles that are clearly important to the broader moral community. For example, business managers often use the economic calculus of maximising financial returns at the expense of social or environmental costs. Business decisions frequently fail to consider the interests of whole sectors of the broad moral community. For example, managers prioritise returns to shareholders over and above the returns to forest-dependent communities. Business decisions frequently fail to consider impacts beyond the immediate future. For example, quarterly financial returns often drive companies, rather than the long-term environmental impacts on future generations. Soft definitions of responsibility are widespread.

To toughen up notions of responsible forest business, it may be necessary to fight for inclusive approaches – drawing in marginalised groups impacted by business activity. Good governance involves continuous negotiations between different interest groups with different values and principles. Incomplete visions of responsible forest business often prevail because of imbalances of power between different interest groups (often in the favour of commercial interests). Tools to address imbalances in power can play a decisive role in achieving an improved outcome (Vermeulen, 2005). Existing tools have been used to promote greater understanding among interest groups of the issues at stake, greater organisation about particular issues, methods for engagement in the decision-making process and techniques for ensuring that the outcomes reflect what has been agreed.

Beyond the generic need to address power imbalances, we discuss three important issues that shape responsibility in the forest sector:

- business form
- market signals
- government intervention.

We explore the potential of each of these approaches to enhancing responsibility in the sections that follow.

1.3 The nature of the problem

Responsibility defined above pays attention to optimisation of *values* held by the local, national, and possibly even the international moral community – both for present and possible future generations. Such values would normally involve not only human interest and use (Macqueen, 2004), but also a consideration of other living organisms and the spiritual realm (Macqueen, 2005a).

Responsibility would involve the adoption of a set of *principles* derived from such values. Perhaps the most inclusive attempt to negotiate a cosmopolitan global ethic arrived at three main ethical principles (Earth Charter Initiative, 2000):

- democratic accountability,
- social and economic justice, and
- ecological integrity.

These form an excellent framework to assess responsible forest business (see Table 1). They highlight the importance of an inclusive approach to responsible forest business, the importance of wealth distribution (not just creation), and the imperative of sustainability.

Similarly, there are broadly agreed principles of business practice such as the UN Global Compact. These are inevitably only a starting point. An alliance of largely southern NGOs has urged the UN Global Compact to specifically include among its ten principles for corporate social responsibility (RING alliance, 2003):

- reducing poverty
- building social capital
- ensuring responsible entrepreneurship.

In many day-to-day situations, however, the values that concern business managers are client satisfaction and shareholder returns. The wider moral community is peripheral to such central concerns – future generations even more so. Business ethics frequently use a very narrow set of economic business principles. Many businesses operate solely to achieve the narrow aim of economic returns to shareholders. Are distributional justice, democratic respect and ecological integrity solely the domain of public authorities? Many in the business community argue the business case for such principles. But how do we explain the many instances where competitive free market economics run contrary to distributional justice, democratic respect and ecological integrity?

Business systems have not always spurned the concerns of the broader moral community affected by their activities. There have been major historic shifts in the patterns by which labour and capital (the main economic ingredients of business) are organised to serve the public. A spectrum exists from communism on the one hand to capitalism on the other. Early authors tended to give pre-eminence to labour:

> *"The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing his strength and dexterity in what manner he thinks proper without injury to his neighbour is a plain violation of his most sacred property."* *Adam Smith (1776)*

Since the end of the cold war, the emphasis turned towards the possession and multiplication of capital. This 'capitalism' is defined by the Oxford English dictionary as a:

> *"System in which production and distribution of goods depend on private capital and wealth and profit-making; dominance of private owners of capital and production for profit."*
> *Oxford Dictionary (1984)*

Within an ethic of capitalism, wealth accrues to those who privately own capital. The increasing emphasis on capital has coincided with evidence that some forms of forest business (including agricultural business in forest areas) are having negative effects on:

- forest dependent people and democratic institutions (Glastra, 1999; Weban-Smith, 2001; Brack, 2005);
- biodiversity and forest cover (EIA and Telapak, 2001; FAO, 2003); and
- global climate – which in turn further disturbs forest ecosystems (IPCC, 2001; Dale *et al*., 2001; Thomas *et al*., 2004).

What has gone wrong? We start this investigation by unpacking what businesses set out to be.

2. Business forms that imbue responsibility

Not all forest businesses are alike. Of course, there are many different products, processes and contexts – but our interest here lies in looking at the forms businesses take. Boyd (2005) lists the five most common patterns of ownership together with their business forms:

- philanthropic organisations (owned – in trust from the benefactors – by people dedicated towards some charitable aim either as trusts or foundations)
- public sector enterprises (owned by government bodies that specify what public purpose they will pursue)
- family businesses (owned by kinship groups)
- member controlled enterprises (owned by their users – as trusts, associations, partnerships, cooperatives or companies)
- limited companies (owned privately as companies limited by guarantee – 'Ltd' or 'Pty' – or publicly as companies limited by share/corporations – 'Corp' or 'Plc').

There are obvious overlaps between some of these categories. For example, a member-controlled enterprise could be a trust or a corporation. Similarly, a family business could take on a number of business forms. Not all forms of business are equally prevalent. Family businesses, associations and cooperatives are particularly prevalent among Small and Medium Forest Enterprises (SMFEs). Corporations are particularly prevalent among trans-national businesses.

Different forms of business have distinctly different predispositions towards responsibility. Recent research has discovered different patterns of forest ownership correlated with different patterns of conservation (White *et al*., 2004). We explore further how such patterns have their origin in the purpose and liabilities inherent to different business forms below.

2.1 Philanthropic trusts or foundations

Philanthropic trusts or foundations are responsible for protecting gifted assets in the interests of named beneficiaries or a charitable purpose (Boyd, 2005). They are not primarily about trading or representing the trustee's interests.

The purpose of charitable trusts or foundations will reflect their charitable intent. For example, the UK-based charitable trust, Tree Aid, has a trust deed which defines its aim as "relieving the poverty of and promoting the welfare of persons overseas by promoting for the benefit of such persons the preservation and improvement of their agricultural environment and especially sylviculture" (Tree Aid, 2004). Similarly, the Rainforest Foundation has five specific objects laid out in its deed of trust. These give precision to its mission "to support indigenous people and traditional populations of the world's rainforests in their efforts to protect their environment and fulfil their rights" (Rainforest Foundation, 2003).

The objects in the deed of trust legally control what trustees can or cannot do. It is worth remarking on names – as these can be deceiving. For example, the Tropical Forest Trust is in reality a non-profit company limited by guarantee. While there is a lot in common with a trust, there are also important differences as discussed below.

2.2 Public sector enterprises

Public sector enterprises have a purpose defined by statute in various legislative acts of government. For example, the British Forestry Commission's mission "is to take the lead… in the development and promotion of sustainable forest management and to support its achievement nationally." (Forestry Commission, 2004).

Such public sector enterprises usually have responsibility to a broad moral community clearly in focus. Democratic accountability keeps such enterprises in check – government authorities are liable to the voting concerns of the public. Bass *et al*. (1998) describe the market pressures on such public institutions. These pressures often lead to increasing private sector participation (Landell-Mills and Ford, 1999). Whether or not this is desirable or not is the subject of serious debate.

2.3 Family owned businesses

Family owned businesses adopt forms such as partnerships, private limited companies or public limited companies. A family business may be defined as one in which at least 50% of the voting rights are controlled by the family, there is some senior management participation by the family and normally more than one generation is involved in the business. Key characteristics of such businesses involve:

- a concern for company reputation
- stability and long-term vision measured across generations
- strong emphasis on relationships – often at local level
- commitment to the company through thick and thin.

We cannot easily predict the precise purpose of family businesses – it will vary with the personal ethics of key family members. Family run businesses can build local relationships that last a considerable time. For example, R Durnell and Sons Ltd Joiners set up in 1591 and still operates as a family business in Kent. Willems Timber and Trading Company Ltd set up in 1933 and is one of Guyana's oldest companies.

There is nothing to restrict the scale of family business. Dating from 1900, Weyerhauser Co. is still majority family controlled in its fourth generation despite annual sales in excess of US$20 billion and 53,600 employees (Weyerhaeuser, 2004). Family businesses are a diverse bunch. Beyond the broad trends towards responsibility described above, we can say little except on a case-by-case basis.

2.4 Associations

Member controlled associations are primarily a vehicle to represent or satisfy the interests of members. They do not normally have commercial objectives. However, in meeting their member's needs they may own property and investments, deliver services and contract third parties. Associations are extremely common – especially among SMFEs. For example, there are estimated to be more than 2000 forest resource based associations in Uganda alone (Kazoora *et al*., 2005). They form to shape the policy environment, increase scale efficiencies and reduce transaction costs and for strategic development of new markets (Macqueen *et al*., 2005).

Associations at the national level are usually incorporated under some form of Society or Association law, NGO law or non-profit law. At the regional or local level, there may be less onerous registration requirements. Obligations normally include a written constitution, an elected management committee, audited accounts and an annual meeting (Boyd, 2005).

Associations in many countries are not legal persons and the elected management committee have unlimited liability. To avoid such liability associations tend to have objectives that clearly reflect the social, economic and environmental needs of their members. This enhances responsibility at least at the local level. For example, the Sindicato de Trabalhadores Rurais de Brasiléia e Epitaciolândia (STR) is a large association of rural workers and extractivists in Brazil. Founded in 1965 it has six objectives (Campos *et al*., 2005):

- give an identity and 'voice' to the rural rubber-tapper
- help guarantee land rights of the rubber-tapper
- unite the rural workers
- represent the needs of the rural workers
- raise their standard of living
- combat deforestation.

Forest associations have proved particularly important in promoting the social and environmental benefits of forestry rather than solely economic interests. For example, the Commonwealth Forestry Association (CFA), founded in 1921, has its overall goal "to promote sustainable management, use and conservation of forests and forest lands throughout the world for socio-economic advancement and maintaining the natural environment". Such goals are frequently much broader than profit maximisation – even though associations such as the CFA have to balance their books like any other business.

2.5 Cooperatives

Member controlled cooperatives are autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically run enterprise (ILO, 2002). Cooperatives build on a long history of mutual aid. Mutual aid stared in mediaeval craft guilds. In 1757, legal friendly societies could form in the UK. The first UK cooperative was the Rochdale Friendly Cooperative Society set up by flannel weavers in 1830 (Mayo and Moore, 2001).

Co-operatives have voluntary and open membership with democratic membership control. Assets may (in a joint ownership cooperative) or may not (in a common ownership cooperative) be divided among members (Boyd, 2005). Cooperatives often link to the International Cooperative Alliance (ICA). The ICA has seven universal principles – including concern for the community, democratic independence and education and training of members in cooperative practice. Members of cooperatives are liable for debts and obligations.

Two examples serve to illustrate the purpose and practice of such business forms. In the USA, the Living Forest Cooperative in Wisconsin 'aims for the economic, aesthetic, and ecological health of our forest lands through third-party certified sustainable forestry and the development of markets for our sustainable forest products'. In Brazil, members founded the cooperative RECA in 1988 'to keep small producers on their land, improve their quality of life and preserve the environment' (Campos *et al*., 2005).

Government and development agencies have sometimes imposed the cooperative form – distorting it into a state-run business (Bibby and Shaw, 2005). Despite such abuses, the cooperative model has proved pivotal in supporting the sustainable livelihoods of the poor. The attention to economic, social and environmental justice within cooperatives makes them obvious candidates for promoting sustainable development – in comparison with say companies limited by shares (Birchall, 2003). Yet, there can also be problems with cumbersome and bureaucratic decision making processes.

2.6 Partnerships

Membership controlled partnerships are one of the simplest forms of business arrangement. It is also one of the oldest. Records of a partnership date from 2000-1800BC amongst the Assyrians in which 14 investors put twenty-six pieces of gold into a fund of the merchant Amur Ishtar (Micklethwait and Woolridge, 2003). Partnerships still constitute between 2-20 people trading together as one enterprise and sharing the profits (Boyd, 2005).

Members of a partnership share both the profits and full liability for debts and obligations. A partnership is usually formed by a simple Partnership Agreement specifying the amount of capital put in by each partner, how profits and losses and shares are to be valued and divided, decision-making, entry and exit procedures and so on. Partnerships can work well for small-scale public works or sub-contracting of outsourced work where trust between members is high. It is also a common form in the legal profession. For example, John Clegg and Co is a UK firm of rural surveyors who deal with UK woodland sales.

2.7 Companies limited by guarantee

A company limited by guarantee is in many ways similar to a partnership or cooperative. It is an ‘artificial person’ able to do business in its own right. Members own and control it, but it is non-profit making for those members. Members have to reinvest profits in the company. The advantage of a company limited by guarantee is that it confers limited liability on its members during the processes of paying salaries, acquiring property and equipment, trading, raising and lending finance etc.

Founding members set up a company through a Memorandum of Association and Articles of Association. Key features of these documents are the description of where profits will go, who is eligible for membership and what structures will govern decisions (Boyd, 2005). Examples of companies limited by guarantee include the Royal Scottish Forestry Society (RSFS) Forest Trust Company that was established in 1995. It owns 3,000 acres of Scottish hill ground at Cashel on the east bank of Loch Lomond and has launched a project *The Forest for a Thousand Years*, which will re-establish native woodlands on the site – membership is open to anyone who belongs to the RSFS. Another example would be the Woodland Trust which was established in 1972 as a UK body, which aims to restore woods and all forms of wildlife in the UK and thereby to secure and enhance the enjoyment of the natural environment by the public (Wightman, 1996).

The limited liability but non-profit structure makes this a very secure way of undertaking social and environmental projects. The disadvantage is that a company has many legal obligations that require good administration skills and there may be difficulties raising finance. Directors cannot sell shares to raise money, nor guarantee loans against the value of shares issued by the company. Members must raise finance themselves or take out a loan from some amenable financial institution.

2.8 Companies limited by share (corporations)

A company limited by share (often referred to as a ‘corporation’) is the most widespread form of modern business activity – and consequently requires special attention. The great advantage of a corporation is that it can issue tradable shares to any number of investors. Directors and shareholders have liability limited to their original investment. They are free to dispose of the assets and or shares as they see fit. Control over, investment in and value of such companies can be highly volatile.

Companies can be extremely flexible provided they supply adequate returns on investment. For example, the Nokia Corporation was originally in the paper business before it realised that it could make higher returns in mobile telephony. If companies do not make returns, investors simply put their money elsewhere.

Some companies have remarkable powers of endurance. One of the world’s leading forest corporations, Stora Enso, dates to an exchange deed in 1288, although the company probably predates that by two hundred years (Stora Enso, 2005). It is arguable that its careful attention to sustainability has insulated it against the fate of more volatile competitors.

Dissociation between investors and the actual activity of companies has become more pronounced as the exchange of shares has moved to stock exchanges and as transactions have advanced into the world of global electronic communication. There is a strong presumption that shares are only 'valuable' if they give good returns on their investment. Despite independent corporation watchdogs such as Corporate Watch (http://www.corporatewatch.org/ or BadCorp (http://www.badcorp.org/), many investors may be unaware of or disinterested in how the company makes those returns. This is particularly true where third parties manage investment capital in portfolios.

The ability to attract investment through limited liability, spread risk across multiple corporations, and endow each with a strong profit motive has been heralded as "one of the West's greatest competitive advantages" – "an organization that has been uniquely effective in rendering human effort productive" (Micklethwait and Wooldridge, 2003). But do corporations have a dark side? Bakan (2004) argues that corporations have an ethical character clinically diagnosed as an 'institutional psychopath'. He cites endemic traits such as brand ego, singular self-interest, obsession with profits and share prices, lack of concern for others (companies or broader society) and a penchant for breaking the law whenever it is profitable to do so in support of this diagnosis.

There may be a business case – or a values case – for a company to invest in Corporate Social Responsibility (CSR). For example, Gethal Amazonas in the Brazilian Amazon perceived a strong business case for pursuing certification for sustainable forest management by the Forest Stewardship Council (FSC) – not least because of the access to credit that proven sustainability brought.

Yet, in many cases companies opt not to pursue CSR. For example, companies such as Pheapimex Fuchan in Cambodia (Global Witness, 2001; 2002) or Rimbunan Hijau in Papua New Guinea (Filer and Sekhran, 1998; Forests Monitor, 1998) or the Oriental Timber Company in Liberia (Samfu Foundation, 2002) show little penchant for CSR. A broad spectrum of illegality involving both human and environmental abuses is so widely reported that interministerial processes have launched several initiatives on Forest Law Enforcement Governance and Trade (FLEGT).

Observations about non-responsible forest business are not new. Jack Westoby, a founding Fellow of the Institute of Statisticians and Senior Director of the Department of Forestry in the United Nations Food and Agriculture Organisation commented on forest business in 1987:

> *"Over the last two decades, massive tracts of virgin tropical forest have come under exploitation, in all three underdeveloped regions. That exploitation with a few honourable exceptions, has been reckless, wasteful, even devastating. Nearly all the operations have been enclavistic, that it is to say they have had no profound or durable impacts on the economic and social life of the countries where they have taken place... There are indeed countries where professional foresters, thinking back to the forest ethic they imbibed during their training, see it as a hollow mockery, since circumstances have compelled them to serve unwillingly as accessories in the rape of their national forest resource." (Westoby, 1987)*

Table 1 provides a summary of these business tendencies against three broad ethical principles: democratic respect, social and economic justice and ecological integrity. These three principles have some claim to be the basis of a global ethic receiving endorsement through the Earth Charter – whose authority comes from its endorsement by UNESCO and IUCN plus many thousands of other non-government organisations.

Table 2. Compatibility between the ethics of different forms of forest business and those of society

Form of business	Democratic accountability to the broad moral community affected by business activity	Social and economic justice	Ecological integrity
Philanthropic trust or foundation	- (trustees accountable to trust deed of benefactor)	++ (justice often the specific purpose)	++ (often the specific purpose)
Public sector enterprise	+ (accountable to public in democratic states)	+ (justice often a strong rationale for enterprise in public hands)	+ (likely to be concerned over public accountability for environment)
Family business	~ (not democratic but family reputation often constrains to public will)	~ (geared to interests of sole kinship group whose ethics determine outcomes)	~ (varies with dominant ethics within family)
Member controlled association	++ (democratically accountable to broad membership)	+ (justice often the specific purpose, but limited economic capacity)	+ (environmental concern often the specific purpose)
Member controlled cooperative	++ (the specific purpose)	++ (often the specific purpose)	+ (often an important element)
Member controlled partnership	+ (democratically accountable to small membership)	+ (profit can override distributive justice)	- (rare for environmental concern to drive partnerships)
Company limited by guarantee	- (not democratic, except where set up to represent democratic interests)	+ (often part of non-profit mandate)	~ (varies with company aims)
Company limited by share	- (rare, control determined by shareholding)	- / ~ (good at generating wealth but profits come above social justice, except in companies set up deliberately to achieve this)	~ /- (profit trumps environmental concern but win-win situations can sometimes be found)

These generalities hold sufficiently to emphasise one fact: business forms alter the balance of incentives and boundaries of decision-making towards responsibility. An obvious solution would be for democratically accountable authorities to discriminate between different forms of business (i.e. discriminate against corporations). The problem is that discrimination would likely disadvantage the corporate form – currently the majority model. But such interventions would not be necessary if voluntary mechanisms could transform the less acceptable face of companies limited by share. So a key question is this – how far can CSR and market drivers go in making corporations responsible? The next sections focus exclusively on this widely prevalent form of business.

3. Market signals that encourage responsibility

While there are many definitions of corporate responsibility (or Corporate Social Responsibility – CSR) there is some consensus that: (i) it is voluntary, and (ii) it matches commercial success with attention to wider societal goals. We define CSR here as:

> *"The voluntary commitment of business to achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment"* (see BSR, 2005)

Many corporations publicise their social and environmental credentials. For example, Rimbunan Hijau states on its website:

> *"Rimbunan Hijau (PNG) Group is providing benefits and opportunities to Papua New Guinea through economic growth and social improvements to local communities. While providing these benefits, Rimbunan Hijau Group has carried out its logging operation with due consideration for the protection of the environment through the application of sustainable forest management practices". (Rimbunan Hijau, 2005)*

But many question such unverified statements (Greenpeace, 2004). Critics of Rimbunan Hijau state that it is:

> *"Logging vast areas of virgin PNG forest against national opinion and local customs which infringes on the traditional rights of indigenous resource owners - Accused in PNG Government reports of gross human rights abuses, labour abuses, sexual abuses and illegal logging - Causing destruction of ancient natural forest and associated systems." (Rimbunan Hijau Watch, 2005)*

The point is this: without standards and independent certification, it is difficult to measure CSR. This problem affects two different types of market signal: investors wishing to buy into more responsible business, and consumers wishing to purchase from more responsible business. We consider each in turn.

3.1 Responsible investment

One means of influencing corporate behaviour would be for investors to discriminate around social or environmental performance. For some business forms this is easy. Members of democratic associations or cooperatives can readily influence business activity. Regular meetings and democratic votes are normal procedures.

Private and public capital flows also have the potential to influence corporations. Multilateral development banks and agencies, commercial and investment banks, institutional investors and export credit agencies all have a potential role to play. A major issue is the fact that the majority of forest sector enterprises are SMFEs. These are usually unlisted on stock exchanges or too small to attract the attention of such large investment agencies.

Where forest business is listed on local stock exchanges they become subject to the concerns of institutional investors. At the turn of the century several religious groups began to look for investment opportunities in line with their beliefs. By the 1970s environmental and human rights issues were receiving attention – leading to the creation of green or ethical funds. To date, however, these green or ethical funds account for only a small proportion of the market. This either reflects a lack of interest on the part of investors, or might be attributed to a number of failings (Grieg-Gran *et al*., 1998):

- difficulties in obtaining or verifying information – for example, many forest companies neither state what forests they own or manage nor their social or environmental credentials (except in unverifiable industry accounts) (see Gelder van *et al.*, 2003);
- the separation between investor and decision making - for example, share portfolios which grew fivefold between 1986 and 1996 (currently more than 30% of private capital flows) are managed by third parties rather than the investors themselves (e.g. pension funds);
- restrictions on institutional fund managers who have a legal duty to adopt a prudent investment strategy.

Major attitudinal shifts may be required to improve the contribution that financial analysts could make to responsible forest business. At present, evidence from the WBCSD (2004) suggests that financial analysts are:

- unconvinced of the materiality of environmental or social issues to business
- unable to consider them because of inadequate information, training or tools
- unwilling to depart from business as usual because of conflicts with incentives, career advancement and the culture of profit it all costs.

One simple solution would be for investors to require third party certification (World Bank, 2003). This would help to redress information shortcomings that plague investment decisions. We discuss some of the issues relating to third party certification beginning in section 3.4.

3.2 Responsible consumption

For the conscientious consumer, there is a bewildering array of information available. For example, an Internet search on “responsible forest business” quickly uncovers three major emphases:

- corporate literature on voluntary CSR (e.g. International Paper, 2005) and related articles promoting it (e.g. WBCSD, 2002);
- whistleblower reports on environmental or social business malpractice (e.g. Forests Monitor, 2003) and related articles depicting CSR as little more than a public relations exercise (e.g. Christian Aid, 2004);
- promotional literature for independent certification of responsible, or at least sustainable forest business (e.g. FSC, 2005) and related articles in support of it (e.g. White and Sarshar, 2004).

The existence of the above suggests that:

- particular corporations are keen to dissociate themselves from the background noise of irresponsible forest business;
- there are plenty of irresponsible examples from which to dissociate;
- public trust is sufficiently low that (expensive) third party accreditation schemes can flourish.

Corporate directors have a duty to enhance shareholder returns. What appears beyond dispute is that CSR is both legally possible and desirable for corporations where they can enhance shareholder returns by improved social or environmental responsibility. Equally clear is the fact that “the ‘business case’ for responsible business is inherently uneven, and that it therefore needs to be created and sustained where it does not exist” (Fox, 2004). Research has found a lack of convergence between corporate codes of conduct (Smith and Feldman, 2003). The fact that convergence is highest where there is hard legislation – such as the International Labour Organisation conventions – suggests that few businesses voluntarily adopt hard standards unless pressed. Either that or they are all rather improbably implementing a spectrum of diverse but equally responsible things!

Of greater concern are the instances in which social or environmental investment would be to the detriment of shareholder profit. In these cases, director’s duties would make CSR technically illegal (Smith, 1998). This precedent was set in a dispute between Ford and Dodge. Ford directors had been cutting shareholder profit in order to cut the prices of its cars for consumers. The Dodge brothers were shareholder of Ford. They won the ruling that: “a business corporation is organized and carried on primarily for the profit of stockholders” not “for the merely incidental benefit of shareholders and for the primary purpose of benefiting others” (Smith, 1998). This infamous ruling legitimises concern that shareholder profit (the bottom line) overrules economic, social and environmental responsibility (the triple bottom line) in worst-case scenarios.

Subsequent sections introduce a picture of what we would *expect* to see – given that business operates in a wide range of governance contexts. Our hypothesis is that business behaviour will reflect the governance context – rather than any shared and voluntary CSR based on the business case. We then test this hypothesis. If there really is a business case for forest-based CSR – and if businesses can be relied on to implement CSR without additional regulation – we would expect to see similar patterns of CSR across very different governance contexts (assuming of course that responsibility is not a function of information or technology). Clearly, governance and CSR may helpfully complement one another – but our interest here is in deciding which should form the mainstay of an effort to promote responsible forest business.

3.3 The spectrum of contexts under which forest-based CSR might evolve

Forest business is not homogenous. We have already noted the diversity of possible business forms. Forest business also spans a diversity of contexts, from rural timber felling operations to urban packaging plants or construction industries. It includes different forest types, products and services. It involves many different scales of operation. Some of these operations are visible to the public. We can treat some elements of this diversity through general rules of thumb:

- the form of business is likely to affect its attitude towards social and environmental responsibility – trusts and cooperatives at one end and corporations at the other (see discussion above);
- the size of business is likely to affect the relative costs of social and environmental responsibility – small enterprises face disproportionate costs proving their responsibility when it is through particular standards (Higman and Nussbaum, 2002);
- the visibility of business is likely to affect its responsiveness to public concerns over responsibility (Brammer and Millington, 2004).

Beyond these general rules of thumb, there are innumerable possible contexts within which businesses operate. We try to capture some of this diversity by examining three key variables:

- Nature of the forest resources
- Clarity and predictability of government enforcement of responsibility
- Sophistication of consumer demand and market development

These variables influence whether CSR is likely to contribute to shareholder profit. Table 3 describes a matrix of forest, governance and market scenarios. Within each scenario, we describe the likelihood of CSR evolving. We base this assessment on a consideration of the three component elements of the enabling environment for CSR – the business drivers, the human and institutional capacities, and the likely CSR tools available (see RING, 2003).

Table 3. The diversity of contexts and likelihood of forest-based CSR evolving

Contexts	Plantation/Semi natural forest	Natural forest	Agricultural landscape
Strong enforcement – sophisticated market (e.g. Europe and USA)	**Highly likely** (Strong public enforcement, consumer demand and relatively low implementation costs. Good human and institutional capacity. Widely available CSR tools and processes)	**Likely** (Strong enforcement and public demand, but relatively high implementation costs. Good human and institutional capacity. Widely available CSR tools and processes)	**Possible** (Strong enforcement and demand but implementation costs high in scattered farms and often peripheral to main business. Good human and institutional capacity. Fewer adaptable CSR tools and processes)
Strong enforcement – developing markets (e.g. Brazil, Bolivia)	**Likely** (Thinly spread enforcement, but acting in relatively accessible areas – some public demand and relatively low implementation costs. Medium human and institutional capacity. Widely available CSR tools and processes)	**Possible** (Thinly spread enforcement over inaccessible areas, but profitable niche markets can overcome high implementation costs. Medium human and institutional capacity. Increasingly available CSR tools and processes)	**Possible** (As above but certification can be pushed by communities and allies to secure resource rights especially if central support. Strong human and institutional capacity where NGOs help. Emerging CSR tools such as group certification)
Weak enforcement – sophisticated markets (e.g. South East Asian tiger economies)	**Possible** (Patchy enforcement but some public demand and relatively low implementation costs. Medium human and institutional capacity. Limited availability of CSR tools and processes)	**Unlikely** (Patchy enforcement, limited demand and relatively high implementation costs conspire against it. Limited human and institutional capacity. Limited availability of CSR tools and processes)	**Unlikely** (Probable lack of awareness of responsibility options coupled with high cost of implementation. Limited human and institutional capacity. Limited availability of CSR tools and processes)
Weak enforcement – developing markets (e.g. Tropical Africa)	**Unlikely** (Patchy enforcement, low demand and heavy competition from land clearance timber reduce probability. Weak human and institutional capacity. Limited availability of CSR tools and processes)	**Highly unlikely** (Thin enforcement, inaccessible areas and little demand create worst case scenario. Weak or non-existent human and institutional capacity. Limited availability of CSR tools and processes)	**Highly unlikely** (Insecure remote agriculture far from markets and swamped with timber from land clearance create worst case scenario. Weak or non-existent human and institutional capacity. Limited availability of CSR tools and processes)

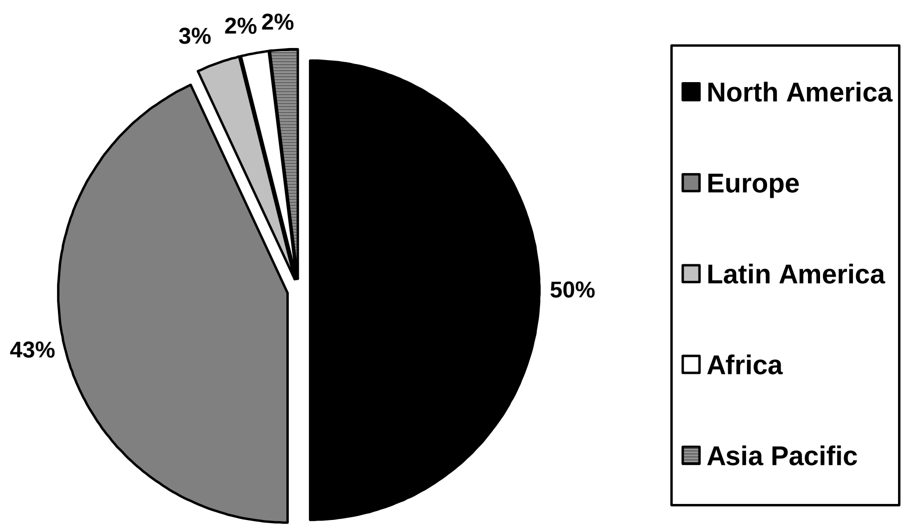
3.4 Measuring CSR through third-party certification

As already noted, it is all but impossible to measure CSR without independent standards and monitoring – i.e. forest certification. At the same time, forest certification is not the same thing as CSR. Many forest businesses operate responsibly but cannot afford to pay the costs of third party certification. Others adopt standards of responsibility that do not match the criteria of certification schemes, but are a significant step up from worst practice.

Nevertheless, figures for forest certification do give some indication of the trends in responsible forest business – it is the best proxy that we have. Forest certification is essentially the process of verifying that a forest business meets the requirements of a standard (Nussbaum and Simula, 2005). Certification not only acts as a tool to improve the social, environmental and economic quality of responsible forest business, but also allows the market to reliably differentiate between businesses.

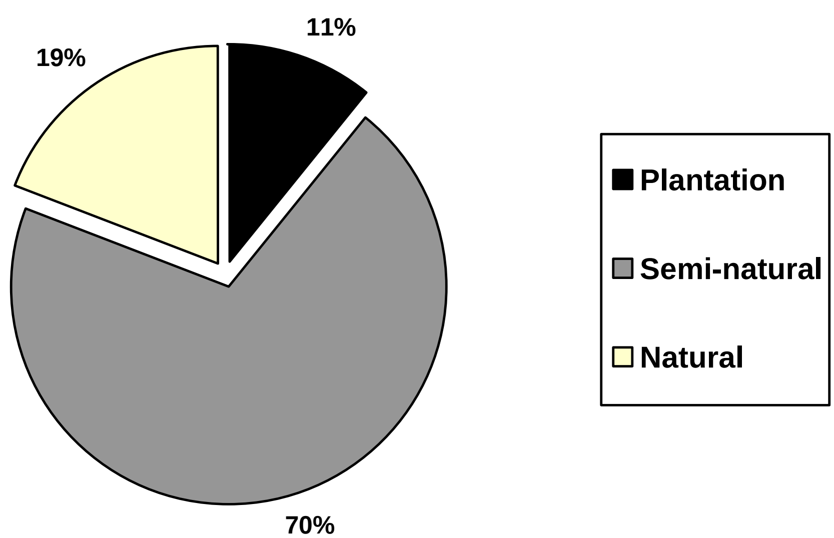
Recent estimates of the total area of forest certified by third parties show a gradual annual increase (Atyi and Simula, 2002). Yet, the figures confirm that only a tiny fraction of the world's forests (3.5%) are certified as sustainably managed (Nussbaum and Simula, 2004). The latter authors confirm that, in 2004, only 7% of the total area of certified forests was from tropical forests (Figure 1), and only 19% from natural forests (Figure 2). In other words, the enabling environment is pivotal in shaping responsible outcomes – not business itself. Put another way, forest type, enforcement and market demand make responsibility possible – not voluntary CSR.

Figure 1. Certified forests by region from a total of 183 million hectares which itself represents just 3.5% of the global forest area



Source: Nussbaum and Simula, 2004.

Figure 2. The balance of certification by forest type

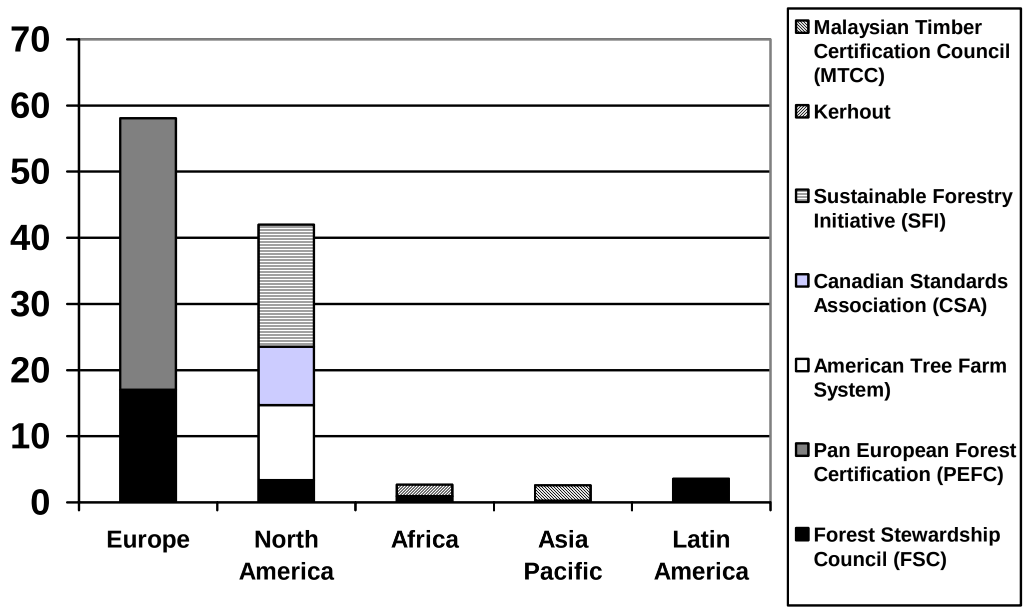


Source: Nussbaum and Simula, 2004.

Despite the small percentage of forests certified as sustainable, we could interpret the steady increase in that area as a positive sign. Perhaps the huge gulf between north and south is simply a function of the availability of information on CSR. Certification and CSR are new concepts – could we be seeing the first glimpse of an industry-wide transformation? If CSR and certification were changing the industry for the better, we would expect to see clear impacts.

To start, it is important to note that certification is not one single thing – there are multiple schemes receiving different prominence in different areas (see Figure 3). Some emphasise particular performance thresholds while others emphasise process towards performance standards. The oldest scheme set up in 1993 is the Forest Stewardship Council (FSC). NGOs established it together with the forest industry. It now has the broadest international coverage and the most rigorous performance thresholds. It has come under increasing competition from schemes set up by forest interest groups (e.g. the Pan-European Forest Certification – PEFC in Europe) and the forest industry itself (e.g. the Sustainable Forestry Initiative – SFI in North America or the Malaysian Timber Certification Council – MTCC in South East Asia). Some of these competitors have less rigorous process and performance standards. Obviously different schemes will have different impacts linked to what they are trying to achieve.

Figure 3. Forest areas covered by different certification schemes in millions of hectares



Source: Atyi and Simula, 2002.

Evidence of the impact of certification is limited. The few studies that have looked at impacts of certification find positive signs (see Nussbaum and Simula, 2004). For example, where certification has been within reach of particular businesses it has generally pushed up standards of forest management, labour relations and business administration – if only slightly (Garforth, 2002). It has also strengthened business transparency and credibility (making it easier to attract investment). It has improved market access and in some cases price premiums for those involved (Bass *et al*., 2001; Molnar, 2003). It has also led to a raised awareness of what it takes to make forest business responsible through multi-stakeholder processes (Segura, 2004). Certification therefore makes a useful adjunct to good governance:

> *"In most cases, certification has been used as a complementary instrument to induce compliance with national regulations, where the greatest success is achieved when good enforcement incentives have been introduced into the legislation"*
>
> (Segura, 2004)

Yet, reviews of the impact of certification are equivocal about its potential to transform businesses that do not see the business case for responsibility. For example one review remarks:

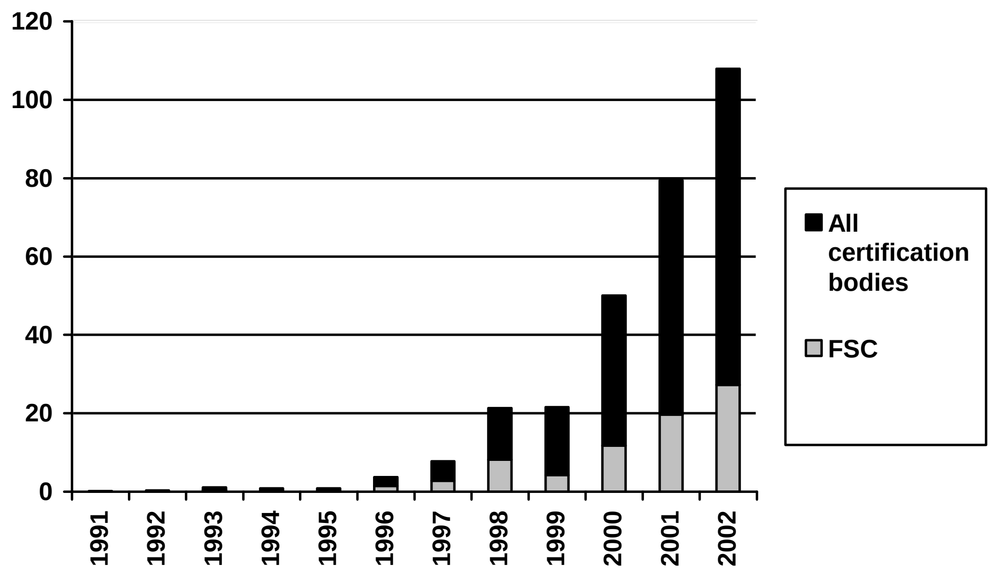
> *"If certification is to improve forest management all-round (as opposed to supporting an elite) some system is required for 'reaching down' to those producers who practice poorer forest management – even, perhaps, including the asset stripping loggers"*
> (Bass *et al*., 2001)

Such studies confirm that certification has only been effective for those forest businesses that were already close to the required performance standards (e.g. in many European and North American countries).

3.5 Expected trends

There is an undoubted trend towards increasing certification (Figure 4). It is likely that this increase will continue – especially large companies in good governance contexts where the gap between current practice and certification is small.

Figure 4. Trend in forest certification by area in million hectares



Source: Reid *et al*., 2004.

In parallel with this increase in certified area is an increase in the number of major certification schemes (Atyi and Simula, 2002). The proliferation in certification schemes has not led to an increasingly high set of standards. Rather, new schemes have often sought to make certification more accessible to regional blocks of forest industry. The main driver for certification is market access (Raunetsalo *et al*., 2002 cited in Phillips, 2004). Pressure from forest corporations wishing to have a greater say in defining how they are measured has one intended or unintended side effect: increasing consumer confusion. This confusion potentially diverts international attention away from certification towards assessment framework by which different certification standards might be harmonised (Ozinga, 2004a).

An additional trend is the increasing fluency with which corporations use the CSR jargon. Corporations produce increasingly sophisticated self-promotional material attesting to their social and environmental attributes. With confusion over independent certification, it can be very persuasive. For example, Weyerhaeuser states:

> *"We support the communities where we do business, hold ourselves to the highest standards of ethical conduct and environmental responsibility, and communicate openly with Weyerhaeuser people and the public"*
>
> (Weyerhaeuser, 2005)

The Rainforest Action Network would dispute such claims (running their current boycott Weyerhaeuser campaign).

A major worry is that certification may be diverting attention away from the more serious problem of irresponsible mainstream forest use – commercial forest degradation, loss of biodiversity and social injustice for forest-dependent people. Donor pushes for certification, in situations where policy, market and governance failures make sustainable forestry difficult, can be counterproductive (Richards, 2004).

The confusion over proliferating certification schemes has led to an international process of harmonisation. The World Bank/WWF alliance has been looking at 'credibility thresholds' in trying to advise its partners on how they might assess different certification systems (Mayers, pers. comm.). Many certification schemes may not even meet internationally agreed criteria for sustainable forest management. For example, in surveys of the different certification schemes, only the FSC and Canadian Standards Association (CSA) met the agreed international criteria for sustainable forest management common to the United Nations Forum on Forests (UNFF), the World Bank, The United Nations Conference on Environment and Development (UNCED) and nine regional processes including the International Tropical timber Organization (ITTO) (Ozinga, 2004b). But both the occasional lapse in certification and the failure to attain agreed criteria in some certification schemes are marginal problems alongside the scale of production untouched by certification.

3.6 Addressing inequities of scale

Certification has primarily occurred in large-scale industrial or state run forests – with concern over its slow uptake in community forests. On grounds of equity alone, it might seem advisable to spread access to forest resources over many smaller business units. At the same time, there are a number of particular problems faced by small and medium forest enterprises (SMFEs) in relation to responsibility. These effects of scale comprise several key elements:

- Smaller staff numbers reduce the capacity for specialisation in particular areas of business that might improve performance. Staff constraints also raise difficulties in meeting the demands of formal business registration.
- Smaller capital assets and guarantees reduce the potential to attract investment. Coupled with high transaction costs, this can reduce access to technologies that might enhance environmental/social performance.
- Smaller financial turnovers increase the ratio of fixed costs to cash flow – putting additional demands on the natural resource and workers. This also increases the relative costs of proving sustainability through third party assurance.

Nevertheless, where the correct enabling environment exists, SMFEs can offer a number of benefits that deserve consideration in any discussion on responsibility (Table 4).

Table 4. Potential advantages of SMEs

Dimensions of well-being	Economic	Social	Environmental
Basic survival	Provide local outlets for inputs and outputs without barriers such as externally imposed standards	Draw on strong local concern for activities that offer a safety net for the poor	Negative environmental problems are local – more quickly spotted and dealt with
Livelihood security	Reduce outside dependency with greater local resilience in uncertain times	Provide flexibility – flexible working hours are especially important for child carers	Multi-functionality especially at a micro level builds environmental resilience
Affiliation and relationships	Profits accrue locally, are often reinvested locally with local economic multipliers	Greater social equity that humanises relationships in buying and selling – building community	Shorter transport distances reduce pollution and human risk
Creative endeavour	Distribute economic opportunities and returns fairly across multiple owners	Enhance local knowledge and skills – with ownership over business outcomes	Increase options to use, and consequent vested interest in conserving, the local resources
Aesthetic awareness	Exploit local niches and maintain diversity in available products	Understanding of local tastes fosters individual artefacts and craftsmanship	Diverse enterprises at landscape level creates space for biodiversity
Cultural identity	Locally accountable with less power to capture and corrupt power and policies	Exploit culturally sensitive options – empowering marginalized groups	Local product or service design strengthens cultural landscapes

Source: Macqueen, 2005c.

In order to address the difficulties of meeting and bearing the costs of certification standards, certification bodies have tried to develop group schemes to help SMFEs share the costs. Some of these have simpler requirements. The FSC criteria defining small and/or low-intensity managed forests (SLIMFs) is one such example (Nussbaum and Simula, 2005). However, the same authors acknowledge:

> *"…although mechanisms have been found that are reasonably successful in some contexts, the huge variety of small forest enterprises globally means that many are still facing barriers"*
> *(Nussbaum and Simula, 2005*)

If responsibility is to spread through SMFEs, there are clearly some governance challenges to be addressed – some of which might involve positive discrimination based on scale.

3.7 The potential of the fair trade movement

While allowing consumers to discriminate on environmental and social standards, existing certification schemes do not yet allow consumers to discriminate between large corporate and small community products. Indeed the costs of certification tend to discriminate against small producers. But there are some consumer standards that do allow positive discrimination toward small scale, for example fair trade.

Fair trade is a movement dating back 60 years. It seeks to harness the power of trade to empower marginalised producers in developing countries. It does this by insisting that fair prices reward producers who organise themselves within democratic, member controlled enterprises (such as cooperatives). The International Federation for Alternative Trade (IFAT) defines fair trade as:

> *"a trading partnership, based on dialogue transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers. Fair trade organizations are engaging actively in:*

- *Supporting producers*
- *Awareness raising*
- *Campaigning for changes in the rules and practice of conventional trade"*

Co-ordination of the movement and the development of clearer branding has been a feature of recent years. Labels were developed which would differentiate products as being fair trade. There are now 17 national labelling initiatives (Pay and McAdam, 2005). The Fairtrade Labelling Organisation (FLO) was established in 1997 as an international monitoring and labelling organisation to set standards and to issue guidelines for assessment and monitoring of fairly traded products. It was established as the world-wide umbrella organisation for national labelling organisations and acts as an independent certification body, setting fair trade standards and monitoring producer and trader compliance with fair trade criteria. FLO has developed standards for some NTFPs such as honey, nuts and oil seed and some shade crops such as coffee, cocoa – but not yet timber or NTFPs such as oils and resins, medicinal plants and woven craft.

While forest based enterprises are poorly catered for to date, the impacts of fair trade on other small and medium enterprises has been substantial. Redfern and Snedker (2002) summarise benefits such as the creation of a US$ 500 million network pushing trade to the poorest people, embedded support services, market access for groups bypassed by mainstream trade and substantial pressure on mainstream trade to improve practice – e.g. through corporate social responsibility and the Ethical Trading Initiative in the UK – with spin-offs for SMEs.

Benefits to specific forest based businesses have been documented in Ecuador and Peru (Nelson *et al*., 2002). For Ecuadorian Cocoa producers under forest shade, benefits included cash, more transparent weighing and grading systems, better returns on crops due to the vertical integration of the ethical trading chain, and capacity building benefits (e.g. organisational development, cultivation techniques and marketing). In Peru, brazil nut collectors participating in the ethical trade scheme did not perceive major differences between the ethical scheme and the conventional trading chain. But more transparent weighing with electronic scales help to establish export markets were two recorded benefits.

Without formal standards for timber and many NTFPs trading terms are defined under the different trading policies of the individual fair trade organisations. Consideration of the potential for increasing the range of fair trade forest products continues, and the potential complement to certification that a fair trade approach might bring are certainly worth exploring. But fair trade by itself is always likely to remain a niche activity – rewarding some forms of SMFE business (such as cooperatives), but doing little to change the practices of the majority of forest business.

3.8 Summary

Without third party assurance corporate behaviour can only be assessed on the basis of one group's word against another. Voluntary certification or fair trade labelling offer ways to ensure third party assurance. But take up is less than 5% and, sceptics would add, increasingly hostage to corporate interests. For this reason, this paper advocates third party assurance by public bodies – in other words good governance. Many who are concerned with broader human rights share this position (ICHRP, 2002). Although certification partly arose to address perceived failings in public governance, ironically it usually only flourishes as a tool in areas where good governance prevails.

A question introduced this section – how far can CSR and market signals drive forest business towards responsibility? Our hypothesis was that business behaviour would reflect the governance context (e.g. see Table 3) – rather than any shared and voluntary CSR based on the business case. Using data on forest certification as a (rather inadequate) proxy for CSR the paper found that the spread of certification does seem to mirror governance context. Certification is not equally distributed across strong and weak governance contexts anchored in the business case for CSR. It is noteworthy that certification seems to fail the majority of forest businesses – SMFEs. Particular attention to the governance context for SMFEs is necessary if we are to include broader considerations of social and environmental justice within our understanding of responsibility.

4. Government interventions that enforce responsibility

Let us start by redefining responsibility. We noted that humans celebrate a range of values beyond financial income – such as security, friends, fulfilling work, beauty and cultural identity. They also celebrate a set of principles such as social and economic justice, democratic accountability and ecological integrity. With few exceptions, these values transcend cultural relativism – part of a strong human solidarity. We can use this common currency or solidarity as a basis for defining responsibility. Business activities that enhance these values and abide by these principles are responsible – those that do not are not.

4.1 Responsibility to the values and principles enshrined in international law

A good starting place is to assess what contribution forest business might make to enhance broadly held categories of value. Table 4 indicates some of what responsibility might entail (adapted from Macqueen, 2005b). Note that categories 1-3 deal with attributed unique to humanity and spirituality - categories 4-6 alone relate to biocentric concerns.

Table 5. Overview of forests contribution to what is valuable

What is valuable	**What diverse forests contribute to value**
1. Identity, faith and culture	Forest stewardship contributes to our identity, cultural diversity and spirituality
2. Intellectual and aesthetic appreciation	Forest landscapes provide intellectual stimulation and aesthetic appreciation
3. Creativity and fulfilment of endeavour	Forest management provides various opportunities for creative endeavour
4. Social relationships and networks to share life	Forest-based societies and relationships support a framework of social and environmental justice.
5. Present and future security within living ecosystems	Forest ecosystems ensure environmental stability through adjustments to biological diversity
6. Subsistence for all life according to its needs	Forest products and services sustain interdependent living organisms

The contribution of forest business to such categories of value may have to involve trade offs. For example, in order for a forest business to provide local people with subsistence, it may have to compromise on the present and future security of living ecosystems – or the creativity and fulfilment of employment. But the need for compromise is not the same thing as freedom to disregard ecosystems or employee rights altogether.

What is striking is not the novelty of these categories of value – nor the way in which their enhancement is the basis for responsibility. Rather it is the fact that our dominant forest business institution – the corporation – should be seemly so ill equipped to deliver against these value scales. The International Council on Human Rights Policies describes how voluntarism had had to be supplanted by internationally binding agreements – which protect, at least partially the values we have been describing (see Table 6).

Table 6. The link between ethical values and legal rights

What is valuable	What legal rights are enshrined in international law
1. Identity, faith and culture	Civic freedoms – of thought, opinion and expression, religious belief or practice. Rights of special groups – including indigenous groups, linguistic, religious or racial minorities – to be free of discrimination and exploitation.
2. Intellectual and aesthetic appreciation	Right to a clean and healthy environment – in particular where environmental hazards might harm other rights such as life or health. Access to information – to access information held by public or private bodies where key public interests are at stake.
3. Creativity and fulfilment of endeavour	Economic and social rights – to education, work, physical and mental health and an adequate standard of living including food and housing. Employees rights – to a living wage and reasonable working hours.
4. Social relationships and networks to share life	Civic freedoms – the right to movement, peaceful assembly and association, privacy and family life. Employee rights – to association, to organise and bargain effectively without discrimination in employment or the workplace.
5. Present and future security within living ecosystems	Right to justice – redress for victims, punishment for perpetrators, access to justice, measures to prevent further abuse. Civilians and victims in war – freedom from attack and right to humane treatment, without forcible relocation or expulsion.
6. Subsistence for all life according to its needs	Life liberty and physical integrity of the person – the right to be treated with humanity and dignity and with due process of law – without arbitrary killing, detention and without cruelty and torture. Women's rights – to equality, non-discrimination and freedom from harassement, violence and exploitation. Children's rights – to have decisions made in their best interests without child labour, economic exploitation and employment that might endanger their health and safety, rights of special groups.

Source: adapted from ICHRP, 2002.

No fundamental cause-and-effect requires law to protect ethical values. National and international law is the subject of negotiation – influenced by the power relationships inherent in such negotiations. The development of corporate law is a case in point. Corporate lawyers have stripped away many of the early legislative constraints to corporate functioning (Micklethwait and Woolridge, 2003). Those representing corporations have fought to maximise corporate values – the freedom to pursue financial profit. The public must likewise fight to protect what it values if it is public (or biocentric) well-being, not corporate well-being, that it wants.

Responsibility links not only to values but also to principles. In other words, the means to the ends matters. The preservation of broadly based values goes hand-in-hand with international endorsement of certain ethical principles as described in section 2.8: democratic accountability, social and economic justice and ecological integrity.

We noted early that definitions of responsibility require that we define *to whom* business is responsible, *for what* business is responsible and *over what period* business is responsible. Corporate law implies corporations are responsible solely to their investors – responsible solely for financial returns – and responsible over very short-term horizons (often quarterly returns). In other words, unless otherwise constrained by governance, forest corporations have no responsibility to the broader moral community (the principle of democratic accountability). Nor do they have any responsibility for the enhancement of broader values (the principle of social and economic justice). Nor do they have any responsibility for future generations (the principle of ecological integrity).

Corporations harness human effort for maximum financial returns to shareholders in the short term. This makes good business sense. It also makes good financial sense for the individuals and nations that own shares in business successes. But let us be clear – it does not make good moral sense. It is unethical. It is irresponsible to the broad moral community – for the enhancement of their broad values and wellbeing. It is also irresponsible to future generations to the extent that it diminishes prospects for sustainability (Macqueen, 2005b). To the extent that we have the public good in mind – it would be strikingly inappropriate to allow corporations to measure their own responsibility.

4.2 Governance challenges

Our brief analysis of forest-based CSR suggests that corporate rhetoric and reality do not necessarily coincide. We should be wary of measuring responsible forest business against voluntary social or environmental reporting. Having public authorities define the reporting headings – the values and principles against which to report – would be a minimum requirement. Periodic independent monitoring would seem necessary. A mix of incentives and sanctions based on the results would seem a logical corollary. But do such interventions go far enough?

Governance has been defined as 'the art of steering societies and organisations' or more fully as 'the traditions, institutions and processes that determine how power is exercised, how citizens are given a voice and how decisions are made on issues of public concern' (Mayers *et al*., 2005). In short, governance is about how decisions are made and who decides. The challenge in governing towards responsible forest business is to clarify for what, for whom and over what time frame governance is required.

We have argued above that voluntary corporate activity and market signals are unlikely to be enough in themselves to promote responsible forest business. This paper is openly sceptical – as was Adam Smith – that the profit motive and its embodiment in the corporate form can deliver responsibility in all but a few win-win situations.

> *"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public… But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary."*
>
> Adam Smith (1776)

That is not to deny the fine ethical principles of many forest business managers – merely to acknowledge that certain forms of business hamper the expression of those principles. This is not a radical position. Indeed, the new drive towards eliminating illegal logging has involved careful attention to public sector intervention (Brack, 2005). There are many different possibilities for action on illegal logging (Contreras-Hermosilla and Global Witness, 2003). Public sector authorities can undertake actions that range from mandating or facilitating change through to partnering or endorsing responsible business practice (Fox, 2004; Ward, 2004).

Because governance is political in nature there may well be differentiated approaches. The private sector may see governance in terms of market forces and regulations. The public sector may see things through a lens of political decisions and enforcement. Civil society groups may highlight the need for inclusive processes and participation. Governance usually requires a mix of all of the above. UNDP (1997) laid down principles of good governance that have proved to have global resonance (e.g. Graham *et al*., 2003). Their main weakness is that they fail to give due emphasis to the environmental sustainability on which long-term governance must be premised. UNDP principles could be grouped as follows under the three main ethical principles of the Earth Charter (italics denote UNDP principles). The challenges of governance might therefore include improvements to:

- Democratic respect – by enhancing:
    - *transparency* and *accountability* – information and institutions are directly accessible to those concerned with them. Public, private and civil society

institutions are accountable to the public as well as to their institutional stakeholders;
    - *effectiveness and efficiency* – processes and institutions meet the public needs with minimal use of resources and bureaucracy.

- Socioeconomic justice – by enhancing:
    - *equity* of business opportunity – all people should have opportunities to improve or maintain their well being – especially the poor;
    - *participation and responsiveness* – all people should have voice in decision making processes that affect them. Institutions and processes should try to serve all stakeholders, with resources allocated especially towards those that are marginalised in particular ways.

- *Ecological integrity*
    - *strategic vision* and *consensus orientation* – leaders and the public should have a broad and long-term perspective on development and the environment that mediates differing interests to reach a broad and stable consensus on what is best;
    - *rule of law* – legal frameworks should be fair and impartially enforced, particularly the laws on human rights but also the laws that govern environmental externalities on which all life depends.

I describe some options under each of these three main governance. Many of the governance specifics of how decision are made and by whom are context dependent. This limits the degree to which generalisations are useful – something for the reader to bear in mind in what follows.

4.3 Democratic respect

Good governance requires that business activity be brought in line with public aspirations for well-being. Within democratic societies, this will involve the faithful representation of democratic constituencies in controlling business activity. Economic policies will vary with political ideology – but there are two principles that span ideological divides: transparency and simplicity.

4.3.1 Transparency and accountability of institutions and information

Transparency and accountability require access to institutions, processes and the information surrounding them. In other words, people should be able to understand what is or is not legal. There should be as little room as possible for discretionary decisions by government or private sector individuals (Hirakuri, 2003). Individual discretion in the application of the law is the seedbed for corruption. Transparency is a huge governance challenge. The processes of allocation of land, forests, business registration, public and private finances etc. should be transparent to the public, clearly in the public interest and accountable to that interest.

More practically, institutional checks and balances against vested interest should be a primary concern (i.e. forest enforcement agencies should not be involved in forest production). Government or business individuals who do not comply with the demands of such transparent procedures must be removed. Public enforcement bodies must be sufficiently well paid to avoid rent seeking. If it becomes a game of 'who you know' rather than 'what you do', the rule of law becomes meaningless.

A good entry point to improving the transparency of governance is to focus on information – publicizing laws, institutional responsibilities and surveys of compliance on the ground. Information about the law and institutions is critical. Awareness is enhanced if the development of laws and institutions are shaped through participation at the local level. Often they are not. Where information about laws and institutions is absent or untranslated, predatory agents or unscrupulous officials can manipulate the law to their advantage. Abuses are particularly prevalent in isolated forest contexts where law making is a top-down exercise, where education systems are deficient or where costs preclude regular presence of authorities. Evidence about field level forest activity is also critical to promote a level playing field for large and small businesses and to reduce marginalization. Third parties can be useful in gathering and publicizing such information.

Key considerations include:

- local democratic accountability of institutions that allocate land, forests, business licences, public financing etc.;
- transparency of the criteria and indicators by which allocation decisions are made and records kept available;
- separation between lawmakers, law enforcers and judiciary – with independent complaints channels or ombudsmen;
- development of forest law in partnership with local and/or traditional cultural structures;
- availability of the law in local languages with efforts to explain law to non-literate audiences.

How? It can be useful for public authorities to work together with independent forest monitoring agencies (e.g. Global Witness) to subject institutions and processes to regular scrutiny (Young, 2005). It can also be useful to build strong rules about public information and how to gain access to it (Saigal, 2005).

4.3.2 Effectiveness and efficiency of rules and regulations

Land, forest and business laws and processes need to be coherent in intent and sufficiently straight forward that compliance is not unduly prejudiced. If there are vagaries between bodies of law or within one set of laws this favours those who wish to abuse the system (both on the operator and government side).

It is often the case that operating legally is so complex with such huge transaction costs and delays that illegality is all but inevitable. Simple laws with few steps laid out in simple language are essential to promote responsible forest business. Key considerations include:

- coherence of access and use rights across land, forest and business law
- simplicity of language and process – reducing the relative administrative burden of compliance versus non-compliance
- clarity in what the laws says and how it is implemented in the field
- training and support for legal access and/or compliance especially for poorer groups.

How? It can be useful for public authorities to partner local legal NGOs and pressure groups to create legal literacy camps (Upadhyay, 2005), or to undertake training in company-community negotiations (Joachim *et al.*, 2005).

4.4 Social and economic justice

Monopolization of commercial power can quickly distort markets and undermine the rule of law. Governing for business accountability requires due consideration for two critical issues: equity of opportunity and resources.

4.4.1 Equity of business opportunity

In finite systems such as forest production, there is an inevitable tension between corporate aspirations for economic growth and the equitable distribution of resources. Free market competition engenders survival of the fittest. A classic case is Guyana where the Barama Company negotiated the countries largest concession, and then used their economic and political power to arrange deals that tied in other concession holders. Competition might initially improve efficiency – but as market or political monopolies are reached, efficiency plummets. But in many cases there are less than perfect competition in the initial stages of land and forest allocation – let alone after protracted corporate engagement.

Unless corporate expansion can come through technological development (and equity in resource distribution be maintained), growth of one firm's aspiration will also see the demise of another's. This is particularly unacceptable if local small and medium enterprises are out competed by transnational firms whose profits are repatriated overseas (for example in Cameroon, foreign operators wholly or partially held close to two thirds of the concession area – GFW, 2000). Maintaining equity in forest resource allocation and use is not only demanded by efficiency, but is also a matter of political expediency to avoid local resentment and conflict. It is helpful to divide land allocation into categories – such that small scale or community businesses have a guaranteed portion of resource access.

Another obvious solution to governed business responsibility is to create a series of incentives for local non-corporate forms of business where economic growth is secondary to other social or environmental aims (e.g. incentives for trusts, cooperatives and non-profit companies). Such incentives result in business profiles that do not have an inherent tension between growth and equitable distribution of resources. Key considerations include:

- equity in the origin of legal content
- clear categories for forest land ownership that makes specific provision for locally owned and small-scale enterprises
- balanced ownership and access rights with forms of business that can fulfil their responsibilities to the broad moral community (favouring trusts, cooperatives and non-profit companies)
- local involvement in law enforcement and a good balance of women and ethnic minorities in law enforcement staff.

How? It can be useful to support the formation of associations of small and medium enterprise such that local representatives of smaller firms have greater voice in determining laws and policies (Macqueen *et al*., 2005). A good example of a tool for organising SMFEs comes from Uganda (Davidson and Krassowska, 2005).

4.4.2 Participation and responsiveness

In most countries, small and medium forest enterprises (SMFEs) and their associations form the majority of enterprises and employment – offering vital opportunities to the poor (Macqueen *et al.*, 2005). In some cases they even provide the majority of government revenues (e.g. Thomas *et al*., 2003). Yet their small individual impact, geographic dispersion, often informal constitution and limited staff often leave them marginalised from policy and decision making processes – even where these are participatory in nature. Much more needs to be done to design policy processes that listen to and respond to the voice of smaller local producers.

Even where access to land and forest resources is fair, scale effects and transaction costs may mean that larger enterprise flourish at the expense of SMFEs. Government intervention is required to redress such market forces. In countries where social and environmental resources are rich, but financial resources are small, resources to address such inequities may be a major issue. Choosing how best to allocate limited resources, how to maximise impact and cut costs or procure new support funds, can be the major challenge for forest sector governance. There is always a temptation to cave in to quick visible wins by favouring large firms. Alternatively, it is tempting to turn to large-scale enterprise for support – a move that can exacerbate inequities in influence and power vis-à-vis smaller enterprise.

Strategic long-term support to community groups and SMFEs can lead to substantial long-term gains – both in terms of political and social stability, environmental management and economic growth (see Scherr *et al*., 2004). Key considerations include:

- strengthening local forest rights and producer organizations through decentralization
- installing differential bureaucratic requirements that make formal registration and business practice comparatively easier for SMFEs
- using scarce funds to support associations of SMFEs weighted by area to ensure support to the most needy areas
- prioritising infrastructure that favours access by SMFEs, not large companies

- use government procurement policies to purchase from SMFE groups
- ensuring that the burden of the law is shared equitably – concentrate on hitting the big guys rather than on harassing small and medium enterprise.

How? It can be useful to carry out explicit assessments of stakeholder power in remote areas where there are questions about justice (Mayers, 2005). This can lead on to specific market chain workshops for communities and SMFEs in order to spread information about how to access markets, voice expectations and problems and help to inform government policies (Phi, 2005).

4.5 Ecological integrity

4.5.1 Strategic vision and consensus orientation

Forestry is a long-term business. In many cases large capital investments up front are paid off through sustainable operations over long time frames. If there is any doubt over land use policy, or risk from local conflicts, forest businesses will either not invest or will seek to achieve returns quickly (i.e. through non-sustainable resource mining). Different laws for say commercial and indigenous forests can create unwanted pressures to exploit the latter. Unresolved land use conflicts can lead to a mining mentality. Forest policies and laws must therefore be relatively unchanging over time and coherent across different land use types. This requires serious commitment to negotiated consensus between different interest groups – especially rural groups that are normally marginalized from policy and decision-making.

Guarantees and incentives for sustainable management are particularly important for long-term territorial claims such as 40-year concession cycles/indigenous peoples lands. Full legal entitlement of the communities is a major issue since they have the proximity to the resource to destroy or conserve depending on which way their interest lies. Key considerations include:

- macroeconomic stability and options for high-change environments
- planning cycles for forest authorities should be substantially longer than is the case for many other sectors
- time frames for land and forest allocation/review should be established to provide an incentive for sustainability not mining
- coherence of policies over different land use types to avoid overexploitation of particular areas (especially of indigenous territories).

How? It can be useful to assess periodically how government policies are working in the field. Where there is wide divergence between good and bad examples of implementation of legislation, it may be necessary to tighten up how we conceive and enforce the law (Johnstone *et al*., 2005).

4.5.2 Rule of law

Many law enforcement efforts focus almost exclusively on detection of unsustainable/illegal activity – and it remains a vital component of any overall governance strategy. But careful thought needs to be given to the relative benefits of legality/illegality for each of the main actors involved. Forest dependent communities can be very useful allies in detecting malpractice, but only if they can do so without fear of reprisal. Isolated enforcement agents can easily be bought if there are no countervailing incentives. Good data can play a pivotal role in unearthing major frauds if resources exist to interpret it. New technologies such as GIS can also be usefully applied (as in Mato Grosso in Brazil) but only when human incentives are also in place.

A major issue facing the rule of law is the rapid globalization of corporate entities. Trans-national companies have many profitable ways of exploiting the embryonic international frameworks governing their activities (for example the OECD guidelines for multinational enterprises). Inadequate information about ownership and pricing compounds the difficulty in detecting irresponsible practice.

There is also a huge difference between catching non-compliant operators and applying penalties. Judicial resources may be as thinly stretched as forest enforcement resources. Large forest operators are inevitably well connected to powerful officials (or are those same powerful officials). A well-trained and motivated environmental press can be indispensable. Legal training for communities and NGO activists can also help to maintain pressure to ensure that justice is served. Strong political will is a prerequisite. Key considerations include:

- human incentives to report non-compliance at all levels
- additional measures to resist collusion with illegality
- technological advances in law enforcement (e.g. GIS monitoring)
- self-policing – helping communities to do it for themselves
- capacity of judicial authorities on forest issues
- activity of local press and NGO pressure groups
- political will and capacity to withstand pressure.

How? It can be useful if local NGOs both have an understanding of the law in relation to forests (Danso and Opoku, 2005) and can be encouraged to monitor and lobby for change (Williams and Vermeulen, 2005). Setting up telephone hotlines to encourage reporting of environmental offences can be a useful approach (Kazoora *et al*., 2005).

5. Conclusions

Responsible forest business is a shared agenda. It underwrites the advocacy campaigns of many marginalised forest-dependent peoples. It infuses the glossy pages of forest business reports on corporate social responsibility. It fuels the engine of forest certification. It preoccupies increasing numbers of government ministers, committed to major progress on Forest Law Enforcement, Governance and Trade (FLEGT). But the concept of responsibility varies widely across these groups.

I have argued in this paper that adequate definitions of responsibility must be specific about what business is responsible for, to whom it is responsible and during what timeframe it is responsible. In short, it is the broad moral community of those affected by forest business, both now and into the future, who must define what is or is not responsible. In many instances, this will be the global moral community (e.g. in the case of loss of culture, biodiversity and climatic stability). Responsibility must respect the full range of values held by that broad moral community – values such as subsistence, security, social affiliation, creative employment, aesthetic appreciation and cultural identity. It must also respect the broad principles on which that community depends – democratic respect, social and economic justice and ecological integrity.

The most powerful form of business – the corporation – does not have such values and principles etched into its character. Other forms of business do – for example, trusts, cooperatives, companies limited by guarantee. Given the reluctance to enforce more responsible forms of business, the claims of CSR should be scrutinised in detail. Even where strong consumer drivers exist through forest certification, progress towards responsibility is slow and partial. Where there is progress, it is almost universally linked to strong and effective governance.

A conundrum is that voluntary initiatives such as certification formed precisely to address failing in effective governance. Nevertheless, their limited success demands a new look at how to support effective forest governance. This paper has revisited some of the main principles of good governance and attempted to highlight a number of steps about how to implement such principles in practice.

Glossary

Corporate Social Responsibility – The voluntary commitment of business to achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment.

Ethics – A philosophical discipline and systematic endeavour to understand moral values and justify moral principles and theories.

Governance – The traditions, institutions and processes that determine how power is exercised, how citizens are given a voice and how decisions are made on issues of public concern.

Moral community – Those with the capacity to extend moral consideration about a particular issue that affects them.

Responsibility – Compliance with the set of values and principles held by the local, national and possibly even international moral community over the period for which the impact of an action lasts.

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