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Governance, legitimacy, and stakeholder balance: lessons from Fairtrade International

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Abstract

Purpose – This paper aims to explain why Fairtrade International (FI), an organization committed to empowering the producers of Fairtrade certified products, at times (paradoxically), excluded them from its highest bodies of governance. A within-case study of Fairtrade's inclusive and exclusive reforms over 25 years, along with insights from the social enterprise, hybrid governance and political sociology literatures, is used to generate several propositions about how voluntary sustainability standards-setting organizations (VSSSOs) engage stakeholders – especially producers – in governance.

Design/methodology/approach – This study uses process-tracing methodology, which focuses on the sequential, intervening processes that link potentially important variables within a single case. It draws on data from over 100 interviews and nearly 6,000 archival documents collected from FI and its member Max Havelaar Netherlands. Causal process observations were extracted from the documents and compiled to create a 68,000-word chronological narrative used to evaluate six potential explanations of Fairtrade's governance reforms: legitimacy, resources, identity, oligarchic tendency, leadership and producer mobilization.

Findings – This study finds that Fairtrade's inclusion/exclusion of producers reflected its desire to increase its moral legitimacy among external actors and understanding of how to signal legitimacy. The discussion proposes that VSSSOs, especially in times of heightened competition, leverage their comparative advantages to differentiate themselves from other organizations. In cases (like FI) in which the advantage is legitimacy, changing notions of legitimacy may have a destabilizing effect on governance.

Originality/value – This evidence-based account of FI's governance decisions should help resolve some debates about the nature of FI's relationship with producer groups. The broader propositions offer guidance for future cross-case research aiming to explain VSSSOs' governance structure and hybrid governance, more generally. Because FI includes producers in governance to a much greater extent than most VSSSOs, it is an important case.

Keywords Governance, Stakeholder, Legitimacy, Fairtrade, Hybrid organization, Voluntary sustainability standards

Paper type Research paper

Introduction

Voluntary sustainability standards-setting organizations (VSSSOs), such as Rainforest Alliance, the Forest Stewardship Council and Fairtrade International (FI), are non-governmental actors that aim to improve the outcomes of international trade by creating social and environmental standards, accrediting auditors and marketing labeled products (Bartley, 2007). Since the 1990s, VSSSOs have

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proliferated and voluntary labeling has become a popular approach to business ethics (Conroy, 2007, p. 1; SCSKSC, 2012). While VSSSOs have much in common, the ways in which they include producers of their labeled products (farmers and workers) in high-level governance often differ: some give producers equal ownership, while others exclude them completely (Bennett, 2016). This study draws on an in-depth case study to generate propositions about the causes of such wide-ranging outcomes.

First, the article draws on interdisciplinary literatures on hybrid organizations and social enterprises, as well as insights from more traditional political sociology texts, to identify several factors that may shape organizations' decisions about which stakeholders to include. Second, it presents an in-depth case study that evaluates how each factor influenced governance outcomes. The benefit of a single case analysis is that many variables (such as mission and history) remain constant, while the outcome of interest (governance) varies. This study examines the case of FI, the organization that manages the global Fairtrade label. Since its inception in 1988, FI has vacillated between including and excluding producers in its most important governance bodies. Given FI's mission to "*empower* producers to combat poverty, strengthen their position and *take more control over their lives*" (FI, 2015, emphasis added), FI's periods of exclusion are particularly paradoxical. The study draws on an original collection of interviews and archives, including all documents saved to the FI computer server, to offer an evidence-based account of governance reform. It then explains why and how FI decided to include and exclude producers at various points in its history. Finally, it draws on these findings to formulate three propositions about producer inclusion in governance that are likely to be relevant for other VSSSOs as well as hybrid organizations and social enterprises.

This study finds that FI's governance reforms (both inclusive and exclusive) were most influenced by its desire for external legitimacy and ideas about how to pursue legitimation. Other factors, such as resources, identity, oligarchic tendency, leadership and producer mobilization, were less influential. The case study suggests that VSSSOs leverage their comparative advantages (such as legitimacy) in times of heightened competition to differentiate themselves from competitors. It also shows how changing notions of legitimacy can have a destabilizing impact on governance. The conclusion offers suggestions for future research.

Literature: explaining governance structures of hybrid organizations

In this study, the term *governance structure* refers to an organization's systems and processes of direction, control and accountability (Cornforth, 2003). It lays out which stakeholders set the organization's objectives and how those objectives will affect stakeholders (March and Olsen, 1995; Nye and Donahue, 2000). *Governance* is distinct from *management*, in that it addresses issues of vision, power, accountability and strategy, rather than daily implementation of policies and plans (Tandon, 1996, pp. 53-63; Brown *et al.*, 2012, p. 1,098). Governance structures are key to hybrids' success. As Low (2006, p. 380) argues, there are some tensions within social enterprises that *only* governance can address. A crucial aspect of governance is stakeholder engagement (Mason *et al.*, 2007, p. 289). *Stakeholders* are those who affect or who are affected by the organization's mission (Freeman, 1984). Traditional stakeholder theory (focused on the firm) suggests that a stakeholder's inclusion depends on its power over the organization, legitimacy as a good fit for inclusion and urgency in demands (Mitchell *et al.*, 1997). The NGO theory suggests that organizations privilege the stakeholders to whom they feel most accountable (Brown *et al.*, 2012)[1]. In the context of VSSSOs and other hybrid organizations, however, these factors are complicated as competing institutional logics may intimate a variety of outcomes (Pfeffer and Salancik, 1978; Kraatz and Block, 2008; Imperatori and Ruta, 2015)[2].

What are hybrid organizations and what makes their governance so complicated? Hybrid organizations are organizations that combine various institutional logics in unusual or unprecedented ways (Battilana and Dorado, 2010, p. 1,419). Institutional logics are the organizing principals, belief systems and practices predominant in a specific organizational field (Scott, 2001). While a non-hybrid organization can rely a traditional logic to guide its management of internal tensions – such as which stakeholders to include in governance – this is less available to hybrid organizations (Battilana and Dorado, 2010, p. 1,420). VSSSOs are one example of a hybrid organization. They combine elements of the private, not-for-profit and public sectors. They combine various institutional logics as they work within the market, pursue social goals and create new regulations (Reynolds *et al.*, 2007; Huybrechts, 2012). At times, these logics conflict (Renard and Loconto, 2012). For example, the tensions between increasing sales volumes and increasing benefits to producers can generate questions about which logic should direct VSSSOs' activities (Davies, 2009).

One governance problem that is less straightforward for hybrids than other organizations is which stakeholders to include and how to balance them. Until recently, the question of how hybrid organizations select, prioritize and integrate plural institutional logics to balance stakeholders within their governance structures had "escaped scholarly attention" (Greenwood *et al.*, 2010, p. 1; Pache and Santos, 2010, p. 38; Mair *et al.*, 2015, p. 714, 717). Now, scholars have begun to theorize how hybrid organizations navigate their competing commitments to form governance structures (Cornforth, 2004; Low, 2006; Huybrechts *et al.*, 2014; Mair *et al.*, 2015). These studies show that hybrids are at once strategic and diverse in this endeavor (Pache and Santos, 2010; Bertotti *et al.*, 2014): some adopt traditional for-profit or non-profit structures, while others selectively adopt features from various traditions (Mair *et al.*, 2015); some are hierarchical, while others are cooperative or co-owned (Doherty *et al.*, 2014); and some include stakeholders on the board, while others do not (Mason, 2010). Among VSSSOs, there is a great amount of diversity in how the producers of certified goods (farmers, agricultural laborers, factory workers, miners and artisans) are included in governance, even though inclusion of beneficiary groups is widely regarded as a best practice for social enterprise (Thompson and Doherty, 2006, p. 362; Mason *et al.*, 2007, p. 290; Larner and Mason, 2014, p. 192). However, some VSSSOs include producers in governance, while others do not (Potts *et al.*, 2014).

Why is it important for VSSSOs to include producers? Including producers has many benefits (Bennett, 2016). Doing so may increase VSSSOs' sensitivity to local dynamics, mitigate conflicts among stakeholders, foster dialogue, avoid governance crises, maintain broad support, deter splinter groups, legitimize the system and give producers a sense of justice about their workplace (Reynolds *et al.*, 2007; Brown, 2008; Mason, 2010; Auld, 2014). VSSSOs may also include producers for normative reasons: producers have the most to gain; bear much of the burden of standards compliance; and lack other opportunities to influence supply chains (Amoore and Langley, 2004; Collingwood, 2006; Dingwerth, 2008). Finally, from an international relations perspective, bringing producer voices to the decision-making table may help ease the democratic deficit in global economic governance (Haufler, 2001; O'Rourke, 2003). On the other hand, inclusive structures may slow the speed of decision-making, raise the cost of convening and amplify the struggle to find common ground (Blagescu *et al.*, 2005; Conroy, 2007; Mason, 2010; Potts *et al.*, 2014; Mason and Doherty, 2015). Furthermore, it may be difficult for a few individuals to represent large, diverse populations (Doherty *et al.*, 2014); work as a team whilst promoting specific interests (Cornforth, 2014); or prioritize fiduciary responsibilities over the social mission (Low, 2006). Finally, including producers in formal structures is not, alone, sufficient for bringing producer perspectives to the fore. Organizations must also address informal modes of exclusion and offer financial or other forms of support aimed at leveling the playing field (Sutton, 2013). Given these tradeoffs, it is not surprising that stakeholder balance is a key source of tension for social enterprises (Pache and Santos, 2010; Mason and Doherty, 2015).

The benefit of understanding *why* VSSSOs exclude producers and *how* they go about doing so is that advocates of producer inclusion are better able to design policy interventions to meet their goals. The literature on hybrid organizations points to legitimation and resource-seeking as key factors that shape governance structure (e.g. Huybrechts *et al.*, 2014). The broader political sociology literature points to other factors, including organizational identity, oligarchic tendency, charismatic leaders and mobilization of marginalized groups. But it is not clear which of these various factors interact with one another and which one(s) are more influential than others. This project evaluates whether and how each of these six factors shaped FI's decisions about including producers in governance. These potential influences were identified deductively and selected for two reasons. First, they collectively bring different disciplinary and paradigmatic perspectives to bear on the question of organizational change. This pushes the conversation beyond the realm of business, non-profit and management studies (Cornforth, 2003) and engages the political sociology literature appropriate for studying the stakeholder aspects of governance. Second, each suggests a distinct policy prescription for increasing the role of producers in governance, so understanding which one(s) are at play allows the study to offer suggestions about which interventions may be more or less successful at incentivizing inclusion.

Legitimacy

Legitimation plays a powerful role in the survival strategies of non-state organizations (Suchman, 1995; Gugerty and Prakash, 2010; Schouten and Glasbergen, 2012; Bexell, 2014; Gutterman, 2013); fair trade organizations (Reynolds *et al.*, 2007; Utting, 2015); and social enterprises (Dart, 2004); and hybrids (Mair *et al.*, 2015). Failed strategies may jeopardize legitimacy (Galaskiewicz and Barringer, 2012; Bloomfield and Schleifer, 2015) or lead to institutional failure (Tost, 2011). For VSSSOs, legitimacy is especially important. Because they are non-state actors, as opposed to states or interstate organization, their rule-making authority may be especially dependent on legitimacy (Cashore, 2002; Bernstein and Cashore, 2007). Organizations may pursue legitimacy to earn general reputational rewards (Aldrich and Fiol, 1994) or specific types of external support (Ashforth and Gibbs, 1990). One tactic for pursuing legitimacy is governance reform. Hybrids originating in the commercial sector, for example, may seek legitimacy by adopting governance structures commonly used by NGOs (Pache and Santos, 2010). Efforts to bolster legitimacy may appeal to various types of actors in the organization's environment and may be directly or indirectly tied to receiving rewards in return (Dart, 2004).

Resource maximization

From a resource maximization perspective, organizations are "rational systems" designed for the efficient transformation of material inputs into material outputs (Scott, 1987). As such, their structures are part of a broader strategy to secure access to required resources (Campi *et al.*, 2012; Huybrechts, 2010), such as funding or access to information (Pfeffer and Salancik, 1978). This may lead organizations to give wealthier stakeholders greater influence (Brown, 2008; Hammad and Morton, 2011) or restrict stakeholder diversity to homogenize the interests and perspectives at the decision-making table (Conroy, 2007). The result may be elite co-optation or further marginalization of the less powerful (Howard and Jaffee, 2013; Huybrechts *et al.*, 2014), although this is not necessarily the case (Nicholls and Huybrechts, 2016).

Organizational identity

Identity helps organizations answer the question "to which groups do we belong?" and, subsequently, "What does it mean to be credible, acceptable, appropriate or legitimate within these groups?" (Suchman, 1995; Bernstein and Cashore, 2007; Drori and Honig, 2013). Identity defines what is "central, distinctive, and enduring" about an organization (Albert and Whetten, 1985), and in this way, can determine whose norms, symbols, beliefs and rituals an organization's governance structure reflects (DiMaggio and Powell, 1991). Neo-institutional literature suggests that often (but not always) the way organizations see themselves and understand appropriate expressions of their identity is an attempt to mimic the organizations in their field (Kraatz and Block, 2008). Despite this external origin of ideas, the driving force behind decision-making in this explanation is the desire to satisfy *internal* – not *external* – demands for legitimacy (DiMaggio and Powell, 1991).

Oligarchic tendency

Following Michels's (1966) "Iron Law of Oligarchy" (1911), when citizens organize for social change, they generate bureaucratic structures that consolidate power among the few. As the need for formalized structure arises, leaders who initially shared constituents' interests and commitment to the democratic process become preoccupied with organizational maintenance, even at the expense of organizational mission and broad-based support. In this perspective, the reason incumbents reform governance is to increase their own power and control, at times because they believe it is in the best interest of the organization. In the context of hybrid organizations, Renard and Loconto (2012) call this prioritization of incumbents' skills over others' contributions a "logic of competency" (Leach, 2005).

Charismatic leadership

From Weber's (1978) seminal political sociology text *Economy and Society*, the charismatic leadership approach focuses on the role of individual leaders in shaping political and social outcomes. Current work from this perspective focuses on the personal attributes of the actors who "inhabit" organizations and how they may draw on their own experiences, local knowledge and creativity to shape outcomes (Binder, 2007). In this explanation, specific board members or executive-level staff may play a key role in shaping policy outcomes.

Stakeholder mobilization

Social movement theory would approach this research question by thinking about producers as social movement groups and considering the governance bodies as similar to the state. Within this body of work, resource mobilization theory (McCarthy and Zald, 1977) suggests that to answer the question "why do social movement groups sometimes succeed in making policy change and other times fail" (in this case, why do producers sometimes succeed in increasing votes on the board and other times fail), we look at the resources that the group is able to apply to organizing and lobbying. As Hirschman (1970) wrote, to change policy dissidents must be able to organize, mobilize or deliver credible threats of exit. In this explanation, producer inclusion reflects capacity to mobilize.

This study joins a growing body of literature that draws on insights from interdisciplinary literatures in an effort to answer an empirical question about the governance of FI, VSSSOs, and other hybrid organizations (Huybrechts, 2012; Bain *et al.*, 2013; Hockerts, 2015; Holt and Littlewood, 2015).

Case study: Fairtrade International

FI[3] is a transnational, NGO that manages the Fairtrade certification system, the most widely recognized sustainability label in the world[4]. FI certifies over 1.5 million farmers and farm workers in more than 70 countries (FI, 2015). From its headquarters in Germany, FI sets standards that producers in developing countries must meet to be certified by an independent auditor. Standards include adopting environmentally sustainable practices, including women in leadership and belonging to a democratically organized producer's organization. In return, individual producers receive a minimum price (i.e. per pound) and producers' organizations receive a social premium to invest in their community[5]. Each country or region that imports Fairtrade-certified products has a National Fairtrade Organization (NFO)[6] that creates market demand, charges companies a licensing fee to display the label and oversees importers' payment of the minimum price.

FI is part of the broader fair trade movement[7] that aims to "challenge global inequalities and create more egalitarian commodity networks linking marginalized producers in the global South with progressive consumers in the global North" (Reynolds, 2009, p. 8). The movement began in the 1940s when Americans and Europeans purchased handicrafts from citizens of underdeveloped, repressed or war-ravaged countries, and sold their wares without profit (Nicholls and Opal, 2005; Anderson, 2015). In following decades, "alternative traders" scaled up these practices, organized consumer campaigns and began identifying their endeavors as a social movement (Brown, 1993). In the 1980s, alternative traders began "mainstreaming" – using branding and labeling to sell fairly traded goods in conventional retail outlets (Eshuis and Harmsen, 2003; on mainstreaming, see Hughes, 2015; Le Velly, 2015; Wilson and Mutersbaugh, 2015). While fair trade brands competed directly with conventional products, labeling put the onus of marketing on conventional brands themselves (Eshuis and Harmsen, 2003).

Today's FI label and governance structure grew out of the first fair trade certification system (Table I). In 1988, a Mexican coffee cooperative and a Dutch civil society organization established the first fair trade standards-setting organization, the Max Havelaar (MH) Foundation. Its board included three Mexican coffee producers and ten members of the Dutch civil society. MH succeeded in increasing fair trade coffee sales in The Netherlands. This inspired activists in Europe, Canada and the USA to create their own NFOs[8]. By 1997, there were 16 NFOs working closely together, each with its own board. Only two boards – MH Netherlands and TransFair Germany – included producers. The others were comprised of local nationals. In 1997, the NFOs established an umbrella organization called Fairtrade Labelling Organizations International (FLO). Its General Assembly (GA) and board both excluded producers[9]. In 2002, it began reintegrating them into the board and GA. In 2011, FLO changed its name to FI and declared producers equal "co-owners[10]". The resulting reform[11] gave producers half the GA votes and additional seats on the board[12].

The Fairtrade case is well suited for examining stakeholder engagement because FI has made several reforms, both inclusive and exclusive. In addition to extending theory on hybrid governance, this study contributes to the fair trade literature, which highlights several issues about FI's governance. Scholars argue that FI has lacked widespread representation (Lyon, 2011); adopted undemocratic processes (Bacon, 2010);

Governance reform	Nature of reform	Governance body	Role of producers
First label (1988)	Limited inclusion	Max Havelaar Netherlands Board	Producers have 3 of 13 votes
		Producers' assemblies	Producers have all votes, but decisions must be ratified by the board
Label proliferation (1992-1997)	Exclusion	National Fairtrade Organization (NFO) Boards	Producers are only included in 2 of the 16 boards (1 vote in TransFair Germany and 3 votes in Max Havelaar Netherlands)
		Producers' assemblies	Producers haves all votes, but decisions must be ratified by the boards
Unification of labels (1997)	Exclusion	FI General Assembly	No producers. Only national labeling initiatives
		FI Board	Producers have 0 of 5 votes (NFOs have 5)
Producer reintegration (2002-2005)	Inclusion	FI General Assembly	2005: Producers have 3 of 23 votes (NFOs have 20)
		FI Board	2002: Producers have 4 of 12 votes (NFOs have 6) 2005: Producers have 4 of 13 votes (NFOs have 5)
Producers as equal owners (2011)	Inclusion	FI General Assembly	Producers have 50 per cent of votes (NFOs have 50 per cent)
		FI Board	Producers have 4 of 11 votes (NFOs have 4)

Table I.
Producers in FI governance

consolidated power in the North (Renard and Perezgrovas, 2007); abandoned traditions of democracy and trust (Davenport and Low, 2013); and lost transparency (Johannessen and Wilhite, 2010; Mutersbaugh and Lyon, 2010). Several counterfactual studies argue that inclusive governance would have generated alternative outcomes, such as: different policies regarding transnational corporations, certifying hired labor groups and certification fees (Renard, 2015); deciding against the ISO-65 approach to third-party auditing (Wilson and Mutersbaugh, 2015)[13]; and de-emphasizing corporate relations and growth (Jaffee, 2010). Scholars blame governance flaws for perverse outcomes, such as the eroding minimum price for coffee (Bacon, 2010); easy entry for corporations (Jaffee, 2012; VanderHoff Boersma, 2009); equating "fairness" with a minimum price (Mutersbaugh and Lyon, 2010); and diluting requirements for composites (Renard, 2015). Importantly, Reinecke (2010, p. 575) suggests that price increases for coffee may not have been approved by the board had producers been excluded from the vote. Although some scholars do not believe these outcomes oppose producers' interests, others argue that producer exclusion has prevented FI from "radically transforming trade relationships into vehicles for social justice" (Lyon, 2011, p. 162). This study draws on a systematic examination of evidence to explain *why* FI would adopt such exclusive practices.

Data and methods

This study draws on original interview and archival data. In 2011 and 2012, I interviewed 36 individuals (some several times) who were directly involved in creating or altering FI's governance structure, including FI CEOs, directors, board members, staff and producer leaders. Of the 62 interactions with these individuals, 35 were conversations that were recorded and transcribed, 12 were emails and 15 were conversations that generated fieldnotes. I also interviewed 73 individuals familiar with the context in which these decisions were made, including other FI and NFO staff, movement organizations, watchdogs and cooperative leaders. About a third of these conversations were recorded and transcribed; two-thirds generated fieldnotes. Selection followed the "purposive" method of non-random sampling (Tansey, 2007) aiming to include the most important actors spanning key divides, such as producer/NFO and Europe/North America. The interviews were semi-structured, gathering information about the processes of decision-making and arguments for various outcomes. In each interview, I posed the research question to the informants. Interviews were conducted in person, by Skype or (occasionally) via email. These conversations generated insights on important moments in governance reform.

In 2012, I collected archival documents related to governance reform, including meeting minutes, constitutions, strategic plans, agendas, personal correspondence, internal memos, reports and public relations materials. I had unrestricted access to FI's computer server, which contained documents dating back to the late 1990s. I used document/folder names and suggestions from staff to identify files likely related to governance structure, and downloaded 5,480 files for analysis. I also had full access to MH's paper archives, including documents from the 1980s to 2000s. Using binder, tab and document titles to guide my search, I scanned 443 documents likely related to governance. Insights from interviews helped me to identify relevant documents.

This study uses process-tracing methodology, focusing on the sequential, intervening processes that link potentially important variables within a single case (as opposed to correlations of data across cases) (Mahoney, 2000; George and Bennett, 2005, p. 13). The first step was to identify, extract and organize causal process observations (CPOs) from the data. CPOs are extensive, observable data that give in-depth information about context and process (Seawright and Collier, 2004, p. 277). I assigned each document/transcript a number so that the CPOs could be traced to a source. I then read each document to identify CPOs relevant to the process, context and potential explanations for each reform. Next, I pasted CPOs into a chronologically organized document, flagged key evidence for/against each potential explanation and cited the source. I analyzed the resulting 68,539-word narrative to evaluate each potential explanation (Mahoney, 2010, pp. 125-127). Finally, I compared supporting and opposing evidence to adjudicate which factor best explains the outcomes. In rare instances of conflicting data, I privileged archives over interviews[14].

Findings: external legitimation shapes governance structure

This study finds that FI's inclusion and exclusion of producers in governance reflected its beliefs about how organizational structure can signal legitimacy to outside actors. FI reformed its governance in ways it expected would increase its external legitimacy. Legitimation justified each reform. Exclusion, FI argued, communicated "credibility" by showing that the organization could not be corrupted by the group with most to gain. And inclusion, FI argued, demonstrated commitment to its mission of empowerment, by being "by producers and for producers". This section illustrates how legitimacy shaped FI's governance over 25 years.

Explaining limited inclusion of producers in the first label (1988)

The first governance structure was the MH Netherlands Board of Directors. It included producers and the Dutch civil society. Both groups were included to increase the organization's legitimacy in to external actors. The 1992 Report of the Second General Producers' Assembly of the MH Foundation explains that producers were represented "to contribute to the legitimation of the initiative toward consumers, involved roasters, traders and distributors, and politicians" (p. 35). Likewise, according to a founder, representatives of the Dutch civil society were included to gain "social acceptance" and "social support in society". "For successful marketing […] it was necessary to create stakeholders in our own [Dutch] society".

Explaining exclusion of producers in label proliferation (1992-1997) and consolidation (1997)

NFOs proliferated in Europe and North America. Their boards comprised individuals from their own countries. As NFO staff explained, setting up a board in this way demonstrated that the NFO had "support from civil society to form a label initiative" which was a requirement for partnering with existing NFOs. The sole exception was Germany, which included one producer on its board. When 16 NFOs consolidated to form a worldwide organization in 1997, they excluded producers from the new structure, arguing that "[fair trade labeling] initiatives are social certifiers and like organic certifiers they need independence [from producers] to build and maintain credibility" (GA Report, 1997, p. 20).

Explaining inclusion of producers as members (2002) and equal owners (2011)
In the years following the exclusive reforms, FI leaders began to believe that broad exclusion of producers might actually compromise credibility instead of enhancing it. Minutes from a 1999 GA meeting describe the decision to include producers to improve credibility, but limit their influence by giving NFOs veto power:

> The GA agreed that the issues [critiques] raised about FI's structure and decision-taking mechanisms and their [negative] impact on FI's credibility were a priority for FI. The *GA indicated approval for the Executive Secretary, the Board and the Register Committees to have more decision-making power*. Members were reminded that decisions can be overruled if members don't feel the decision making body is competent (GA minutes, 1999, section titled "FLO's Institutional Development", emphasis original).

NFO leaders began to see credibility as a strategy for competing with emerging rival labels. As an NFO director argued in a 1999 speech:

> […] to keep that competitive edge […] We believe that being in the business of "ethics", we should *lead by example* and FI be the "fairest", "most transparent" organisation around […] Our business is the *credibility* that I keep on referring to. This is what FI sells: credibility […] in this age of intense advertising and razor-sharp competition, the image of a company is everything […] .we are advertising ourselves, asking consumers to accept that FI is credible, *because we tell them so*. Is that good enough? Well, we're starting to think it isn't […] We are investigating how to project […] credibility […] (Producer Assembly Report, 1999, pp. 10-11, emphasis original).

FI began re-integrating producers into governance in 2002 as a "means" to the "end" of showing the "outside world" that it was "owned" by the right stakeholders:

> In the "renewed" FI, this stakeholder participation will be strengthened […] Whereas in FI's current structure stakeholder participation is generally informal, in the new structure it will become integral and structural […] *Stakeholder participation is not an aim in itself, but a means* to ensure that labeled Fairtrade is "owned" by all those concerned, *that there is coherence and cohesion in relating to the "outside world"* […] (FI presentation to Fairtrade Forum, 2001, pp. 1 and 4, emphasis added).

Around 2006, competition from alternative labels, such as Rainforest Alliance, increased the importance of demonstrating credibility. As one FI staff explained:

> And suddenly the NFOs are realizing that the money is getting tight and then you look about, you look at your own house, and you think: there's something wrong. *We need more credibility*. On a cynical level, the decision to engage the producers is about credibility of the system […] Of course there are genuinely people in this system passionately believe that is the right thing to do and have always wanted it to happen […] That is the cynical view but it's helped tip the balance in favor or those in the system who have always wanted producer participation.

FI became convinced that producer participation would signal "real commitment" to fair trade and distinguish it from other certifications and own-brand auditing schemes. As the Board's Governance Task Force explained in an internal memo:

> Not only does FI fail to demonstrate a real commitment to the principles of partnership and respect by lacking a truly representative and participative governance structure, but its case for competing with other schemes, such as Utz Kapeh, Starbucks CAFÉ Practices, etc., that we

> would regard as primarily serving industry's needs, is severely weakened (2006, punctuation edited for clarity).

FI leaders looked to external actors for feedback about how governance could signal legitimacy. It hired consultants (NFO letter to Board, 2000), sought advice from the ISEAL Alliance (Staff report to Board, 2006) and pursued ISO-65 accreditation. Each recommended inclusive reform:

> Why should stakeholders be involved in decision-making processes in FI? It gives more credibility to FI. It increases commitment of stakeholders. *It is necessary for ISO* (Internal memo for Board workshop, 2000, p. 1, emphasis added).

External actors responded favorably to the inclusive reforms. One World Trust, a think tank focused on international affairs, published in its 2008 Global Accountability Report[15] that FI had the "best developed external stakeholder engagement capabilities" of 30 organizations studied. It featured FI as a "good practice case study" and highlighted "how the producers of Fairtrade products are now co-owners of the organization" (Lloyd *et al.*, 2008, p. 44). It encouraged the organization to go further, noting that including producers as voting members of the organization would be "an important step towards FI becoming a truly multi-stakeholder organisation" (p. 48). FI took the report seriously. One high-ranking staff explicitly recommended that the Board reference the report when developing governance reforms, calling it a "respected annual publication […] on a range of credibility and trust issues" (Report to the Board, 2009, p. 15). FI immediately addressed several of the report's critiques (GA paper, 2009, p. 2; Governance committee report to board, 2009, p. 17).

FI's most recent reform further illustrates legitimization as a key motivation for reform. In 2011, FI and its US NFO, Fair Trade USA, announced the latter's departure from the global system. This meant that the two labels would compete for the American market. FI differentiated itself by boasting that its policies were developed in consultation with "all stakeholders in the system" (FI, 2011):

> We are proud of the increasingly prominent role of producer organizations in our governance and decision-making bodies. Each year Fairtrade aims to engage in more dialogue and become even more consultative (FI, 2011).

Soon after, Fair World Project, a watchdog, published a comparative study of fair trade certifications. The first question was, "Do you have producer representation on the Board? Explain stakeholder participation particularly the role of producers and consumers" (FWP, 2011, p. 14), reinforcing the importance of producer inclusion. Shortly after, FI issued its annual report. Titled "For Producers, With Producers" and containing the headline "Producers at the Heart of Fairtrade", it announced a new governance reform that made producers equal owners:

> Our participatory approach is what makes Fairtrade Standards so unique […] We're proud of our multi-stakeholder system […]. The people we serve have a strong say in how Fairtrade is run. We took that to a new level last year, when the GA voted unanimously to make producers equal owners of the global Fairtrade system. Producer representation in the GA will increase to 50 per cent, giving producers an equal voice in Fairtrade's highest decision-making body […]. Fairtrade producers are represented on the Board of FI and its committees. The 50-50 decision makes a further strengthening of our unique ownership model (FI, 2012, pp. 5, 8, 18).

When I asked a FI board member about the impetus for inclusion, she responded:

> We felt that a key element in the credibility of fair trade is having producer backing and the sort of sense of ownership. And if we didn't have that, we'd probably die […]. So we've got to keep producers with us […] What is going to differentiate Fair Trade USA and Fairtrade International in the future – what is Fairtrade International's unique potential – is its system of multi-stakeholder backing.

I conclude that legitimation played a key role in determining how FI incorporated producers into its governance structure. More specifically, it reformed its governance structure to attract praise from NGOs and the press, in the hopes that companies that wanted to be associated with the most "morally legitimate" certification would select Fairtrade-certified products (see also similar findings from Doherty *et al.*, 2013, p. 173; Nicholls, 2010, p. 105). This finding supports extant research in suggesting that conformity to societal and stakeholder expectations is a more salient motivation for governance reform than efficiency and effectiveness (Dart, 2004, p. 413).

Findings: alternative explanations

Resource maximization

Although some leaders cited expenses as a reason to exclude producers (in the lead up to exclusive reforms), the resource argument was not often or forcefully made, compared to the legitimacy argument. And it was never used to justify inclusion. In 1988, MH Netherlands included producers on the board, despite high costs. Although they discussed "doubts" about "cost" and "time efficiency" of including producers, the benefits of "facilitating permanent formal communication" were paramount (MH Report, 1992, p. 35). As a founder explained, the marketing staff and producers had little overlapping knowledge, and were "completely dependent" on one another (interview).

When new NFO boards were formed (1992-1997) and the consolidated structure was created (1997), cost of inclusion was a contributing factor. New European and North American NFOs were able to rely heavily on MH for identifying and maintaining relationships with producers, instead of building those relationships themselves. As one NFO staff recalled in an interview, "There was a registry, that's how we found all the producers we wanted to work with". Another NFO director had a similar experience:

> […] we were able to get started in [our country] almost instantly because we just took the TransFair importer and roaster and license agreement, translated them, and moved into the system of chain of control of coffee supplies […] with very little effort on our part.

The manager of MHN's producer register tells a similar story:

> When an initiative in a country started they would contact me […] and I would give them the list of [producer] co-ops that were actually registered, volumes, types of coffee they had available […] I would feed them with info or make contact with a [producer] co-op for them so they could set it up.

Unlike MHN, which relied heavily on producers' expertise, the NFOs no longer saw producers as possessing valuable information or skills. One NFO director explained why the contributions of producers would not outweigh the costs of including them:

> [Producers] definitely didn't have a vote [in the NFO's board of directors]. To have producer representatives of national initiatives to me still doesn't make sense because a national

> initiative is all about marketing. They are trying to sell the logo in their respective national markets. To expect a coffee farmer from Costa Rica to understand the UK or the German market and come up with ideas and contribute how best to increase market shares doesn't make much sense.

In 1994, NFOs began discussing uniting under a single, global governance structure. The goal was to facilitate "fast and simple decision-making" (GA report, 1997, p. 20). The impetus for this reform was to make the system more cost-effective and efficient (NFO staff; FI proposed strategic plan, 2003, p. 6); to streamline communication with producers (NFO board member); and to draw on economies of scale to compete with other labels (NFO staff). As one NFO board member explained, "It's not really about producers – it's that we had to combine and make it more efficient and more cost efficient especially".

> [FI's] foremost duty to both is to ensure that it carries out its mandate as *efficiently* and *effectively* as possible. Its infrastructure must enable it to do that from inception, despite FI being created by NFOs which have developed organically and separately. It is crucial that this audit disregards the political pressures FI is under to harmonise different approaches, and suggests an optimum efficiency structure for it to carry out its work (Working group memo, 1998, p. 3, emphasis original).

Despite the role that material resources played in producer inclusion, no evidence suggests that leaders perceived an *increase* in producers' ability to contribute or a *decrease* in the costs of inclusion after 2002, when inclusion increased. Although telecommunications access improved (possibly reducing costs)[16], this was not acknowledged. Resource concerns did not consistently shape governance.

Organizational identity

Evidence suggests that producer empowerment has *always* been central to FI's identity and FI consistently understood the structural implication to be producer inclusion.

MH made this point in 1992, and the result was *inclusion* of producers:

> 1) It is the structural expression of the principle that the Max Havelaar initiative has not only been launched *for* the producers but mainly *with* them […]. *It's the structural expression of the character of the Max Havelaar Foundation* as an alliance of producers in the Third World and consumers in the industrialized countries (MH Report, 1992, p. 35, emphasis added).

This was repeated by an NFO in 1997, but the result was full *exclusion* of producers:

> *In principal* it ought to be 50 per cent producers and 50 per cent labeling organisations *in such an international organisation*. At the least the producers should have the right to vote. The influence of producers should as a minimum be increased (NFO memo to other NFOs, 1997, pp. 1-3, emphasis added).

Here, an FI leader's presentation to the multi-stakeholder Fairtrade Forum in 2001 underscores the point that producer integration has always been key to the organization's identity, even when the governance outcome was exclusion:

> Since its inception a dozen years ago, Fairtrade labelling has always sought to integrate producers, traders and retailers in its policy development and decision making (pp. 1, 4).

Finally, in 2006, the FI Governance Committee reiterated FI's producer-centered identity and its structural implications. The result was producer inclusion:

> Excluding producers from the membership is to not recognise that they provide the *raison d'être* of the system […] to relegate them to a role of simple suppliers of raw materials. Fairtrade International thus doesn't live up to the empowerment model it promotes (FI governance committee memo to board, 2006, p. 2).

These excerpts suggest that organizational identity remained constant while governance outcomes varied. This suggests that organizational identity was not key in shaping reforms.

Oligarchic tendency

Evidence suggests that incumbent leaders reformed governance to increase their own control in some but not all reforms. In 1997, the NFO staff deployed this logic of competency in justifying the full exclusion of producers. They argued that their knowledge and skills were more important than the contributions of producers in the South. As a fair trade organization staff member articulated:

> The labeling initiatives thought or said that *they* are the experts on the market and if the *producers* take decisions which are against the market interests, that would then destroy the initiative.

Likewise, an FI director explained that Northern staff thought that they were better suited to understand and navigate the demands of the consumer market:

> There were almost certainly a number of national initiatives who thought [giving producers a vote] was a bit of an invasion of their prerogatives. They were worried that producers would start to make ideological decisions which would have an impact on their market efficiency and effectiveness in the market […].

One of the first producer representatives to the FI board explained how the FI staff began to prioritize organizational maintenance over broad-based support:

> The *early* traders would consult with and collaborate with the communities of producers with whom they worked – they had the *emotion* – the *way of being* – of social movement people. The people who work in fair trade *today* do not carry that emotion of social movements. Instead of collaboration, they seek standardization, formalization, professionalization.

In a memo from the FI Governance Committee to the Board, NFO leaders argued that they could step back and see the bigger picture of Fairtrade labeling, whereas producers would simply be focused on increasing their profits. For this reason, they "strongly expressed reservation" to "sharing ownership with producers" (2006, p. 1). While incumbents deployed the logic of competency in justifying exclusion, it was not used to justify inclusion. This factor cannot consistently explain outcomes.

Charismatic leadership and stakeholder mobilization

This study finds no evidence to suggest that individual leaders manipulated the agenda, discussion or outcomes of any governance reform at any period on FI's history. Thus, charismatic leadership is not a principal explanation. The study also rules out variation in producers' capacity to mobilize as a driver of governance outcomes. Producers opposed their exclusion consistently over time. They were not more capable of mobilizing or presenting credible threats in moments preceding inclusionary reforms. Likewise, they were not silent or passive in the moments preceding exclusion. For example, when the 1997 exclusion was announced:

> [One producer] got up and said, "How come you say this is for farmers, and when it comes down to it, we only have voice and not vote, to put it in European terms!" And the European who was standing up in front of this group started sputtering and got angry and [...] .there was pretty heated exchange [fair trade movement member].

Discussion

Here I explain, in three points, *why* FI included and excluded producers in governance. Bearing in mind that VSSSOs are extremely diverse in how they include or exclude producers in governance, and that producer inclusion is *not* the norm (Bennett, 2016). I also propose *how* these findings might apply to other VSSSOs or hybrid organizations. Each proposition includes suggestions for future research.

P1. VSSSOs create strategies to leverage their comparative advantage. For some, that advantage is legitimacy

FI was concerned about whether NGOs, consumers, corporations, donors and watchdog groups believed it was legitimate because it felt that convincing these external actors of its legitimacy would increase their support of the Fairtrade label and, in turn, Fairtrade's market share (Nicholls, 2010, p. 109). By building a reputation as a high moral status label (relative to competitors), FI could either attract new licensees or discourage existing licensees from switching to lower-cost standards (Reinecke *et al.*, 2012, p. 801 on "switching costs").

Organizations can pursue legitimation with different actors and through various strategies. In this case, FI aimed to build legitimacy with external actors by generating benefits to producers. This can be understood as an example of moral legitimation. Legitimation processes of this kind focus on "the normative domain of propriety rather than self-interest". Moral legitimacy is accorded when "activities are undertaken as they should be, in reference to broader norms in the sociopolitical environment". Legitimation strategies of this kind are contrasted with "pragmatic legitimacy", in which organizations generate value or benefits to the actors with whom they seek legitimacy, in a sort of exchange (Dart, 2004, pp. 418-420). As Huybrechts and Nicholls (2013, p. 140) argue, this sort of moral or reputational legitimacy seems to be the main source of power within the fair trade social enterprise community.

Unlike FI, other VSSSOs may not identify legitimacy as their best competitive strategy, or may engage in different legitimation strategies, or target different actors. For example, a VSSSO may adopt other types of best practices (Utting, 2015, on RSPO) or aim to become the most affordable certification by reducing standards or benefits (Reynolds and Bennett, 2015, on fair trade). VSSSOs may not be able to choose an advantage – it may be tied up in the organization's history and existing reputation (Reinecke *et al.*, 2012, p. 804). FI, for example, was supported by social movement groups that had already criticized its minimum fair trade price for not keeping up with inflation (Jaffee, 2012). Given this context, it would have been difficult for FI to create a strategy based on lowering costs.

Cross-case research should examine how VSSSOs identify existing comparative advantages and leverage them to differentiate against competitors. Among competing VSSSOs, we would expect the organization with greatest legitimacy with a specific group to continue engaging in legitimation activities with that group. Likewise, we would expect VSSSOs known for offering the lowest price to compete by continuing to lower prices. Koppell (2010) suggests scholars will likely find evidence of an organization's competitive strategy within its governance structure. He argues that even disappointing features of a governance structure "are not random attributes but key elements of their strategies for survival and effectiveness" (p. 6). Thus, one strand of future research should focus on the linkages between legitimation strategies, comparative advantages and governance structure. A second avenue for future research is to understand whether and how the motivation of moral legitimacy affects the implementation of governance reforms. That is to say, does FI facilitate producer inclusion any differently because their inclusion was motivated by legitimation with external actors? Here we see a need for more ethnographic and close field work on governance in practice, such as Sutton (2013) and Reinecke (2010).

P2. VSSSOs invest more in bolstering and/or marketing their comparative advantages in times of intense competition. Such investments may include structural reforms.

In the case of Fairtrade, each reform – whether inclusive or exclusive – was intended to bolster legitimation with external actors to increase competitiveness in the face of a specific competitive threat. In 1997, FI faced competition from newly emerging labels; in the early 2000s, FI began losing market share to competitors; and in 2011, FI had to compete against newly independent Fair Trade USA for the American market[17]. It responded by "betting that a more inclusive governance structure and stakeholder consultation can be sources of competitive advantage […] " (Sheridan, 2012).

This may be a tendency shared across VSSSOs and hybrid organizations. Reinecke *et al.* (2012, p. 798) similarly find that sustainability certifications tend to compete for market share by differentiating themselves from their competitors, as opposed to collaborating or merging with the ones most like themselves. Other hybrid organizations have similarly responded to market threats by adjusting governance relationships and publicizing those reforms. Davies *et al.* (2010) describe this occurring in the case of Cafédirect, a fair trade company in the UK. When Cafédirect experienced shrinking market share (around 2004) because of the emergence of supermarket own-brand labels and large companies' fair trade lines, it identified its "organizational values" as a comparative advantage and leveraged this advantage by "shouting about" the organizations' values-driven relationships with producers in its marketing (esp. pp. 134-135)[18]. Fair trade scholars, too, suggest that committed fair trade social enterprises may compete with "fair trade lite" schemes by bolstering and showcasing the ways in which they live out their foundational principles, compared to less rigorous newcomers. Doherty *et al.* (2013, pp. 180-181) suggest that this may take the shape of developing standards for supply chain actors further up the value chain, such as traders or distributers.

Cross-case research should examine the relationship between threats to market share and other types of investments in comparative advantages and differentiation. For example, we would expect a VSSSO that touts flexibility to work across diverse products to increase that flexibility (comparative advantage) in times when competition becomes concerning. These investments may include structural reforms, which are often strategies for adapting to shifts in environmental challenges and constraints (Koppell, 2010, p. 21). A potential negative implication of competition by differentiation may be that "fair trade lite" and other diluted schemes may continue to eschew the ethical aspects of their ventures, as they are unable to compete with organizations more committed to ethical principles. Research may thus focus on how one organization's differentiation via moral legitimacy generates constraints or opportunities for other VSSSOs.

P3. Changing notions of legitimacy can destabilize governance structures and create diversity among legitimacy-oriented VSSSOs.

The Fairtrade case illustrates that even when an organization consistently prioritizes legitimacy, its governance structure may change. These reforms reflect changing notions of legitimacy – evolving ideas about what it means to be legitimate. As other studies have suggested, the expectations of board composition and other governance attributes have changed over time (Huybrechts *et al.*, 2014). As seen in FI, changing notions of legitimacy may challenge the stability of governance structures. This instability is atypical for hybrid organizations (Battilana and Dorado, 2010; Pache and Santos, 2010; Doherty *et al.*, 2014). Currently, multi-stakeholder governance structures are *en vogue*. Meidinger (2011, p. 416) observes this in the forest certification sector, where many programs have "begun to stress the importance of multi-stakeholder decision-making" "to compete". Similarly, a study of Belgian fair trade social enterprises reported that two enterprises were planning to incorporate producers in governance for the first time in the near future (Huybrechts, 2010, p. 117). Other activities in this field have likewise moved from taboo to acceptance. For example, Davies *et al.* (2010, p. 136) show that when fair trade organizations began placing products in conventional retail outlets, or "mainstreaming", so many people believed that working with supermarkets was hypocritical, that fair trade advocates had to post "convincing campaigners outside of supermarkets to talk people into purchasing in these new venues". Today, mainstreaming is a widely accepted practice.

Changing notions of legitimacy may also account for diversity among legitimacy-oriented organizations because not all VSSSOs will change their governance reform each time the definition of legitimacy shifts. In other words, a competitive VSSSO that is not concerned about losing market share may maintain a legitimacy-oriented structure long after that notion of legitimacy is out of style. Cross-case research on this proposition should examine whether organizations that seek legitimacy from similar actors and reformed governance around the same year made similar decisions about how to change their governance structures. Future research might also investigate whether and how VSSSOs have experienced loss of moral legitimacy by not following trends. It would also be interesting to better understand which actors in the NGO, watch dog and civil society community wield the most influence in shaping governance norms for sustainability standards-setting organizations. Identifying such pivotal actors may also help advocates of producer inclusion to more accurately target their advocacy efforts.

Conclusion

Together, these propositions offer potential explanations for both changes in an individual VSSSO's governance structure and for the diversity of governance structures within the sector. This study suggests that VSSSOs leverage their comparative advantages, such as legitimacy, to differentiate from competitors, and that these strategies of differentiation may take the shape of governance reforms. This is more likely to occur when competition is intense. For legitimacy-seeking VSSSOs, changing notions of what it means to be legitimate can destabilize governance over time and lead to diverse outcomes among similarly legitimacy-oriented organizations. Future cross-case research should examine the intersections of comparative advantage, structural reform, competitive threats and changing notions of legitimacy to better understand how hybrids make decisions about which stakeholders to include in governance.

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Notes

1. It is not always obvious which stakeholders should take priority (Brown, 2008).
2. For example, Battilana and Dorado (2010) show how microfinance organizations are pulled between the logic of development and the logic of banking.
3. Called Fairtrade Labelling Organizations International (FLO) from 1997 to 2011. This article uses the current name. Quotes/excerpts are updated.
4. In a survey of 17,000 people in 24 countries, 57 per cent recognize the Fairtrade label. Of those who recognize it, nine of ten trust it (Globescan, 2011).
5. Common investments include technology, social projects and pre-financing for agricultural inputs (Nelson and Pound, 2009).

6. Previously "National Labeling Initiatives" (NLIs). This article uses the current name. Quotes/excerpts are updated.
7. "Fair trade" as it refers to the movement, products, organizations or concept is spelled as two words.
8. Then "National Labeling Initiatives".
9. Previously "Meeting of Members" (MoM).
10. Then it was radical for even small companies to include producers (Doherty and Tranchall, 2007; Huybrechts and Reed, 2010).
11. Effective 2014.
12. On FI governance history, see Bennett (2015).
13. The International Organization for Standardization is the largest developer of voluntary standards. Guideline 65 requires standards-setting and certification bodies to be independent from one another, transparent, non-biased and well-managed.
14. Individuals and, at times, organizations are made anonymous by using job titles (even when a position is not currently held) and general descriptions instead of proper nouns. Gender pronouns are assigned randomly.
15. GAR is an "assessment of the accountability of the world's most powerful organizations to the people they affect" (One World Trust, 2015).
16. UN ITU "Facts and Figures" at www.itu.int/en/ITU-D/Statistics/Pages/facts/default.aspx
17. Fair Trade USA's Achilles heel may be legitimacy. It lacks transparent governance; is not endorsed by key movement actors; and in 2011, consumers sent nearly 10,000 letters criticizing its appropriation of the name "fair trade" (OCA, 2011).
18. In general, fair trade organizations were experiencing threats to market share at that time (Doherty *et al.*, 2013, p. 175).

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