

Capitalism

IN QUESTION

The Lifeworth Annual Review of
Corporate Responsibility in 2009

LIFEWORTH 2010

By Jem Bendell,
with Ian Doyle,
Jonathan Cohen,
Emma Irwin
and Nicky Black.

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Capitalism in Question: The Lifeworth Annual Review of Corporate Responsibility in 2009.

Written by Jem Bendell, with Ian Doyle, Jonathan Cohen, Emma Irwin and Nicky Black.

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It is impossible for a writer to know the impact of their work. We hope these reviews have been of some use, in encouraging you to pursue meaningful change through your research or practice in the responsible enterprise field. If you have followed this work over the years, then thank you. Please stay with us until the end of 2010, through the Journal of Corporate Citizenship, or in 2011, when a 2nd period of five years of world reviews will be put into a new book (following up the book "The Corporate Responsibility Movement" which came out in March 2009). In addition, Jem continues to provide analysis through a personal blog (via www.jembendell.com) and business blog (www.lifeworth.com/consult)

Thanks,

Jem and Ian

AUTHORS

The Introduction is by Jem Bendell, First Quarter is by Jem Bendell and Jonathan Cohen; Second Quarter is by Jem Bendell and Ian Doyle; Third Quarter is by Jem Bendell, Ian Doyle and Emma Irwin and Fourth Quarter is by Jem Bendell, Ian Doyle and Nicky Black, apart from the sections on climate change, written solely by Jem Bendell.



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FOREWORD BY MALCOLM MCINTOSH



The costly action by governments around the world in the face of a financial crisis contrasts with the current stalemate on climate policy. In that context more people, in all walks of life, are discussing the big questions – what kind of world we live in and what kind of world we want. A silver lining to the dual financial and climate crises is the vibrancy of that debate. One aspect is the growing conversation about the future of our economic systems – the future of capitalism – that is highlighted in this Annual Review from Lifeworth.

Deep changes will be required in economic governance if we are to achieve a sustainable society. Perhaps it is not capitalism per se that is in question but the model of capitalism that currently drives the world economy that is now coming into question. Capitalism will change, there is no doubt, and it must change so that it delivers both private wealth and public good.

The lead author of this annual review, Jem Bendell, is an important commentator on the world stage when it comes to corporate responsibility and after more than a decade working together in various ways he and I are now connected through our work at the Asia Pacific Centre for Sustainable Enterprise at Griffith Business School in Brisbane, Australia.

We do have choices and the result of our work over the last few years through the lenses of human security and sustainable enterprise reinforces the view that almost all human tragedies are preventable. We can do something about this, and here is a brief outline of what is necessary. This taken from our latest book, *Perspectives on Human Security* edited by Malcolm McIntosh and Alan Hunter (Greenleaf Publishing: Sheffield UK, out later in 2010):

The challenge, and the opportunity, for business, and society as whole, is to rewire our brains:

- Paradigm shift: we are at a moment where, according to Thomas Kuhn's definition of a paradigm shift "one conceptual world view is replaced by another". Kuhn argued that scientific advancement is not evolutionary, but rather is a "series of peaceful interludes punctuated by intellectually violent revolutions". We are at such a moment.
- Think flows: instead of thinking of static relations start seeing all relations and all materials as in a state of change, flux and movement. This leads to expecting difference, to spotting turbulence, to navigating as in a fast moving river and to being able to understand and absorb random events.
- Decarbonisation & dematerialisation: this new language will become the language of private and public policy for this century. How can we do more with less?
- Efficiency: fossil fuel based economies are inefficient because these materials have been cheap and thought to be unlimited but with a reduction in availability and the introduction of carbon pricing this old model of industrial capitalism is passing rapidly – see paradigm shift above.

- Rationing & excess: the end of mass consumption is heralded by carbon constraints, by developed countries reining in spending at both public and individual levels and by their adoption of the Asian model of saving before spending. We all also have to get used to understanding that the emphasis on wellbeing, resilience and social cohesion is a return to collective action and the distribution of resources through a mixture of public policy and market behaviour.
- Localisation: carbon pricing and rationing coupled with an emphasis on food and energy security means that there will be an even greater emphasis on ‘buy to last’ and ‘buy local’.
- Travel less: the cheap travel economy has run its course and carbon pricing plus a realisation that cheapness often means extreme discomfort and low quality will lead to a search for quality nearer to home, especially for Northern Europe where summers will in the main get warmer.
- Resilience and social cohesion: all business and communities should have learnt the lesson of the global financial crisis that liquidity is all and over extension leads to crashes. This reality is already forcing people in developing countries to pay off their credits and save more than they spend. The growing understanding that the climate change prognosis is that there will be an increase in dramatic, random, extreme local weather events – fires in Australia, floods in the UK, droughts in Africa – also requires all elements of society to become more hazard-adaptive and resilient. Collective action to embrace greater resilience and reduce risk should lead to greater social cohesion as we all understand that our lazy, greedy, ever-expanding life styles require individual, community, national and international action to reduce our waistlines, reduce our pollution, be more efficient and engage in adaptation work to tackle climate change.
- Distributed response: since men landed on the moon in 1969 and took pictures of the Earth looking back we have known that the world is one. The climate change science forces a greater need for concerted, coordinated international action and a new role for global governance, which is not be confused with global government. International action will be connected to distributed response mechanisms as it is understood that the world is a continual state of flux and that the idea of central control is no longer tenable and that the way to manage unstable situations is to have coordinated responses from a variety of centres. So, just as a call from a mobile ‘phone may take a number of possible routes to reach its destination so too resilient communities will know that there must be a variety of possible solutions to any given problem.
- Consumption: In developed economies the emphasis is moving from economic growth to harmony & wellbeing. This has led to the development of happiness economics and initiatives such as French President Sarkozy’s *Commission on the Measurement of Economic Performance and Social Progress* and the development of carbon footprinting techniques.

‘Capitalism In Question’ invites us to explore what kind of economic system we will need for a sustainable enterprise economy. It highlights how leaders from business, government and civil society are now joining that exploration, and the results could be hugely important for all of us.

The revolution’s coming. The Lifeworth Annual Review is part of that revolution in thinking and I commend it to you.

Malcolm McIntosh

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CAPITALISM IN QUESTION: INTRODUCTION

Dr Jem Bendell

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Not many people want to look back on 2009. Not if they are thinking about the state of the world. Indeed, the decade as a whole does not look too distinguished, given steeping carbon emissions, new frictions and restrictions due to security concerns, and the mortgaging of future generations' welfare to prop up banking-as-usual in some countries. On a scale of human progress, to some the decade counted for nought – hence the aptness of our new label for the decade: The Noughties.

But bear with me. There is reason to look back at 2009 one more time. Looking at a year, indeed a decade, gives us a framework to look for patterns, for wider realities than our immediate day-to-day concerns. To do that can help us awaken to truths we may fear to see. Truths which could shape our future action, in the corporate responsibility field and beyond. Its time to take the bitter pill and wake up to the underlying causes of our common problems.

The first key insight from the year is a reminder that government matters, and that government can act. Although a hands-on role for the state has been the norm in some countries, the past two decades witnessed a rolling back of government involvement even in (former-)communist countries such as China, Vietnam and Cambodia. In 2009, as new government regulations were announced, further nationalisations of financial institutions became necessary, and economic stimulus packages were agreed around the world, government once again took on a position to shape economic activity. Asian

countries committed \$1.153 trillion in stimulus money, with the spending plans ranging from 1 percent of GDP with the Philippines at 4.4 percent, and China with 12 percent respectively. According to the European Commission, the executive arm of the 27-nation bloc, EU stimulus amounted to between 3.3 and 4 percent of GDP. The U.S. committed \$787 billion, or about 5.5 percent of GDP (see the 'The Return of Government' pg. 21).

Much of the corporate social responsibility (CSR) field has been predicated on a belief that government is constrained by global finance and can, or should, only intervene in markets to a limited extent. The giving of huge amounts of money to private banks may suggest that global finance is still dominant, but it also shows that sometimes when called on to act, most governments will intervene in markets in dramatic ways. The inclusion of social and environmental considerations into the various stimulus packages undertaken in 2009 indicates that these aspects of business have become a mainstream idea in policy circles (see 'The Sustainability of Stimulus' pg. 22). Indeed, the relative percentage of stimulus spent on 'green' industries was relatively higher in China and South Korea than elsewhere, highlighting the rise of environmental business awareness in East Asia, as we chronicled in our review of 2008 – The Eastern Turn in Responsible Enterprise¹. However, what these stimulus packages also reveal is the dependence of governments around the world on maintaining economic growth rates – a situation which is not without environmental cost and social disruption (see 'If the Problem is the Prescription', pg 24). The implications for CSR of the problems with compelling economies to grow in a resource-constrained world was discussed in our review of 2007, The Global Step Change.²

The impasse reached in Copenhagen, at the 15th conference of parties to the UN Framework Convention on Climate Change, also highlighted how governments are constrained by a policy paradigm of promoting relatively short-term

economic growth in their own countries. Although some companies pushed in good faith for intergovernmental action, the impasse also highlighted the perverse effects on policy of commercial interests, which had led to over a decade of talks on carbon capping and trading, rather than simpler more efficient approaches to carbon reduction such as carbon charging. Something that, rather ironically, had been in place in Copenhagen since the early 1990s (see our extended analysis of this issue in the sections beginning 'The Impasse on Climate', pg. 54).

BANKERS IN QUESTION

The Copenhagen stalemate was one reason why many people who are concerned at the state of our world sounded downhearted at the close of 2009. The news that bankers were pulling in huge bonuses, while recession continued, led to incredulity, even disgust. Earlier in the year, an opinion poll in the US had revealed for one of the first times greater trust for politicians than business leaders.³ Bankers have been increasingly attacked from even conservative commentators as "robber barons", "economic vandals", "vulture capitalists". Bankers therefore began their public relations fight back, the content and tone of which opened up the debate even further. Lloyd Blankfein, Goldman Sachs' Chairman and Chief Executive, declared his and his colleagues huge bonuses a reward for doing 'God's work'. His explanation was that "We help companies to grow by helping them to raise capital. Companies that grow create wealth. This, in turn, allows people to have jobs that create more growth and more wealth. It's a virtuous cycle." He summarises that "We have a social purpose."⁴

It's a view not shared by critics who see Goldman and other investment banks as profiting from inflating one bubble to the next. In a concluding a stunning analysis in Rolling Stone, which shows just how popular the debate about capitalism is becoming, Goldman Sachs was described as "a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money."⁵ The Sunday Times explained the ability of large investment banks to predict market movements because they help move those markets through advising various clients. Like "a huge casino in which the house knows every hand at the table and uses that

information to enrich itself at the expense of everyone else."⁶ Hollywood reflects the new interest in debating capitalism. In his latest documentary, Capitalism: A Love Story, Michael Moore drives up to the New York office of Goldman Sachs in an armoured money van, jumps out carrying a sack with a giant dollar sign on it, looks up at the building and shouts: "We're here to get the money back for the American people!"⁷

As well as some anger at bankers, the financial crisis has led many in the West to ask deeper questions about finance in general and, therefore, about capitalism. At the start of the crisis, European leaders were heard blaming the Anglo-Saxon model of capitalism. The arguments of such leaders including President Sarkozy of France, helped remind people of the different models of capitalism. "Purely financial capitalism has perverted the logic of capitalism," he said. "Financial capitalism is a system of irresponsibility and ... is amoral. It is a system where the logic of the market excuses everything... Either we re-found capitalism or we destroy it."⁸

Different forms of capitalism have different implications for voluntary corporate responsibility, and that during 2009 some began looking at the experience of Francophone business to gain a broader perspective (see 'Francophone CSR' pg.35 and 'Francophone African CSR' pg. 38). Although certain European nations, including France, did not do as badly during the financial crisis as some Western nations, they still suffered and questions were asked of their forms of capitalism as well. Prime Minister of Russia, Vladimir Putin suggested "The entire economic growth system, where one regional centre prints money without respite and consumes material wealth, while another regional centre manufactures inexpensive goods and saves money printed by other governments, has suffered a major setback." He continued "the economy of the future must become an economy of real values. How to achieve this is not so clear-cut. Let us think about it together."⁹

Top business leaders also began expressing doubts about capitalism. "The global financial crisis and recession has Kazuo Inamori rethinking capitalism," reported USA Today. He is the founder of Kyocera, a Japanese manufacturer of products ranging from ceramics to cellphones, with annual revenue around

\$13 billion. "Capitalism was able to bring previously unknown levels of prosperity to humankind. We have now fallen into an unprecedented recession brought about by capitalism," he explained. "Overcoming the current difficulties will require us to refine the free-market economic model... We must use the wisdom of humankind to modify the current form of capitalism into a more moderate version... We need to seek profits supported by sound ethics and a strong sense of morality." He considered the environmental conundrum of economic expansion key to this needed rethink. "There is a limit to the amount of food and energy on the planet. It should be clear to anyone that an endlessly more affluent and comfortable lifestyle is impossible to maintain in light of the finite nature of the Earth's resources. It is impossible for humankind to prosper on this planet indefinitely under the current form of capitalism. The time has come to fundamentally rethink how nature and living beings can coexist and live symbiotically within the limited space of our planet," said the 77-year old elder-statesman of Japanese business.¹⁰

With the passing of the Cold War people assumed that capitalism was as natural as day, rather than a political economic construct that has been in struggle with other economic forms. Not any more. 2009 was the year that capitalism became political again.

CAPITALISM WRITING ON THE WALL

Publishers realised that capitalism is now in question. A number of books came out that sought to provide historical context for the financial crisis, including *A Cultural History of Finance*¹¹, *Debating Varieties of Capitalism*¹² and *Contested Capitalism: The political origins of financial institution*¹³s. Looking at the less academic books in English, targeted more at the mass market, give us insight into the contours of the emerging debate, at least in the West. Some books provided lively reads that put the crisis down to "too much" - whether too much greed, too much leverage, too much power to move markets. *Hoodwinked: An Economic Hit Man Reveals Why the World Financial Markets Imploded – and What We Need to Do to Remake Them*, gave an insiders' view that was so raw it will inspire many to seek deep changes in the economic system, but such changes were not the focus of the book.¹⁴ In *Debt Spiral: How Credit Failed Capitalism*, Martin

Lowy focused on the need to control leverage and derivatives better, and stop financial players influencing the rules of the game.¹⁵ Robert J. Barbera argued that some instability is The Cost of Capitalism, with the upside being the innovation and growth that it creates.¹⁶ In *The Trouble with Markets: Saving Capitalism from Itself* RP Boadle looked a little deeper at the values and emotions that contributed to the crisis, but did not conclude a need to change the basic factors that reward certain values and behaviours, such as the interest-based money system.¹⁷ Indeed, when looked at together, these critiques suggest that some new regulations can fix the problems of capitalism. That is an analysis that even some bankers would concur with, including the Goldman Sachs CEO: "If we didn't understand the limits of unfettered capitalism before, we sure do now. Anything that makes the system better, safer, is good for us."¹⁸

Other analysts painted a far more damning picture. In *Cornered: The New Monopoly Capitalism and the Economics of Destruction*¹⁹ the regular Harpers and Financial Times contributor Barry Lynn, asks us to look beneath the current crisis to recognise the consolidation of power in all sectors of the US economy, a process mirrored around the world. The financial crisis is therefore argued to be just the most recent result of government regulatory functions being captured by monopoly forces. Lynn proposes major government intervention to break up monopolies, but does not address other failings of capitalism. Another new book described some processes by which such monopoly control is developed. From research across Eastern Europe to the US, anthropologist Janine R. Wedel described how a Shadow Elite of individuals move seamlessly between government, private sector, academe and NGOs to manipulate the agendas of society. However, as a descriptive piece, solutions were not offered for how to transform that undemocratic influence.²⁰

Another set of recent books seek to do something that previously seemed neither necessary or interesting – to defend capitalism. *How Capitalism Will Save Us: Why Free People and Free Markets Are the Best Answer in Today's Economy*, explained Steve Forbes and Elizabeth Ames²¹. Others spoke of *The Capitalist Spirit: How Each and Every One of Us Can Make A Giant Difference in Our Fast-Changing World*.²² Authors Brian S. Wesbury and

Amity Shlaes reassured readers that It's Not as Bad as You Think: Why Capitalism Trumps Fear and the Economy Will Thrive. "When planes crash, no one questions the science of fluid dynamics. Capitalism is also a natural force. It is an organic method ..." they proclaimed.²³ Developing the idea that capitalism is a natural force, Howard Bloom described The Genius of the Beast, and his "radical re-vision of capitalism".²⁴ That vision involves us recognising that capitalism is not about financial tricks, but a system that arises from and helps us tap "our imagination, our desire to feel useful, our desire to help others, and our desire to be recognized for contributing to the welfare of humanity." He suggests that capitalism does not have its roots only in the Protestant work ethic, but from our human natures and, even the creative process of the cosmos. That claim led spiritual commentator Andrew Cohen of EnlightenNext to endorse the book thus: "By tracing the capitalist impulse to innovate all the way back to its humble origins in bacteria and ants, Bloom conveys a powerful moral and evolutionary imperative for us to reinvent ourselves and reinvigorate this system for the sake of our collective future." Bloom certainly provides a colourful dimension to the capitalism question.

Some people have sought to brand the new capitalism. "Creative capitalism" is the favoured term of Bill Gates, Warren Buffett and other business leaders, and was the title of a new book on their ideas published at the end of 2009.²⁵ John Mackey, the CEO of Whole Foods, the \$8 billion retail giant, prefers the term "conscious capitalism." He uses the term to describe approaches to business that focus on social purpose as much as profit, and balance the interests of different stakeholders. In his new book²⁶ Mackey says that "conscious capitalism... will become the dominant paradigm of business in the 21st century." He enthuses that "voluntary cooperation and spontaneous order... when channeled through free markets, lead to the continuous evolution and progress of humanity." He told Fast Company magazine that "self-interest and altruism can not only coexist, they can both thrive simultaneously without a lot of government meddling."²⁷ Mackey is certainly up for a debate about capitalism. "If we are truly interested in spreading capitalism throughout the world (I certainly am)," he wrote in Reason Magazine, "we

need to do a better job marketing it." He plans 'Catalyzing Conscious Capitalism' summits in the US, Europe and India, and the creation of a 'Conscious Capitalism Alliance'. Perhaps to demonstrate his belief in turning any phenomena into capital, he has trademarked the phase 'Conscious Capitalist'. Some may see Mackey as an advocate of corporate social responsibility and social enterprise. Others may see him as a right wing ideologue, especially given his public questioning of climate science and challenging of President Obama's proposed public option for health insurance, Mackey. What his efforts certainly tell us is that capitalism is now open for debate.

My own book, the Corporate Responsibility Movement came out in early 2009 and also sought to join this debate about capitalism. The perspective I provided came from an analysis of recent years of campaigns for, and initiatives on, greater corporate responsibility. I concluded that many practitioners in the corporate responsibility field understood themselves as part of a social movement working, in their own ways, towards the transformation of business and finance. As journalist Bill Baue suggested in his look back at 2009:

"Perhaps the biggest CSR development of the year was not readily visible, as it was an idea: that CSR represents not just a trend or professional discipline, but a social movement. In other words, CSR is not a random collection of ad hoc, discrete actions to revise corporate behaviour, but rather a coherent aggregation of sustained, widespread efforts to reform (or even revolutionize) the role of corporations, shifting from negative to positive impacts on society, environment, and economy."²⁸

I argued in my new book that social movements not only share identities, types of resources, and contexts for action, but they also share goals – a sense of what they are collectively working towards. Therefore I looked at what CSR practitioners are doing and what their motivations are, and concluded that they shared an interest in more democratic economic systems. I developed that interest into a theory of more democratic capitalism and offered it to the corporate responsibility movement as one potential coherent vision, that could allow us to work more in concert – more effectively as a movement.

CALLING IT FOR WHAT IT IS

Many practitioners, researchers and promoters of voluntary action by business on their social responsibilities recognise the constraints put on companies by the nature of markets, and specifically the pressures from financial institutions. However, until now most of their focus has remained on corporations, and not on those financial institutions. Their work on finance was largely limited to voluntary guidelines on project finance and the retailing of 'ethical' funds to concerned savers. The more recent mushrooming of investor engagement with companies on their social and environmental performance, stimulated by the UN Principles for Responsible Investment (UNPRI), is limited to asset management and what is considered in the investors' financial interest. These are useful beginnings and signs of the growing interest in transforming business by transforming finance. However, what is needed now is a better understanding of the underlying principles and mechanisms of finance, and greater clarity on the principles that would underpin a more fair and sustainable economic system. In the remainder of this introduction, I map out a potential organising concept for the corporate responsibility movement.

First, it is important to cut through the rhetoric and public relations, and recognise the system for what it currently is. In direct contradiction of the statements by the CEO of Goldman Sachs that their social function is funding companies, according to figures from the federal reserve in the US, in 2005, about 1 dollar in every 100 trading on Wall Street was reaching companies, with the other 99 all speculatively invested (Porritt, 2005, pg.182). Marjorie Kelly (2002) even found that the financial institutions had sucked more money out of companies than they had put in:

"New equity sales were a negative source of funding in 15 out of the 20 years from 1981 to 2000... The net outflow since 1981 for new equity issues was negative 540 dollars billion. Rather than capitalizing companies, the stock market has been de-capitalising them... It's inaccurate even to speak of stockholders as investors for more truthfully they are extractors. When we buy stock, we are not contributing capital: we are buying the right to extract wealth."

Back in the 1990s economist David Korten (1997) had provided a powerful summary of the situation:

"The problem is this: a predatory global financial system, driven by the single imperative of making ever more money for who already have lots of it, is rapidly depleting the real capital – the human, social, natural and even physical capital – upon which our wellbeing depends. Pathology enters the economic system when money, once convenient as a means of facilitating commerce, comes to define the life purpose of individuals and society. The truly troubling part is that so many of us have become willing accomplices to what is best described as a war of money against life. It starts, in part, from our failure to recognize that money is not wealth. In our confusion, we concentrate on the money to the neglect of those things that actually sustain a good life."

So what do we want from an economic system? I believe we want a system that is run by the people who collectively make up that system – a democratic economic system. Democracy arises from a belief self-determining one's life world. A number of other human rights stem from this, once we recognise the material foundations of self-determination and self-actualisation: namely the right to basic necessities of life, which includes a safe environment. David Korten (1995) states that "there are few rights more fundamental than the right of people to create caring, sustainable communities and to control their own resources, economies and means of livelihood" (pg. 307).

From this approach to human rights and democratic governance, organisations or persons that affect you and your community, especially when they affect the material foundations to your self-determination, must be able to be influenced by you and your community. In other words, they must be accountable. Therefore over twenty years ago organisation theorist Henry Mintzberg (1989) was asking us "how can we call our society democratic when many of its most powerful institutions are closed to governance from the outside and are run as oligarchies from within?"(pg.328). If we believe in human rights and the spirit of democracy, then we should use that framework for understanding corporate responsibility and the type of corporate and financial system we desire.

The editor of Business Ethics magazine Marjorie Kelly (2002) explained that democracy is in the economic arena: “about shaping the system forces that act on all corporations. It’s about consciously crafting new democratic system structures, structures of voice, structures of decision making, structures of conflict resolution, structures of accountability. Eventually this will mean changes in law. But legal changes must be of a different sort than we’ve attempted thus far. Laws controlling corporations now amount to a patchwork of regulations about working conditions, pollution, or consumer well-being, focusing on outcomes rather than underlying mechanisms. Thus we’ve been like home-owners chopping down nuisance trees which continually spring back, because we have failed to eradicate the roots.”

There are direct implications of this for capitalism. But first, in any dialogue about capitalism it is important to understand it in the plural, as capitalisms. Richard Whitley (2000) has documented clearly that corporate law, labour markets and so on, differ across the world, so there are very different forms of capitalism. One lesson from that is we should choose the form we want. In doing that we must clarify what is the basic essence of these different capitalisms. Wikipedia can be a good source for common wisdom. Here is the 'crowd-sourced' definition:

“Capitalism is the economic system in which the means of production are owned by private persons, and operated for profit, and where investments, distribution, income, production and pricing of goods and services are predominantly determined through the operation of a free market.”

It has recently become popular in social science to regard anything as “capital”, with at least five forms of capital now discussed: natural, social, human, manufactured, and financial capital (Porritt, 2005). When this occurs, it is important not to ignore that something is “capital” because of a specific power relationship: “Capital” is anything physical or virtual that someone or group can control sufficiently in order to extract an income or benefit from. A forest can be conceived of as “capital” when it is being controlled by someone or some group to extract an income or benefit from it. The forests that are not controlled by someone to generate a yield would not be accurately described as natural capital. Yes,

such a forest's impact on the environment underpins other capital and economic activity, but if not controlled by someone or group for their own revenue or benefit then capital is the wrong word to describe its value or worth. Forest dwellers may be harvesting materials from the forest and completely dependent on it for their lives, but neither they nor their adversaries in oil exploration, for instance, would consider that they “control” the forest. Yes, the forest is valuable even though it is not “capital”, and that is partly the point I am making here: not everything valuable can be called capital.

With the financial crisis the “ism” seemed to be falling off capital. Grammatically, capitalism should simply mean a belief in capital, and a system that creates and maintains capital. Therefore capitalism should be understood as the belief that more and more resources should be managed by specific individuals or groups to generate incomes or yields i.e. to be managed as capital. Therefore to believe in capitalism is to believe that it is good to control bits of existence to extract revenues or yields from them, mostly through controlling how other people interact with that bit of existence. It is a belief in creating and using property. This simple definition is often lost in the debates about capitalism, with many of the writers mentioned earlier using the term to describe entrepreneurship, markets, or patterns of government non-intervention.

The definition provided on wikipedia indicates the “ism” involves the private ownership of capital, and the management of it to extract a profit for those owners, rather than just a revenue or benefit. This aspect of capitalism is not definitive, as economies in different countries have different forms of ownership and profit taking. Even in so-called free market economies, the state owns large portions of capital and includes regulations on who can own capital, particularly if they are a large firm giving rise to competition issues (Whitley, 2000).

TOWARDS CAPITAL DEMOCRACY

If we believe in democracy, then this process of how material or virtual phenomena are turned into capital, by whom, and how this directly affects people, should be examined more closely. This means looking at the process of private property creation and use. Financial capital is one expression of property rights. In a democratic society, property

rights should only exist because people collectively decide to uphold them; they are not inalienable but are upheld by society as a matter of choice. Therefore, if society confers us the right of property, then we have obligations to that society (Fitzgerald 2001). Today property rights have become so divorced from this democratic control that they are undermining other human rights. A reawakening to a basic principle is required: there can be no property right without property duties, or obligations. From such a principle, it should not be left up to the powerful to decide if they are responsible or not, or if they are carrying out their obligations or not. Instead, the focus shifts to the governance of capital by those who are affected by it – a concept that I previously dubbed 'capital accountability' in a report for the United Nations (Bendell, 2004).

As mentioned above, most work on finance and ethics has focused on questions of responsibility, not accountability, rights or democracy. Action on finance and ethics is limited to minority shareholders causing trouble for companies (shareholder activism), increasing the security of one's returns via expanded risk management assessments and corporate engagement (responsible investment), ethical venture capital (in environmental technologies, for example), or seeking moral cleanliness in one's own investments (screening out certain sectors from investment portfolios). Little has been done on the accountability of the people who invested, their demands for returns, and the people who managed their investments.

The fact that most current work on responsible or sustainable finance is based on a voluntarist view of responsibility is problematic from a democratic perspective. When funding an activity, people should not only have a responsibility to know what happens with their property but should also be accountable to those who are affected by it. An obligation should therefore exist for owners of capital to only invest in activities that are accountable to those affected by them. If owners do not carry out their obligations, they should lose the right to the specific property involved. In essence this principle would mean investors ensuring that those who manage their money require that the activities they fund/own are accountable to those affected. Thus when banks lend or when fund managers buy stocks, that is, when an activity is

financed, the companies involved must be accountable to the people affected by that activity. Mechanisms would then be needed to ensure that banks, fund managers, and in turn, individual absent owners of capital carried out their obligations to ensure companies followed these accountability guidelines (Bendell, 2004). Clearly this would pose a challenge to the current financial markets, where the derivatives markets have multiple links in a chain before affecting people – the consequences of which in 2008-2009 illustrated the importance of restoring some accountability to the real economy. Another dimension to capital democracy would be ensuring that processes of the capitalisation of aspects of life are more open to public discussion and review; for instance, intellectual property claims over genetic code need to be matters of public debate and consultation.

Combining democratic and economic philosophy in this particular way is not entirely new. Indian independence leader, Mohandas K Gandhi, articulated a concept of 'trusteeship' in some of his writings. This arose from his view that everything is owned by everyone, and wealth is owned by those who generate it. Thus the one who controls an asset is not an owner but a trustee, being given control of that asset by society. Gandhi wrote "I am inviting those people who consider themselves as owners today to act as trustees, i.e., owners, not in their own right, but owners in the right of those whom they have exploited."²⁹ In the Harijan paper his views on trusteeship of property were later documented to clarify "It does not recognize any right of private ownership of property except so far as it may be permitted by society for its own welfare" and "under State-regulated trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction or in disregard of the interests of society." He also wrote that "for the present owners of wealth... they will be allowed to retain the stewardship of their possessions and to use their talent, to increase the wealth, not for their own sakes, but for the sake of the nation and, therefore, without exploitation."³⁰ Gandhi did not develop these ideas further, as he had other preoccupations, such as generating economic self-sufficiency, inter-communal understanding, and the non-violent expulsion of the British Empire. The concept there remains to be developed and applied further.

Promoting capital accountability today infers creating more 'present' ownership. Owners of property are often more accountable if they are present with that property. For example, an owner of a factory experiences a face-to-face form of accountability by seeing those affected by the activities of his or her property. Closing the distance between those who own property and those who are affected by it can also be promoted by increasing employee, customer, supplier and community ownership of that property. Jeff Gates (1998) therefore argued for more "up-close ownership" so as "to link a nation's people to their workplace, their community, their economy, their environment—and to each other" (page xxv). Sharing the risks associated with an economic activity is another way of increasing the involvement of owners.

Creating more present ownership is also part of a process democratising capital ownership in general, and efforts from within both governments and large corporations to encourage a greater diversity of capital ownership across an economy should be supported. This takes us beyond capital accountability to a broader agenda economic democratisation agenda. I offer the term 'Capital Democracy' to describe an economic system that moves towards the creation, allocation and management of capital according to the interests of everyone directly affected by that process, in order to support the self-actualisation of all. This principle would mean not only more effort to hold capital accountable and democratise ownership, as described above, but also democratising money, democratising trade, democratising employment, and democratising taxation, as I will now outline.

A key area for democratisation is the money system. There are two main aspects to that challenge: currency speculation and the creation of money. Currency speculators on international financial markets have no accountability to the people affected by the volatility in the cost of borrowing, devaluations and so forth that they help accentuate. At a minimum, owning the 'property' of money should confer duties to the society or societies that underpin that currency. The concept of capital democracy might suggest that all financial transactions be taxed, due to the transactor's obligation to the social infrastructure that provides the opportunity for their transaction. Such a

measure could end short-term currency speculation. It would also create resources that could permit the reduction or abolishing of other taxes, such as some income taxes.

The other aspect of democratising the money system concerns not the way money is traded but the way it is created. Money enters the economy as debt, as it is provided to private banks who then lend it out, with interest attached. Consequently we have a system where the total amount of money in the world is not sufficient to pay the total debts of the world – and never will. We are a perpetually indebted planet. The system helps explain the findings of Marjorie Kelly and others that the financial institutions are a net drain in wealth of real businesses, and further condemns the veracity of Goldman's claims of social purpose. Such indebtedness is a form of social control, as the amount of economic activity must continue to grow, which necessitates resource consumption and commodification beyond the levels we might otherwise choose (Douthwaite 1993). Not only is it logically impossible and ecologically mad to create a system that demands perpetual growth, it is not democratic for this decision about growth to be out of the hands of people. Today people are asked to spend spend spend, and borrow borrow borrow, in order to keep the economic system from collapsing. Democracy requires choice, and that necessity for growth is no choice. In addition, this process of money creation means that the private banks are given the opportunity to grow their profits in ways that others do not have. You or I can not go to a central bank and receive permission to create money out of nothing. The private banks do this and loan it out at interest, which creates a systematic driver of inequality in society. An interest-based money system, where currencies are issued not by governments but by central banks, often with private shareholders, in-debts governments and thus requires higher taxation. Yet such a money system is not a necessary part of capitalism. And for the reasons just outlined, it would not be a feature of truly democratic capitalism.

What might more democratic alternatives involve? One source of ideas is the system of Islamic banking. Many Islamic institutions consider usury, and thus interest, to be wrong, due to some principles in Shari'ah law. First, money should only be a medium of exchange, a way of defining the

value of a thing; it has no value in itself, and therefore should not be allowed to give rise to more money. The human effort, initiative and risk involved in a productive venture are more important than the money used to finance it. Second, a lender must share the risk with the borrower, that is the potential profits or losses that arise out of the enterprise for which the money was lent. Third, transactions should be entered into honestly with the minimum of uncertainty, risk and speculation. Fourth, investments should not support practices or products that are incompatible with the core beliefs of Islam. As a result, the charging of interest, trading in futures, speculation on currencies and investment in products like alcohol, were not permissible for many Islamic financial firms. In practice Islamic banks usually work by taking an equity stake in the enterprises they help finance. It is a matter we explored in some detail in *The Eastern Turn*, last year. The crash of 2008-2009 has stimulated more worldwide interest in Islamic banking, as it becomes apparent that a more accurate description of the economic system in most of the West is not capitalism but moneyism – a belief in helping money to make more money no matter what the connection to real, non-financial capital in the economy.

The democratisation of markets and trade is also an important part of the capital democracy agenda. The way market access is regulated not just by governments but by large corporations that can drive down prices paid to producers is something that needs addressing. It underlies the lack of resources available to suppliers that translate into poor labour practices and environmental protections. The democratisation of employment is also a central aspect of capital democracy, including who has access to employment, how their wages and conditions are set, and that there is freedom from discrimination in those processes.

Democratising taxation is another key aspect of capital democracy. The underpinning of democracy is that we have a government, and the underpinning of a government's ability to govern is tax revenue. The democratic view is that we should all contribute to collective costs for collective needs, and the wealthier we are the more we should give. The current situation does not live up to that ideal, due to extensive corporate welfare and regressive taxation where the poor and middle class often pay

proportionally and sometimes even absolutely more than some companies and wealthy individuals. Therefore taxation has become as much a regressive and illegitimate process as it is progressive and legitimate (Johnston, 2007). The concept of capital democracy would suggest restoring progressive and fair taxation, which in the context of a global economy necessitates greater international cooperation on and harmonisation of tax codes. In this annual review, we explore this issue and the currently limited attempts of the G20 to collaborate on corporate taxation more effectively (see "Responsible Tax Management" pg. 31).

In 2009 there were more discussions about how to transform our economies to a more sustainable and fair situation. Some frame this as a transformation to a "sustainable enterprise economy" (SEE). In November 2009 this idea was discussed at the Asia Pacific Academy of Business in Society (APABIS) at Griffith University's Asia Pacific Centre for Sustainable Enterprise (see "The Pulse of CSR in Asia" pg 63). Characteristics of such an economy include companies applying their capacities for innovation to the sustainability challenge (see "Sustaining Innovation" pg 63). I believe that the transition to a sustainable enterprise economy will not be achieved without addressing the deeper causes of our malaise, which are found in the legal forms we have created called corporations and banks, and the separation of principles of democracy from economy in the design of those forms.

We don't just need to reform capitalism, we need to reformat it. I have chosen the term 'Capital Democracy' for this vision of economy, as it is about a form of capitalism and an application of democracy.³¹ It calls for returning decisions about capital to the people affected by it. What might happen when those who are affected by capital can govern it more effectively? They might choose to support profit-taking and the existing ownership patterns, if they determined these to form a useful system – or they might not. The important thing is that it would be their choice and not imposed by outsiders autocratically supporting or abolishing property rights. Thus the true revolution in economic democracy is not about abolishing capitalism or extending capitalism, but about creating choices for people to transform, reform or remove corporations and capital in certain contexts. This democratisation

of capitalism could be the ultimate goal of the corporate responsibility movement: The seeds of these ideas are already to be found in the existing analysis and practices of many people working on corporate responsibility today.

Will the emerging movement begin to articulate a common vision? There is more chance than ever before, given our levels of connectivity. Bill Baue explains that CSR professionals were "initially slow on the uptake of social media and other interactive technologies to connect with their stakeholders, but [are] increasingly building online networks to advance a more community-based approach to corporate accountability and sustainability – most notably, Timberland's Voices of Challenge stakeholder engagement website. Corporate adoption of Web 2.0 tools shows promise of fuelling the CSR movement into the new year and decade."³²

IMPLICATIONS FOR MANAGEMENT AND RESEARCH

This discussion of economic systems can seem distant from the day-to-day preoccupations of most executives and the academics who seek to research about, or educate, them. Yet making such connections will be important if the corporate responsibility movement is to have a substantial and lasting effect on commerce and society. In addition, as we enter a period of potential reconfiguration of economic governance, leaders of organisations will need to better understand the issues, actors and dynamics to be successful. There are four implications from this need that I employ in my management education: moral consciousness, trans-functional competence, systems thinking, and responsible political engagement. These four areas can also inform a range of topics for academic research.

Moral consciousness is not often a goal of management education. Business ethics courses can help students understand different ethical frameworks that they or others use or could use to explain their actions. However, actually encouraging a deeper sense of moral consciousness and how that then applies to ones work, is not that usual in business schools. In my teaching the awareness and values of the individual are important to explore and develop, and to be kept in mind during all

aspects of management practice. Unless we are conscious moral actors we will not be able to engage usefully in processes concerning the common good. In 2009, the founder of Kyocera, Kazuo Inamori, reflected on the need for more moral leadership within business. "Top executives should manage their companies by earning reasonable profits through modesty, not arrogance, and taking care of employees, customers, business partners and all other stakeholders with a caring heart. I think it's time for corporate CEOs of the capitalist society to be seriously questioned on whether they have these necessary qualities of leadership."³³

'Trans-functional competence' is a term to describe the ability of people to transcend organisational silos and the single lenses that come from specialisms in marketing, finance, human resources, strategic planning, operations, and so on. The new popularity of design thinking, like systems thinking, reflects how organisations are trying various ways to overcome silos (see 'Sustaining Innovation' (pg. [xxx]). Having teams of experts from different specialisms is one way that organisations try to overcome these silos, but they are rarely more than the sum of their parts. Instead, if managers develop a competence for trans-disciplinarity or trans-functionality, they can draw upon the expertise in different specialisms, while rejecting certain knowledge claims from those disciplines that they can spot as the result of unhelpful assumptions or preoccupations. Key to this is understanding a knowledge claim in its full context: to distinguish between what it reveals and what is simply a projection of its method, theory, and assumptions. Two of the best underlying factors in developing trans-functional competence are critical discourse analysis, and the philosophy of science, as they enable people to de-construct the truth claims they hear. Without such trans-functional competence, executives not be effective agents in mobilising their moral consciousness.

'Systems thinking' is a well-established field within management studies. It encourages us to see our world as relationships between things rather than separate things. Therefore it helps people understand contexts and dynamic processes that they participate in everyday. It also encourages a focus on how to create new self-sustaining relationships that could grow to influence and eventually transform wider systems. Greater

'systems thinking' can also encourage a de-centring of the firm in the mind of managers, so they one look at issues from a broader perspective, and see opportunities for mutual benefit, as well as impediments to lasting progress. Teaching systems thinking requires a diverse pedagogy, that includes exercises, role play, and games, as much as it does standard lecturing.

'Responsible political engagement' is a key implication of an awareness of the need to transform our economic systems. The nature of a company's direct and indirect political influence is now understood as a key dimension of its CSR.³⁴ How to be responsible in one's lobbying is a more difficult question, as the corporate lobbying of climate policy has shown. Although on first look, corporate lobbying for government action on carbon emissions may look responsible, much of it has been for ineffective, inefficient, and unfair systems of carbon cap and trade, which led the intergovernmental process into stalemate in Copenhagen (see "The Paradox of Business Lobbying on Climate" pg. [xxx] and "Positive Lobbying?" pg. [xxx]). In the future, well established principles of stakeholder engagement, transparency and accountability that apply to other aspects of CSR should be applied to corporate lobbying. I explore these issues with my students, and draw upon various insights from political science and sociology to do so. This reflects how management studies could benefit from more input from a wider range of social sciences.

Helping management students develop competencies in these areas will help them navigate the complex social and political challenges that they large organisations will continue to face. Teaching management students about capitalism or democracy, or indeed about capital democracy, would not be as empowering or as meaningful as giving them the ability to critique and synthesise for themselves, from their own passionate standpoint.

How should executives respond to the deeper critiques and debates that I outline in this review? It is difficult to say, as I have not yet had many conversations with senior executives on this agenda. My strategy advisory has hitherto focused on sector-specific changes and challenges. However, some initial ideas about implications for management include:

- Becoming proactive in influencing the research and teaching agendas of business schools to address this agenda, including the competencies outlined above.
- Develop a policy and programme to promote responsible political engagement by the company and the associations it is part of.
- Shift strategic thinking from firm-centric stakeholder management to a more democratic stakeholder engagement that seeks mutual benefit in addressing social challenges together.
- Examine the firm's governance and model of ownership, including whether both the purpose of the company can be legally defined to serve a social purpose, and whether greater levels of employee and customer ownership can be promoted.
- Become involved in initiatives that are seeking to transform economic systems, such as The Finance Lab, Corporation 20/20 and the Transforming Capitalism project of MIT.³⁵
- Explore how your company could begin participating in non-interest bearing complementary currencies, such as by offering to pay suppliers and staff an option to receive a percentage of payments in a local currency, and accepting such currencies for some payment.
- Working towards a shift in the Responsible Investment field from investor-determined interests in environmental, social and governance issues, to Accountable Investment, where investors would have an obligation to respond to stakeholder-defined interests.
- Engage those NGOs, unions and other organisations that are working on a more transformative agenda.

BROADER TRANSFORMATIONS

Although I believe a sustainable economy is impossible without a reformatting of capitalism, it is unknown whether a system of capital democracy would create an environmentally sustainable society. As capital democracy involves making more economic decisions accountable to those affected by them then this process would promote

environmental sustainability to the extent of people's awareness and commitment to that aim. Perhaps the democratic spirit of people would be cultivated through an experience of democratic institutions and practices and the resultant more equitable sharing of resources, and so concern for collective challenges such as environmental ones would be addressed better than now. However, there are some limitations in the framework: The concept of inter-generational equity does not fit within a framework of democratic principles and rights. However, given current lifespans, the rights of children should require us to consider the potential impact of today's decisions on the situation in eighty years time. Whether capital is managed with a longer time horizon would depend on the views in society.

A democracy and human rights framework does not protect either the welfare of non human life or its freedom from extinction. However, human concern for these matters would translate into their view of what aspects of the natural world should be capitalised and how that capital should be owned and managed. Therefore, the extent of concern for animal welfare and biodiversity would depend, once again, on levels of human awareness. There is no guarantee, either, that a more democratic economic system would calm consumerism sufficiently for the economy to exist within the bio-capacity of the Earth.

Capital democracy will not be a panacea, and to attain global well-being and restore the biosphere will require a democratisation of other aspects of life – involving an awakening of all to our connectedness, to each other, and the planet we live on. My previous involvement in world summit protests, NGOs, business, the United Nations and academia helped me realize that we would miss the point if we blame a particular economic or political system for everything, or propose another system as the total solution. Some systems are better than others, feed certain aspects of human character not others. But ultimately the outcome of any social or organisational system will depend on us. Over the five years I witnessed common characteristics in people and groups working in all the arenas I engaged. Everywhere there was compassion, humility, and inquisitiveness. Yet everywhere there was also pride, fear, manipulation, and ego. Everywhere including in myself.

I concluded my first book, with David Murphy, that looked at cross-sectoral partnerships for corporate responsibility, with the following hope:

"Perhaps we are on the verge of something bigger. People are beginning to recognise their small part in the wider world. People are beginning to think of the implications of their actions and people are beginning to listen to each other. Indeed, people are beginning to consider the needs of a 'we society' and not just a 'me society'. If these changes help to breakdown some of the alienation and competition we feel in work, in the street, in academia, even in our personal lives, then we may just stumble across a new way forward and reinvent the future." (Murphy and Bendell, 1997, pg. 245).

Over ten years on, I do see something bigger. The barriers are being shaken between everything – including business and society, research and action, science and spirituality, progress and traditional wisdom. People are turning away from the idea that they should be consumers of politics, culture, and society, and instead act as citizens in all areas of life. In this light the corporate responsibility movement, and the emerging common agenda for capital democracy, can be seen as one dimension of a growing global democracy movement (Korten, 2006).

My hope today is that a spirit of democracy and global citizenship is carried into the spheres of belief, religion and spirituality to lead to a transformation of consciousness that will make any new political-economic systems we create function for the well-being of all life on Earth.

I hope you find this 9th and final annual review from Lifeworth to be of some guidance. Our review of 2010 will be in the form of a book that will draw together the last five years, due by May 2011. Thanks for having followed our analysis over the years. You can continue to follow our analysis online at: www.lifeworth.com/consult

Jem Bendell,
Auroville, India. January 23rd 2009.

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FIRST QUARTER

JANUARY–MARCH 2009

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THE RETURN OF GOVERNMENT

A major implication of the global financial crisis is the return of government to a leading role in national economies. A hands-on role for the state has been the norm in some countries, but the past two decades witnessed a rolling-back of government involvement even in communist or former communist countries such as China, Vietnam and Cambodia.

In 2009, as new government regulations were announced, as further nationalisations of financial institutions became necessary, and as economic stimulus packages were agreed around the world, government once again took on a position to shape economic activity. How it would use that role, and the implications for social and environmental performance of business, will only be understood in the years to come, but there were some early signs in the first quarter of 2009. In this annual review we note the scale of the stimulus packages, the sustainable business dimensions of these spending announcements, and the implications for achieving a sustainable economy, before recalling what the private sector is meant to be good for — innovation — and looking at how a return of greater government shaping of our economies might relate to the need for sustainable innovation. We also consider what the post-crisis situation spells for the future of the community of professionals working in corporate social responsibility (CSR).

Reviewing the world of government responses to the global economic downturn revealed an unprecedented international effort to prop up economic growth and employment. In March, the International Monetary Fund called for stimulus of approximately 2% of gross domestic product (GDP) each year for 2009–2010, depending on national circumstances.¹ Asian countries committed \$1.153 trillion in stimulus money,² with the spending plans

ranging from 1–12% of GDP, with the Philippines at 4.4% and China at 12%.³ According to the European Commission, the executive arm of the 27-nation bloc, EU stimulus amounted to between 3.3% and 4% of GDP.⁴ The US committed \$787 billion, or about 5.5% of GDP.

In Latin America, larger economies — Argentina, Brazil, Chile, Mexico and Peru, with lower debt-to-GDP ratios, announced stimulus plans. Smaller economies with debt that was already over 50% of GDP in cases before the collapse in exports didn't have the public finances for stimulus plans.⁵

Combined with the nationalisation of troubled industries, the growth of government spending under the stimulus packages highlights how governments around the globe now have a central economic leadership role that could drive the next phase of CSR — not merely through regulation of private industry, but by being the client, investor, lender, insurer and marketeer.

We discuss how government is using this power in the following section. However, one CSR challenge that is set to grow on account of this greater role of government is that of corruption, cronyism and inappropriate lobbying. Industries that rely on government as their main consumer have a track record of being politically involved; such industries include arms, construction and pharmaceuticals. Now that government is becoming an even bigger client of a diverse range of industrial sectors, so the scope for unprofessional practice, corruption and uncompetitive lobbying to occur is increasing. If untrammelled markets and central decision-making aren't the answer — and shared governance is — then transparency is essential in rebuilding lost trust. The return of government with \$2.8 trillion in stimulus opens the door to unprecedented scrutiny of spending which will be inextricably linked to the private sector, blurring and extending lines of accountability.

The sheer scale of deficit-financed stimulus spending, with public money passing into and propping up private for-profit institutions — which threatens in some cases to bankrupt governments and essential services — has tightened the screws of corporate governance because of a macro-economic system dependent on corporate welfare.

In consideration of this, China announced the deployment of inspection teams to monitor all aspects of stimulus funding, including planning, procurement, construction and quality. Inspectors will 'check whether the money is used to build office

buildings or guesthouses of party and government departments'.⁶ China wasn't the only country placing an emphasis on transparency. A new US Recovery Act Accountability and Transparency Board was created to conduct oversight of recovery spending.⁷ Further, US Treasury Secretary **Tim Geithner** told the House Financial Services Committee, 'We need much stronger standards for openness, transparency, and plain common sense language throughout the financial system'.⁸



THE SUSTAINABILITY OF STIMULUS

In March, the chief executive of Business for Social Responsibility,⁹ Aron Cramer, told *JCC* that this period marks the end of an era that started in the late 1970s with the rise of Ronald Reagan and Margaret Thatcher, privatisation, shrinking government, and the Washington Consensus. It has been an era in which some of the world's biggest celebrities have been CEOs. However, with the sudden collapse in trust in business and markets, the pendulum has begun swinging back towards greater reliance on the public sector for the safeguarding of public security and prosperity.¹⁰ This has implications for the future of corporate citizenship.

Even before the crisis fully revealed itself, a blueprint emerged for subsequent stimulus plans — 'A Green New Deal' (GND).¹¹ A report from British civil society organisations called for a 'structural transformation of the regulation of financial systems, and major changes to taxation systems', and 'New Deal size investment in renewable energy and green jobs to create the basis for a low carbon economy'.

Elements of 'A Green New Deal' could be found in stimulus packages unveiled by country after country with more than \$430 billion addressing GND elements, according to a report from HSBC in February 2009. Report co-author **Nick Robins** wrote, 'We believe that these commitments are but the first instalment of further efforts by governments to use low-carbon growth as a key lever for economic recovery'.¹²

Stimulus plans can be evaluated based on how quickly they get economies back up and running, but the added value in their 'Green New Deal' elements lies in how much they leverage the investment and also build the future infrastructure for a low-carbon economy that will pay dividends for generations to follow. Government stimulus plans focused investment in the following categories:



renewable energy electricity grids, mass transit, low-carbon vehicles, building efficiency and environmental conservation, as well as education and healthcare. In addition, government restructuring of tax codes and financial incentives was a common option for codifying and spurring sustainable economic development (see Figs. 1 and 2 for country-by-country breakdowns of spending).

A report issued by the UN Environment Programme in February 2009, 'A Global Green New Deal', stated that energy efficiency improvements and green tax credits in stimulus plans are particularly effective because they 'continue well beyond the initial investment period and offer higher employment compared to jobs created by conventional tax cuts and road infrastructure investments that end once the money is spent'. Additionally, they offer greater return on investment to households through lower energy bills. Investments that provide alternatives to car use reduce pollution and emissions as well as creating employment.¹³

Further, the Peterson Institute for International Economics and World Resources Institute report from February, 'Green Economic Stimulus Creates Jobs, Saves Taxpayers Money', wrote, 'On average, green recovery programs create 30,000 jobs for every \$1 billion in government spending'.¹⁴ The Center for American Progress released a report, 'Green Recovery: A Program to Create Good Jobs and Start Building a Low-Carbon Economy', which estimated that US Green stimulus spending would engender a '20 percent increase in job creation over more traditional infrastructure spending'.¹⁵

Crunch the green numbers of stimulus plans from a given country and, aside from the absolute amounts, their percentage of overall spending demonstrated commitment to 'Green New Deal' elements.

China led the way with \$221 billion in spending on GND elements or some 38% of stimulus, while the US allocated \$94 billion or about 12%. South Korea meanwhile devoted about \$31 billion on GND initiatives or just over 80% — by far the highest proportion of any country (see Table 1 for a breakdown of South Korea's spending priorities)*. EU social safety nets resulted in a smaller stimulus, although the climate change dimension was seen as greater than in the US, due to a focus on low-carbon investment in France, Germany, and at the EU level, according to the UNEP report¹⁶ (see Figs. 1 and 2 for country rankings).

Opportunities for large capital-intensive infrastructure improvements will not come along again anytime soon as economies gradually recover to newly emerging levels. Government procurement

stands as the single greatest vehicle to scale up corporate social responsibility practices moving ahead, particularly through the adoption of standards to codify change.

Were China to follow up its impressive green stimulus spending with a similar commitment to government procurement in a top-down regime, it could quickly demonstrate the possibilities of unprecedented CSR scale. This would not exactly be new policy either, as China announced a new 'green procurement' policy in late 2006 based on a list of recommended products carrying 'China's only national eco-label, which an official explained could make the government "the real driving force for industry to develop green technology".¹⁷

In fact, scale is the heretofore unrealised holy grail of CSR: the International Council on Local Environmental Initiatives (ICLEI) has documented green procurement by numerous countries and localities,¹⁸ with Denmark and Japan cited as particular successes.¹⁹ 'Following the introduction of the 2001 national law on green purchasing in Japan,²⁰ the price of environmentally friendly product alternatives, such as recycled paper, has dropped to equal the nongreen alternatives', according to 'Moving the Market', a report from the EcoProcura conference on sustainable procurement.²¹ Other municipalities and governments have taken similar initial steps, such as the Queensland government announcement in August 2007 of a new 'green' IT procurement plan, covering all government agency purchases of PCs, laptops and servers.²² Mexico decreed in 2008 that it would green its procurement of paper and wood products and buy chlorine-free paper made of at least 50% recycled material.²³

One example of the importance of monitoring follow-up to stated commitments and adherence to related standards, however, can be found in the UN Office for Project Services (UNOPS). It announced with great fanfare in June 2000 that it would be the first UN Entity to sign on to the SA8000 labour standard to improve the social accountability of its procurement process with suppliers and vendors, as well as its own facilities; but later quietly dropped that commitment.²⁴ While the agency's procurement policy claims observance of relevant International Labour Organization agreements, the third-party certification and monitoring inherent in the application of SA8000, which provides credibility, is nowhere to be found.²⁵

External third-party verification and assurance stand as the most trustworthy governance bulwark against corruption, incompetence and squandering of a generation's Green New Deal legacy. The potential exists for a wave of new demand for CSR auditors and the education and training necessary to prepare

them to close the loop on the gap between stimulus spending and accountability. Without transparently communicated accountability measures, subsequent instalments of governmental low-carbon investment may not materialise, as anticipated by Robins and HSBC.

In addition to procurement, a harbinger of a greater governmental role in socially responsible investing can be found in the response to the global financial crisis by the board of the UN Principles for Responsible Investment (UNPRI), an investor initiative that includes some of the world's largest pension funds. UNPRI released a public statement from the board in March 2009 that 'urged fellow institutional investors to accept their share of responsibility for the current crisis, to work together to improve risk management practices, and create a culture of "active ownership" in response to the crisis'.²⁶ The board includes representatives from governments such as Brazil, New Zealand, South Africa, Thailand, the US and the UK.

Implications for companies and countries from the surge in government spending can be found in the following key areas:

- China committed more to renewable electricity grid infrastructure than any other country — \$70 billion²⁷ — while the US devoted \$11 billion as well as \$6 billion in renewable energy loan guarantees for power generation and transmission,²⁸ and France spent over \$4 billion²⁹
- Mass transit necessarily entails a long-term view, which China's green stimulus package took by spending \$85 billion on rail transport.³⁰ The US included \$17.7 billion for energy-efficient transportation,³¹ and South Korea spent \$7 billion on railroads and mass transit.³² Brazil in turn said it would rely completely on private-sector investment to build a high-speed train between Rio de Janeiro and São Paulo, which limited government debt, but placed the project in doubt due to a difficult credit climate³³
- Spending on low-carbon vehicles was included in stimulus by the US, South Korea, France, Denmark and Spain. The US gave \$2 billion to US manufacturers of advanced vehicle batteries and battery systems, and spent \$600 million to replace older vehicles owned by the federal, state and local governments with alternative-fuel and plug-in automobiles — and this does not include measures taken to bail out the automotive industry
- South Korea spent almost \$1.5 billion on fuel-efficient vehicles and clean fuels,³⁴ whereas France included over \$500 million in incentives to do away with older vehicles and spur purchase of new, environmentally friendlier

- models.³⁵ Denmark instituted a new green vehicle tax that will make it cheaper to buy energy-efficient vehicles but more expensive to use cars, and Spain's stimulus called for plans to install an electric car infrastructure in Seville, Madrid and Barcelona with cars to be purchased with state subsidies of up to 30%³⁶
- Retrofitting buildings for energy efficiency was included in stimulus packages by countries such as Japan, Germany, the US, South Korea and Australia. Japan spent the most in this category, \$12.5 billion, Germany second at a shade over \$10 billion,³⁷ while the US Spent \$5 billion for low-income weatherisation programmes, and \$4.5 billion for federal building energy efficiency renovations and repairs.³⁸ South Korea included approximately \$6 billion for environmentally friendly buildings and schools, and Australia spent \$2.5 billion³⁹
 - South Korea stood out as the single most prominent country to focus on environmental conservation as a vehicle for economic stimulus with a commitment of over \$10 billion for river restoration, more than any other single part of its stimulus plan, with another \$1.7 billion on forest restoration as well⁴⁰
 - Latin American countries — Argentina, Chile, whose stimulus constituted the largest percentage of GDP in the region, Mexico and Peru, all allocated money for social programmes in areas such as education and healthcare,⁴¹ as did Eastern Europe countries, such as Bulgaria, to a lesser extent⁴²
 - Government restructuring of tax codes and financial incentives were a favourite measure of many countries, including Denmark, the US, France and the Czech Republic. Denmark took one of the strongest tax reform measures of any country and instituted binding incremental emission caps on industry, with the resultant revenue to be used in green tax reform that decreases taxes on labour and increases taxes on pollution.⁴³ The US committed approximately \$20 billion in clean energy tax incentives.⁴⁴ France instituted a tax system for CO₂ emissions from cars,⁴⁵ and the Czech government provided tax incentives for new car purchases.⁴⁶

Meanwhile, the UK's green fiscal stimulus was described by Parliament's Environmental Audit Committee as 'welcome, but too small — especially given that most funding was already committed, and will be offset by reduced spending in 2010–11'. Instead, it called for 'improving the energy efficiency of existing buildings as the number one priority. Such programmes are labour-intensive and do not require development of new technology.' The EAC further stated, 'It is disappointing that the wider

stimulus package contains hundreds of millions of pounds for road building and widening',⁴⁷ which embodies the paradox of competition between carbon- versus sustainable-based spending.

Keeping talk of a Global Green New Deal in perspective, Manish Bapna, executive vice president of the World Resources Institute, said, 'Even the most aggressive short-term stimulus spending will have only a modest impact on emissions. Recovery efforts should be designed to set the stage for comprehensive energy and climate policies.'⁴⁸

While green stimulus spending of \$430 billion is significant, it needs to be seen as only the start of ongoing green government spending so the other \$2.3 trillion or so in stimulus does not work at cross-purposes.

IF THE PROBLEM IS THE PRESCRIPTION . . .

So has this financial crisis been used as an opportunity to create a new and more sustainable model of capitalism? Inherently built into the litany of government stimulus plans is the paradox of restarting a carbon-based economic engine while at the same time trying to build a new, green road. In the face of withering criticism of business practices amid the fallout caused by the global financial crisis, the very assumption of the macro-economic basis for stimulus policy prescriptions — i.e. growth — has once again been called into question. The UK Sustainable Development Commission, an independent advisory body to the government established in April 2006, released a report on 30 March 2009, 'Prosperity without Growth? The Transition to a Sustainable Economy'. The report argued that 'the market was not undone by rogue individuals or the turning of a blind eye by incompetent regulators. It was undone by growth itself'.⁴⁹

Viewing the problem as the prescription, the report stated, 'the broad assumption behind all these recovery packages is that they will be successful in stimulating consumption growth again. Credit will flow, consumers will spend, business productivity will return and the wheels of the machine will start turning. The outcome (assuming it works) will be thoroughly predictable', consumption will be driven forwards, with 'no means of anyone getting off the treadmill'.⁵⁰

Starting with the view that the impacts of unfettered economic expansion and resource use associated with it 'are already unsustainable', the report

equated the doubling of the global economy over the last 25 years with the degradation of ‘an estimated 60% of the world’s ecosystems’ and an increase in global carbon emissions by 40% since 1990. These critics view the economy as a subset of the macro ecosystem of the planet, rather than the opposite.⁵¹

In an idealised zero-waste economy, a steady state of activity would occur where renewable resources would not be used any more quickly than the ecosystem can replace them. Non-renewable resources would not be used any more quickly than



renewable substitutes could be developed. Waste and pollution would not be emitted any more quickly than it could be absorbed sustainably.⁵² In short, as **Professor Tim Jackson**, the UK Sustainable Development Commissioner for Economics, said

that the ideal economy provides the ability for people to flourish ‘within the limits of the natural environment’.⁵³

The steady state economic critique challenges the current model: ‘The truth is that there is as yet no credible, socially just, ecologically sustainable scenario of continually growing incomes for a world of nine billion people. Simplistic assumptions that capitalism’s propensity for efficiency will allow us to stabilise the climate and protect against resource scarcity are nothing short of delusional.’⁵⁴

Taking its philosophical views to the extreme, the report views the choice as either an increase in consumption for all up to the level of the most prosperous, which is unsustainable, or a levelling-off ‘in which incomes are distributed equally across nations’ and ‘growth in the richer nations is curtailed or some kind of completely unforeseen technological breakthrough happens’.⁵⁵

The question of social equity is an important one to raise in the context of sustainability. It is clear that highly unequal incomes in and between societies leads to the degradation or waste of resources,⁵⁶ as well as negative impacts on personal health and well-being.⁵⁷ The UK Sustainable Development Commission has thus highlighted an important issue that cannot be ignored — a redistribution of resource consumption opportunities. It is a topic we have discussed in previous Annual Reviews, including *The Global Step Change*,⁵⁸ which identified the need to reduce, redirect and redistribute resource consumption to achieve a sustainable globe. One implication for business is that of gaining greater insight into how to operate in ways that do not create high inequality, and even provide opportunities for social advancement of disadvantaged groups. However, it also raises the question of what form of ‘equitable’ resource

consumption can be aspired to. There are, to our knowledge, no internationally agreed principles about an equitable consumption of the world’s resources. Suggestions that ‘incomes are distributed equally across nations’⁵⁹ appear illogical as well as impractical, given the diversity of lifestyles and livelihoods, from artisanal fisher in the Pacific island of Palawan to a taxi driver in Manhattan. Yet it encourages us to engage in a debate about how consumption levels can justifiably be related to individual wants and societal contributions.

While characterising economic growth as the path to over-consumption, advocates of steady state economics argue for growth of a different kind, ‘moral growth’.⁶⁰ **Herman Daly** has said changes in both institutions and values are necessary, but changing the latter is more important.⁶¹

Demonstrating the range of views questioning basic assumptions of unrestrained growth, German President and former head of the International Monetary Fund Horst Köhler asked in a 24 March 2009 speech, ‘How much is enough?’ He answered by saying, ‘We should know that we can no longer rely mainly on economic growth as the solution to our problems and the peacemaker in our societies’.⁶²

Peace, however, was in short supply as nationwide strikes broke out in France with well over a million people in the streets angry that companies cut jobs while executives received bonuses. Employees at French 3M and Sony France held executives hostage over disputes about terms for laid-off staff.⁶³ In response to popular pressure, the government banned ‘bonuses and stock options for executives’ whose companies received bailout money.⁶⁴ The riots at the G20 summit in London also highlighted the level of unrest at the existing economic and political system that lies under the surface of ‘normal’ society. As such, it is an important period for citizens interested in contributing to a positive relationship between business and society to participate in this systemic debate, and relevant initiatives aiding informed policy-making.

To be effective in this new policy context CSR professionals will need to look up from their specific activities, and consider the kind of economy and society they are seeking to bring into being. In this reflection of goals and change strategies, they could learn much from how social movements past and present have arisen and impacted on society. It is that insight that led to the current co-author Jem Bendell exploring social movements theories and their implications for the contemporary CSR field, in a book published in March: *The Corporate Responsibility Movement*.⁶⁵

One area of human activity that appears to need wholesale transformation in light of climate change is transportation. In the first two months of 2009, sales of cars were higher in China than the US for the first time in history. For people concerned with spiralling carbon dioxide pollution, this appears a disturbing statistic. It comes after news that Indian firm Tata intends the Nano model to enable millions more Indians to own a car.⁶⁶ However, this growing cloud of carbon could have a silver lining — in the technological and business process innovation that is occurring in the growing Chinese car industry.

A Chinese automobile manufacturer based in Shenzhen, China, BYD Auto is part of the BYD Company Limited, which makes 65% of the world's nickel-cadmium batteries and 30% of the world's lithium-ion mobile phone batteries. With this experience and capacity, BYD Auto has been making strides in the provision of electric and dual-fuel automobiles. This includes a mid-size sedan, which uses an iron-phosphate-based battery, and can be recharged to 70% of capacity in ten minutes at special stations, and in a number of hours through normal electric plugs. The cost-effective manufacturing capacities in Shenzhen mean that, unlike other car companies, BYD can produce most of the components in its cars itself, such as the air-conditioning, lights, seatbelts and electronics.⁶⁷ Consequently, it can offer its electric cars for less than the electric cars being made in the West. 'We are committed to a green future for our planet', said Wang Chuanfu, chairman of BYD, at the Detroit Auto Show in January 2009. 'We have the ability, the capability and the desire to be a significant part of the solution.'⁶⁸ His company has attracted interest from Warren Buffett, who bought a 10% share of the company for US\$230 million. Buffett thinks BYD 'has a shot at becoming the world's largest automaker, primarily by selling electric cars, as well as a leader in the fast-growing solar power industry'.⁶⁹ The new model it unveiled in March 2009 showed that it was not an innovator in aesthetics, as it closely resembled Toyota's Lexus.⁷⁰ However, the real design innovation for BYD is in the engine — a form of innovation more important for sustainability.

More dual-engine, hybrid cars and electric cars will not, however, create sustainable mobility systems, consuming more resources than mass public transport systems, especially if trains and buses are designed and operated with carbon emissions in mind. Yet individual car use is likely to remain key for many people. An insight into how individual car usage could be redesigned has emerged from an Israeli company called Better Place. It is innovating solutions to the infrastructure problem which holds back the uptake of electric vehicles. Better Place is building a huge network of charging points and

battery-swapping systems in a number of countries, including Israel and Australia, to enable existing car companies to offer electric models that are compatible with the system. It is innovating a new business model where consumers will pay for the mileage they drive, and thus car producers will earn revenue from the amount of charging their customers do. This parallels the business models of manufacturers of mobile phones and computer printers.⁷¹

The way consumers use their new electric transportation will also be key to its sustainability. Thus transportation sharing initiatives are an important dimension to sustainable mobility. Zipcar, the world's largest car sharing service, is now in 50 US cities, as well as in Vancouver, Toronto and London. The company has increasingly rolled out its innovative business model beyond individual consumers to universities, and now governments, with an agreement reached on 5 February 2009 with the city of Seattle, WA, for use by over 10,000 employees,⁷² and a partnership with the city of San Francisco, 19 February 2009, to increase the number of electric plug-in hybrid vehicles in their fleet as well as the advent of new charging stations at city hall.⁷³

Whether personal mobility services can be transformed in time to offset the growth in emissions due to a growing global demand for mobility will be key to how humanity reduces its carbon emissions. This could be helped if the stimulus packages targeted those firms ready with solutions, and that bailouts were conditional on link-ups with those firms with appropriate technologies and business models for low-carbon societies. Concerns about the leakage of government stimulus or bailout funds outside a country may be missing the point: the best use of public funds is in investing in the businesses of the future, no matter their nationality. If the US government had invested its billions in BYD and Better Place, as an owner, rather than putting its money into failing US automakers, the US citizen might now own a stronger asset, and be better supporting the climate fight. The political difficulty of governments taking such an internationalist perspective to their own spending further highlights the difficulty they face in playing a positive role in guiding sustainable innovation. Arguing the case for internationalist approaches to encouraging and scaling up sustainable innovations is therefore a central responsibility for leading business executives at this time of dual economic and climate crises.

The challenge of transitioning to sustainable mobility highlights the need for government to be a partner in stimulating the necessary innovations for fair and sustainable societies. 'It may be understandable,

but disproportionate effort continues to be lavished on shoring up the dinosaurs of the old order, rather than investing in the new pioneers, who are working hard — and often against the odds — to incubate and scale market solutions essential for a sustainable future', claimed a report released by Volans in early 2009. The authors, John Elkington, Alejandro Litovsky and Charmian Love, describe a 'Phoenix Economy' that is 'focused on providing social and environmental solutions, where markets and governments have failed'.⁷⁴

One policy innovation in the first months of 2009 was 'cash for clunkers', which gained traction under the German stimulus where 'vehicles over nine years old traded in for new, environmentally friendlier models received rebates of \$3,172'. Subsequently, Germany experienced the highest February car sales level in a decade. China slashed taxes on small, fuel-efficient vehicles, which increased their monthly sales 19%. Similar programmes hit the road in France, Italy and Spain.⁷⁵ Given the complexity of creating new systems of electric recharging and car sharing that are financially viable, there is still much for government to do in shaping sustainable mobility.

FROM RIGHT TO RELEVANCE

The global financial crisis might better be termed 'The Great Breakdown'. For what has occurred is a breakdown in governance and accountability that lies at the root of the financial events, and the breakdown in public trust and legitimacy of the current system due to the spending of unprecedented sums of public money to fix private losses due to high-risk profit-seeking. How may the CSR field be relevant to this new context?

The chief executive of AccountAbility, Simon Zadek, summed up the landscape clearly:

After 2008, no one in their right minds will ever again question the negative impact of irresponsible business practices, the source of the world's first global recession along with its consequences of millions upon millions of jobs lost, houses repossessed, families broken, and economies shattered. Never again will anyone be able to look smug in demanding advocates of corporate responsibility to 'prove it'. The financial community, at enormous cost to us all, has done what no one else has quite managed, to make our point, loudly, globally, and irrevocably.⁷⁶

Despite the centrality of corporate irresponsibility in causing 'The Great Breakdown', some predicted CSR's demise in the face of bottom-line cuts and

crises, with the *Financial Times* anticipating CSR professionals 'will be told to take a gap year indefinitely', for example.⁷⁷ CSR risked being seen as merely an add-on in recovery efforts, since in Western nations all else took a back seat to securing the banking system and ensuring employment did not collapse.

Nevertheless, the existence of Green New Deal elements in stimulus packages around the world highlights how some of the issues that the CSR community advances have made their way into the mainstream of government planning. Further government leadership is necessary, especially to scale the sustainable and social enterprises described in *The Phoenix Economy*. If such enterprises 'are to succeed, they will still need substantial assistance from governments, foundations, investors and businesses', notes Volans. They identify opportunities for facilitation, collaboration and support, in a Phoenix Economy Manifesto for governments.⁷⁸

As government returns to a central role in shaping economic activity, so the potential to support a new sustainable enterprise economy, or prop up the old, has grown significantly. SustainAbility's founder John Elkington predicted in January 2009 that executives 'will be expected to help design the new order, not simply to massage the old'.⁷⁹ The leaders and institutions in the CSR field will be tested by their ability to effectively advocate and lobby governments to ensure the unprecedented sums of stimulus money are transparently governed, and spent and implemented effectively. They will need to push government farther and faster than it planned on going now that it is a client, investor, lender, insurer and marketeer. They will need to think and act as a movement.

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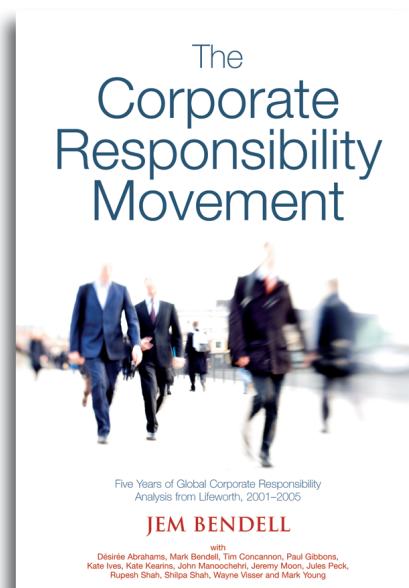
The Corporate Responsibility Movement

Five Years of Global Corporate Responsibility Analysis from Lifeworth, 2001–2005

JEM BENDELL

with

Désirée Abrahams, Mark Bendell, Tim Concannon, Paul Gibbons, Kate Ives, Kate Kearins, John Manoochehri, Jeremy Moon, Jules Peck, Rupesh Shah, Shilpa Shah, Wayne Visser and Mark Young



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Corporate social responsibility is now an established agenda for large companies, with a new profession emerging that engages in the social and environmental contribution of business. How has this agenda emerged over time? What were the key events and actors? How has this new 'movement' of committed individuals been taking shape around the globe? Insights into these questions come from a review of the first half of first decade of the 21st century. **The Corporate Responsibility Movement** compiles Lifeworth's highly praised Annual Reviews of Corporate Responsibility from 2001 to 2005. It is introduced with a new overview by the lead author of those reviews, Dr Jem Bendell, in a piece that examines the trajectory of a new social movement in and around business. At a time of searching questions about the future of finance, Dr Bendell argues that a new concept of 'capital democracy' is emerging from within the community of people working towards corporate responsibility, which could be mainstreamed as a socially and environmentally enhanced system of economy. He calls on professionals, researchers and policy-makers to embrace an ambitious agenda for corporate responsibility and develop greater insight into acting together as a movement for change. This book is an essential resource for business libraries, recording, analysing and contextualising some of the key events, issues and trends during this historic period in the development of the corporation.

"Jem Bendell's latest book is a timely reflection on the cultural and behavioural drivers that can help to transform the future role and purpose of business. The financial crisis has brought us to an economic crossroads. However, it also offers a unique window for a collective reshaping of the relationship between business, government and society. This book offers a range of challenging insights to those — especially corporate responsibility managers and executives — seeking to engage in that change process within their organisations."

Simon Pickard, Director General, European Academy of Business in Society

"This is a fantastic resource for libraries that will help readers explore the emergence of contemporary corporate responsibility."

Andrew Crane, George R. Gardiner Professor of Business Ethics, Schulich School of Business

SECOND QUARTER

APRIL–JUNE 2009

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RESPONSIBLE TAX MANAGEMENT

The fallout from the Western financial crisis continued to bring government back into the picture in respect to how business–society relations should unfold. In April, leaders of the world's 20 largest economies met in an attempt to revise the rules of global finance and reform the world's financial institutions. One of the key agenda items at the G20 concerned one basic corporate contribution to society: the payment of taxes. Leaders sought agreement on controlling tax havens and exchanging tax information — no doubt one attempt to recoup the large borrowings necessary for bailing out the banks.

The outcome was an official communiqué with a commitment by the G20 'to take action against non-cooperative jurisdictions, including tax havens' and to deploy sanctions to protect public finances and financial systems.¹ While the G20 leaders can be congratulated for publicly taking a stance against jurisdictions that lack transparency in respect to the exchange of tax information, and demonstrating a willingness to act at a political level, it raises the question of what is the ethical responsibility of the



corporation when it comes to using tax havens. As deputy director of the Centre of European Reform Ms **Katinka Barysch** questions, in commenting on the G20 agenda prior to the meeting, is addressing tax havens the real issue, or should it be improving global economic governance?²

For instance, the day before the summit, the French justice department announced a preliminary investigation into the possible fraudulent activity of the French oil giant Total. According to *Le Parisien*, Elf Trading SA which is a subsidiary of Total, was suspected of laundering money via tax haven accounts in Liechtenstein.³ Total has since

refuted the claims by acknowledging that the French government is aware of the tax havens in which they operate, none of which is in Liechtenstein.⁴

Irrespective of the outcome of the investigation, this particular example highlights the fact that, for some corporations, using tax havens is a normal part of everyday business, permitted by the government, and supported by a legal framework that enables their use.⁵ So should corporations be taking advantage of such jurisdictions just because they can? Corporate social responsibility (CSR) has long been framed by the notions of social justice and environmental responsibility, but what about the ethical dimensions of a business's financial obligations to society through government taxes? If corporate governance is management's balance between economic and social goals, what is the scope of each of these concepts? Can economic responsibility be simply defined as a corporation's duty to produce goods and services while providing appropriately paid employment and still earning a profit for its stakeholders? Is it democratic for an organisation to privately define what its economic responsibilities are, and to use whatever tax management vehicles to accomplish them? As taxation is the major source of revenue for governments in maintaining social cohesion, do companies have the right to exempt themselves from paying tax for the benefit of private interests?

Questions relating to tax justice and CSR are not new. In the 2004 *Lifeworth Annual Review of Corporate Responsibility*, Mr John Christensen, coordinator of the Tax Justice Network, argued that

. . . curiously the CSR debate, which has touched on virtually every other area of corporate engagement with broader society, has only recently begun to question companies in the area where their corporate citizenship is most tangible and most important — the payment of tax.⁶

In a 2007 KPMG discussion paper entitled 'Tax and Corporate Social Responsibility', Mr David Williams of KPMG's Tax Business School stated that

The application of CSR to tax issues, however, is an area that has not as yet received a great deal of attention . . . [partly because] . . . the payment of tax liabilities is, to a great extent, a non-discretionary matter . . . [as companies] . . . can deal only with public authorities, and only on the terms laid down by them.⁷

With governments now making a stoic attempt to

clamp down on tax havens in light of the G20, there is a renewed impetus for corporations to reflect on the ethical dimensions of their tax strategies, and this to be assessed in terms of CSR. The difficulties facing governments in achieving international cooperation on taxation makes it important for business leaders to voluntarily explore what a responsible approach to tax management could involve, and encourage ways for governments to generate tax revenues from companies in ways that do not undermine the relative competitiveness of certain firms.

The importance of progressive business people engaging in this debate became clear as the first governmental initiatives regarding the new focus on taxation were already appearing flawed in 2009.

Triumphant claims by the G20 that ‘the era of banking secrecy [was] over’ were somewhat premature due to the political and administrative barriers in enforcing transparency under the current arrangements. For example, the G20 agreed to name and shame those countries and jurisdictions that are yet to comply with the international standard for exchange of tax information, according to the Organisation for Economic Cooperation and Development (OECD). The definition of a secrecy jurisdiction or tax haven is important to note. The central feature of a haven is that its laws and other measures can be used to evade (the illegal and deliberate failure to pay tax), or avoid (the minimisation of tax liability by lawful methods), the tax laws or regulations of other jurisdictions. According to the OECD, tax havens have four characteristics that facilitate both tax evasion and tax avoidance:

- Low or zero tax rates, as an indicator to determine situations in which analysis of the other criteria is necessary
- Lack of tax information exchange with other countries
- A high degree of bank secrecy
- And lack of real economic activity associated with the income generated⁸

However, in a Tax Justice Network (TJN) report to identify tax havens and offshore finance centres (OFCs), they conclude that there is no precise definition of either concept and suggest that OFCs are a purer form of tax haven.⁹ This is because the regulatory criteria such as that of the OECD above, may not be consistent with other organisations and they are based on different methods and indicators to identify such jurisdictions. The City of London in the United Kingdom is a case in point as it has a preferential tax regime that exempts foreign source income from resident-country tax. This means that, by residing in Britain, wealthy internationals can find

tax solace to avoid taxation on their foreign earnings.¹⁰ According to OECD criteria it is not a tax haven but, according to the International Monetary Fund (IMF’s) criteria, it is.¹¹ Judging by the number of wealthy individuals having flocked to London, in practice the IMF’s definition appears closer to the mark.¹²

The ironic corollary, of course, is that the ‘name and shame’ game being played by the G20 powers is not being applied in a universal sense, so it is not surprising that, with the large influx of wealth coming into Britain, the City of London is considered the world’s largest OFC. The City of London is not a borough of London *per se*, but a defined geographical area within London that is home to Britain’s largest ‘offshore’ financial district. It is managed by the City of London Corporation which is also the political representative body. According to TJN, it is the most powerful lobby in Britain and possibly the world and, as a result

. . . exerts enormous political influence to resist regulation and extract tax exemption. It has fostered criminality by ensuring that the City ranks amongst the least accountable of financial centres on the face of the Earth.¹³

This kind of power is not surprising because the City of London Corporation is in effect the provider of services that would normally be fulfilled by the local authority and is thus an example of a private company operating under the auspices of a public service.¹⁴ Promoting sustainability is a part of the corporation’s ‘offer’ and this is outlined in a partial sustainability policy.¹⁵ That policy makes no mention of tax justice, nor is there mention of human rights, labour or anti-corruption issues as per the Global Compact. For such a powerful institution that attracts so much international money, could it set the standard by implementing these principles themselves? The anti-corruption measure alone would mean that they would be engaged to work *against* corruption providing a potential barrier to the investment of corrupt money. Being a financial district, it could promote the UN Principles for Responsible Investment. While the City has put in place the London Principles in conjunction with Forum for the Future, the principles are only a guide to the conditions to enhance the financing of sustainable development; the integrity of their own operations is not in question.¹⁶ This may be the explanation as to why the corporation limits their reporting to community activities through the London Benchmarking Group, with no social and environmental report ever being published by them.¹⁷

The City of London was not the only jurisdiction that escaped the OECD list. Hong Kong and Macau did

not make it either, distorting the progress that needs to be made by China, nor was there mention of the US states Delaware, Wyoming or Nevada. With the French pushing hard to combat tax havens, it was also a little ironic that they let one of their own *paradis fiscal* (tax haven), namely French Polynesia, slip away unannounced.¹⁸

While Hong Kong and Macau have committed to the internationally agreed tax standard, but have not yet substantially implemented it, the omission gives the impression that China is well on its way to implementing the standard; yet, in actual fact, two of its biggest financial centres are far from being ready. By calling these jurisdictions 'Special Administrative Regions', those that write the rules are manipulating language and in turn deflecting the attention towards tax havens other than their own.¹⁹

But what constitutes progress, or substantial implementation of the international standard is in itself questionable. The subjectivity of the OECD's



method is demonstrated in a letter from the OECD Secretary-General **Angel Gurría** to the Luxembourg Justice Minister prior to the summit.²⁰ Mr Gurría stated, 'the OECD noted that a good indicator of progress was whether or not a jurisdiction [had] twelve or more agreements that [met] the OECD standards' which the OECD subsequently confirmed in their June 2009 progress report on countering offshore tax evasion.²¹ What form an agreement takes is important to note because there are two types: Double Taxation Agreements (DTAs) and Tax Information Exchange Agreements (TIEAs). A DTA is a treaty between states to avoid the double taxation of income and thus indicating that taxation is a structural part of each nation's economic stability. But, for jurisdictions with no or low taxes, this type of agreement is not considered appropriate and the preferred type of treaty is a TIEA. TJN estimates that there are anywhere between 50 and 72 secrecy jurisdictions in the world, yet there are well over 100 countries with which they could negotiate information exchange agreements. With only 55 TIEAs having been signed between OECD countries and secrecy jurisdictions prior to the G20, the so-called indicator of progress is clearly not applicable in any universal sense.²²



So, having satisfied the OECD requirements, do these agreements enforce a greater transparency? In a *Financial Times (FT)* article in April, **Raymond Baker** of Global Financial Integrity explained that without serious reforms to undermine the vehicles used to ensure secrecy, these agreements will be ineffective.²³ Firstly, countries such as Switzerland have laws that

prevent such exchanges so, without changes to these laws, an extremely time-consuming process, the agreements will have little effect. Secondly, in the event that there is tax evasion, according to OECD guidelines there must be proof of the fraud to authorise any exchange of information. Such a course of action is an impediment because a detailed case must be made, with the criteria set out in a lengthy legal document.²⁴ Furthermore, in light of the many jurisdictions that require absolutely no traceability to set up accounts, how will it be possible to establish fraudulent activity?²⁵ In May, a political scientist at Australia's Griffith University, Dr Jason Sharman, demonstrated just how rife the problem is by circumventing prohibitions on banking secrecy and forming seventeen anonymous shell companies and five secret bank accounts with only AUS\$20,000 and the internet.²⁶ Thirteen of these shell companies were in OECD countries and, of the secret bank accounts, four were in the United States and Great Britain.

In an article from Tax Analysts they say,

Before deterrence of evasion can begin, a haven must negotiate bilateral tax information exchange agreements, enact legislation, and — usually after a multiyear transition period — set up and maintain the bureaucratic machinery to enforce the agreements²⁷

Again the poor lose, leaving a question mark over the political feasibility of the G20's confidence to eliminate tax havens.

Ultimately, for the agreements to work, the blockages to effective exchange need to be removed. Raymond Baker puts it succinctly in his *FT* article:

What needs to happen now is for the G20 to broaden its dialogue on information exchange agreements, international co-operation and international financial protocols. Most effective in curtailing the massive illicit outflows from developing countries would be a requirement for automatic cross-border exchange of tax information on personal and business accounts and country-by-country reporting of sales, profits and taxes paid by multinationals.²⁸

The emphasis on automatic cross-border exchange is imperative if the G20 are serious about tax exchange and ensures a level playing field in respect to transparency. Exchange upon request is simply too burdensome on an administrative and cost level. In an Internal Revenue Service (IRS) study on compliance, the IRS observed that the compliance rate is 96% when there is comprehensive information reporting requirements as in the case of

US dividends and interest, which is analogous to automatic information exchange. When there is little or no information reporting required, the compliance rate drops to 46%, suggesting that the 'upon request' approach is not sufficiently coercive in assuring the exchange of tax information.²⁹

If the G20 had the political will, there are a variety of ways to economically coerce tax havens into exchanging tax information, including restrictions on providing financial services such as wire transfers, or the refusal of deductions related to transactions with listed tax havens, to name two. Sanctioning tax havens is not the only solution either. The revenue lost by governments is significantly more than the fee and service income that tax havens earn so there is also scope for incentives to ensure that tax-haven economies do not crash.³⁰ Regulatory measures such as the adoption of a General Anti-Avoidance Principle (GAAP) as tabled in the British parliament by Mr Michael Meacher MP in May 2009, could also provide recourse in tax avoidance issues.³¹ Such legislation would give courts the power to decide on whether certain tax practices are being used to avoid paying tax and thereby also assisting directors in understanding their duties on the payment of tax.³²

More poignantly, however, the tragedy of the G20 was not the superficial statements that did not recognise the systemic complexity underlying the tax haven and secrecy jurisdiction problems. The tragedy was that the G20 leaders missed their opportunity to create a new financial system: one that incorporates responsible governance, the environment and the social well-being of every citizen; a financial system no longer focused on short-term gain but rather long-term sustainability; one that seeks a cooperative role between corporations and governments for the benefit of society instead of the accumulation of private wealth; and one where worth in monetary terms is secondary to the values that encapsulate the greater good. Moreover, it was an inevitable outcome when the very committee advising the G20 comprised some of the biggest names in banking orthodoxy, in turn limiting any possibility of an alternative dialogue.³³

The implications for the CSR movement are many. In an April 2009 report, the French magazine *Alternatives Economiques (Economic Alternatives)* reported that apart from four companies in the CAC 40 (the French equivalent to the Dow Jones or FTSE), for which information was not available, all companies had subsidiaries in a tax haven or secrecy jurisdiction of some sort, many in the City of and the claimed objective notions of accounting, a subject already raised in Issue 6 of *JCC* following the Enron scandal.³⁸

London. The admission by Total that the French government was aware of their activities in such jurisdictions reduces this number to three. While illegal activity cannot be implied by this observation, it nonetheless shows the ubiquitous use of such jurisdictions by large companies — the locational smoke to the tax avoidance fire. Topping the list was BNP Paribas with 189 subsidiaries, with another three French banks making the top ten. While BNP asserts that it uses such jurisdictions for the purposes of its international branches, and states it in its 2007 and 2008 CSR reports, it does not mention why there is such a large concentration (40% in the City of London) nor their purpose.³⁴

There are also repercussions for responsible investment (RI) managers and indeed banks offering socially responsible or ethical investment products. In the case of BNP Paribas, which has a number of funds dedicated to ethical and responsible investment, should there be more detailed disclosure in respect to tax havens, not only for the funds themselves, but for the very institution promoting them?³⁵ Such disclosure could include the purpose of the tax havens, and their contribution to the profitability of the group, which would be a measure of the legitimacy of such subsidiaries. Similarly, the ratings agencies that analyse environmental, social and governance (ESG) performance could verify how the tax havens are used to ensure the ethical integrity of the funds and the institution. According to Mr Robin Edme, President of FrenchSIF, and Vice-President of EuroSIF, current rating agency practices do not address this issue explicitly, but it is an area that is now a strong point of discussion for investors, and hence examining the financial industry sector is already a major concern.³⁶

But questioning the effectiveness of a tax agreement or justifying the purpose of a tax haven are side issues to the essential question underlying all the systemic complexity of tax transparency: are corporations actually paying the tax they should be paying and what are the appropriate levels of tax management? What about the ethical dimension of tax avoidance? Is not tax avoidance totally incompatible with the claims of good corporate citizenship? A 2005 survey on 'Tax, Risk and Corporate Governance' conducted by Henderson Global Investors showed that most companies did not address the questions related to tax strategy and CSR, while some perceived that there was a tension between the two.³⁷ How this in turn can be measured will be another dilemma for the rating agencies as it represents an overlap between ethics

As an example, PricewaterhouseCoopers has developed an initiative 'Total Tax Contribution', a tool for companies to demonstrate their effective tax contribution to society and improve transparency in

recognition of this nexus.³⁹ But, as Mr Richard Murphy of Tax Research LLP cautions, transparency is far from improved as the PwC framework is simply the addition of various different taxes such as VAT, national insurance and employee payroll tax, and thus not a reflection of whether a reasonable amount of tax is being paid. The individual components in the computation have no value either because the reporting framework has no requirement to state the underlying base data: that is to say, for example, the profit or employee payroll on which the tax calculation was based; nor does it take into consideration the



location of where the profits were made.⁴⁰ John Christensen calls it a 'crock of nonsense' and has recommended that corporations looking for a more prudent approach to tax justice should consider the 'SEE What You Are Buying Into' labelling scheme, which incorporates tax justice issues as part of their matrix of social, environmental and ethical issues.⁴¹

The SEE scheme's approach incorporates the base data necessary to determine whether an appropriate amount of tax is being paid, where the

'Appropriate levels of tax' are the rates stipulated by the relevant tax authority within the country where the company's tax liability falls minus 3%. [The 3% is recognition that accounting and taxable profits are not always identical.]

To become SEE-listed, companies are required to respond to 35 closed questions on a range of social, environmental and ethical (SEE) issues. SEE What You Are Buying Into Ltd initiates a dialogue with companies in the event that there is a question mark over their responses or they are unclear. To answer the tax question, co-authored with TJN, companies must declare the date of publication of their financial statements for the last two financial years, the applicable tax bracket for their business, and the percentage of tax that they paid. If they are not paying the defined appropriate rate, they must additionally explain and justify why not. All details are housed on the SEE What You Are Buying Into website where they are available for public scrutiny, comment and rating. Thus businesses participating in the scheme offer a transparent picture of their performance on tax, among many other material corporate responsibility matters.

SEE Company's approach could indicate a change in the wind for an area of CSR that remains undeveloped, but the issue of tax havens and secrecy jurisdictions has a long way to go because what it demonstrates is that the law, in the interim, is not sufficient. When the legal undercurrent

supports the corporate machine for the purposes of gain, it is very easy for corporations to hide behind the law without actually breaking it. As a result, questions of legitimacy, social responsibility and managerial discretion are difficult to challenge. But, if the law is not equal for everyone, then values are the ultimate guide in determining how a business person understands their role in society, and whether they should adopt a more political role. What the tax haven agenda questions, from a CSR perspective, is: are companies willing to be transparent so that they are whole participants in society? It also raises the issue of whether both ethical and practical considerations could lead more business people to push for more effective intergovernmental action on tax matters, so their own companies can make a fair contribution, without being unfairly disadvantaged by those who avoid taxes more actively. These issues have been in the background of CSR for some time and, after the economic crisis, they are set to become even more important.

FRANCOPHONE CSR

Interest in French approaches to capitalism and economic management has grown in some circles as a result of the Western financial crisis. Pointing to the deregulation of the financial services sector, many commentators regard the crisis as emanating from an Anglo-Saxon model of capitalism, where the government is meant to enable market forces, rather than curb them. Experience of business-society relations in France may become increasingly relevant to discussions of the role of government and business across the West. Therefore the French experience of voluntary corporate responsibility, and its connection to government, is worth reflecting on.

In May 2009, HEC Paris hosted their sixth annual Social Business Conference in conjunction with Net Impact, bringing together mostly MBA students and some professionals. The session on Sustainable Finance proved to be an interesting indicator on how mind-sets, with respect to responsible investing, are changing in France. Jean-Philippe Desmartin, the SRI Research Manager from Oddo Securities (France's largest independent investment broker), stated that the socially responsible investment (SRI) market was in an exciting transition phase. In respect to their own client base, the number of institutional investors that required investment services that incorporated ESG criteria had increased from approximately 150 in 2005 to 350 in 2008. More importantly, he added that there had been a shift in paradigm because, out of their responsible investment client base, 80% selected a predefined product with ESG criteria as part of their

portfolio in 2005 but, by 2008, 50% were using their own ESG criteria to select their whole portfolio.

Supporting this trend, in June 2009, Novethic, the French government-sponsored research centre for CSR and SRI, released their annual review on responsible investment in France.⁴² They stated that, for the first time since their inaugural 2002 review, there was more money invested according to ESG criteria, directly tailored by institutional investors' ethical needs, than in predefined products. This subtle change represented an ethical reflection within the investment selection process *on the buy side* that went beyond mere portfolio diversification in the interests of spreading risk, to incorporating values other than profit-making. In a country where the public has traditionally looked to the government as their guiding force, it was also a sign that the French are mobilising in respect to issues related to the broader dimensions of sustainable development.

France is also an interesting case as it is one of the world's largest economic powers and has a presence right around the globe.⁴³ Apart from their European neighbours, the French also have departments (administrative divisions of the state) that neighbour Australia, Brazil, Venezuela and Canada, and so their economic influence is a genuinely global phenomenon.⁴⁴ France is also characterised by a public sector that supports a centralised political system which in turn influences relationships between business and society. So, in a country where the roles of business and government are defined differently, the discourse around CSR will naturally be impacted.

The concept of 'corporate social responsibility' (CSR) is a source of confusion for linguistic reasons because in the French language there is no distinction between the word 'responsibility' and the legal concept of 'liability'. In French, 'responsibility' can also be likened to 'accountability'.⁴⁵ In the same vein, the word 'social' in English integrates society as part of its meaning which therefore includes external stakeholders. In French, however, 'society' is translated to *société* but it has two adjectives, *sociale* and *sociétale*. The adjective *sociale* is traditionally linked more directly to labour-related issues. Conversely, the word *sociétale* focuses on broader matters relating to society at large and hence external stakeholders.⁴⁶ Using one and not the other, however, risks excluding certain aspects of CSR that would normally be implicit in the English definition. An added confusion is that the French translation of CSR, *responsabilité sociale de l'entreprise* (RSE) is the same acronym for *responsabilité sociale et environnementale*, which makes no explicit reference to a corporation, raising the question of whether such concepts should be simplified to accommodate international dialogue.

The terms 'corporate responsibility' and 'responsible enterprise' would be better alternatives for this reason.

It is worth noting, however, that not all francophone territories reflect these distinctions. The French Canadian province of Québec shares the Anglo-Saxon definition of CSR, probably due to the influence of the surrounding anglophone provinces embedded within a federation, and the United States.⁴⁷

Québec is nonetheless active on CSR issues with a social network called Cataléthique, previously the Montreal chapter of Net Impact, and a research centre dedicated to CSR and sustainable development at the University of Québec in Montréal. Québec also boasts a political party, Québec Solidaire (Solidarity Québec), which seeks to address systemic issues relating to the financial crisis.⁴⁸ In their May 2009 manifesto, 'Pour Sortir de la Crise: Dépasser le capitalisme?' ('Resolving the Crisis: Going Beyond Capitalism?'), they propose an economic platform that is a vehicle for promoting social and environmental values and they openly challenge the *laissez-faire* approach to markets, specifying that, without systemic change, the moralisation of the financial sector will simply be a short-term solution, in turn raising the same questions of the financial triumphalism of self-regulating markets as in the Winter 2008 issue of *JCC*.⁴⁹

Beyond the linguistic challenges of a French CSR, there are also particularities related to history and culture. The French recognise the essential role of government, which is expected to exercise its influence, and so it is of no surprise that there is a considerable body of legislation relating to CSR. Two examples are mandatory corporate social reporting, introduced in 1977, and the 2001 legislation requiring listed companies to include some 40 social and environmental indicators in their annual reports to shareholders which impacts some 700 companies.⁵⁰ This legislation is nonetheless not without its flaws because there are neither sanctions nor external audit requirements. In a 2004 report submitted to the French government, most small to medium listed companies were found to provide inadequate information, perhaps explained by the lack of sanctions.⁵¹ This document also highlighted that publishing the reports had little effect because the public discourse linked to social and environmental reporting was undeveloped. This may be linked to the historical context of the initial social reporting guidelines created in 1977 which were submitted to a government agency rather than being open to public scrutiny. So, while the legislation is not necessarily well applied due to the above factors, and also because of the traditional understanding of 'social', at least the government

has underlined the legitimacy for the concepts of CSR.⁵² It also means that French corporations will be looking toward the government for continued guidance in the future.

A more recent example is France's Grenelle de l'environnement which is the French equivalent of a commission for the environment. The initial phase, 'Grenelle I', provided the general objectives and the second phase will outline in more detail its application. While the redrafting of the initial phase was still being debated in the National Assembly as of June 2009, one of the agenda items for the second phase is governance with respect to carbon emissions.⁵³ According to the French Energy and Environmental Management Agency (ADEME in French) in their May 2009 *Grenelle II* report, the legislation will oblige all companies with high emission levels and more than 500 employees to report on their carbon footprints by 2011.⁵⁴ The same legislation will also require that all non-SMEs (small to medium enterprises) will be subject to the same environmental and social reporting requirements as that of listed companies, levelling the playing field in respect to the original 2001 law.

The legislation will also address the low number of companies with environmental certification. ADEME estimates that there are around 6,000 French companies that have been certified to ISO 14001, and that such programmes remain inaccessible for smaller organisations. As a result, the legislation will provide fiscal incentives for SMEs to improve environmental reporting. It is worth noting that there is a proportional increase in the number of French companies being ISO 14001-certified with an approximate doubling between 2006 and 2008 based on ADEME estimates.⁵⁵ The long-awaited guide to social responsibility, ISO 26000, may prove to be more accessible as it provides guidance rather than a certifiable standard. Seeing that French municipalities have already developed an application guide for its implementation based on the drafts, this may serve as an example for French companies, irrespective of their size.⁵⁶ Furthermore, there promises to be a ripple effect as ISO 26000 will affect the procurement and tendering processes when dealing with the state departments.

The low number of environmental certifications is also reflected in the number of directors that are wholly responsible for CSR issues. In a March 2009 study, Cadre Emploi (the French job search engine for managers) estimated that there were around 100 directors in total dedicated to CSR within French corporations.⁵⁷ However, these positions are not necessarily answerable to top management, indicating that CSR for some of these companies is not a strategic issue but merely an exercise in communications.

But, while the French look to the government for guidance, a number of initiatives indicate that the French public is alert to the CSR agenda. The Sustainable Luxury Fair in May offered a novel perspective on how luxury goods can contribute to a more sustainable world and how contemporary art can be a catalyst in raising awareness with respect to sustainability issues.⁵⁸ The fair featured a number of eco-inventions and eco-luxury goods as well as an exhibition called 'Consumer', an artistic interpretation challenging participants to look at the systemic cycle of consumption. The fair was also an indicator that various sectors and communities in France are now taking it upon themselves to promote sustainability rather than relying on government intervention.

The academic community has not been silent either. In contrast to the aesthetic aspects of the Sustainable Luxury Fair, a more sober approach to CSR was evident at the Symposium for CSR Indicators in Lyon held the following month.⁵⁹ Organised by the Socioeconomic Institute of Firms and Organisations (ISEOR in French), the symposium led an academic reflection on the harmonisation of the plethora of norms and standards available to organisations in order to provide better measurements for CSR. What was interesting to note, however, was that, while being organised by a French institute, the symposium was conducted in French, Spanish and English, reflecting not only its international character, but also indicating a possible convergence in respect to CSR concepts.

In a rather innocuous article in the *Financial Times* in June, there was further suggestion of this convergence with Groupe ESC Rouen, announcing a name change to Rouen Business School in an attempt to diversify internationally.⁶⁰ While Rouen Business School is not necessarily renowned for CSR, this rebranding reflected a continuing trend towards opening up French schools to international perspectives and students to the French experience.⁶¹ As Antal and Sobczak have observed in their study on CSR in France, historically the orientation of French management researchers has been limited to a national focus, with some exposure to other francophone territories such as Belgium, Canada and Switzerland through conferences and publications.⁶² So, while French business schools were providing international training, they had little influence on global research and theories because of the language barrier. While not directly linked to CSR per se, the promise of more articles in English from French management schools with an international focus will continue to reduce the gap between different concepts of CSR, including the role of government.

These changes also represent a cultural shift for the

French. For historical reasons that date back to the Revolution, some claim that the French have a relatively higher distrust of private actors to provide the general good, and hence their faith in the government.⁶³ Albeit a small percentage, with the French public becoming more and more active with respect to sustainability issues, these examples illustrate that not all the French are willing to wait for the government to always take the lead. More importantly, though, the government has been willing to explore different ways of using its influence. Encouraging voluntary initiatives, such as ISO 26000, are a testament to the fact that the French government sees room for mandatory approaches and voluntary initiatives. It also indicates that there is a new openness in accepting CSR definitions that are traditionally not a part of French culture.

This is also reflected at policy level. A January 2007 release by the Ministry of Sustainable Development as part of the government's National Sustainable Development Strategy stated that,

Although sustainable development is a growing concern, the ways in which companies act are very diverse. In order to facilitate their efforts towards sustainable development, a consensus was reached on the necessary balance between voluntary efforts and legal and regulatory measures.⁶⁴

In her analysis of EU, UK and French CSR Policy, Dr Jenny Fairbrass of the University of Bradford observed that this is an adjustment to the French government's contribution to the 2001 Green Paper defining the EU's CSR policy.⁶⁵ At the time of writing, the French government saw voluntary initiatives as useful in assisting corporations in going beyond the law, but the principles of CSR should be embedded in the law as opposed to being mainstreamed in line with market forces. It stated,

The Green Paper . . . affirms that voluntary instruments [. . .] are neither a substitute nor an alternative for regulation. The legal and regulated framework is, in effect, indispensable for guaranteeing equality of treatment of all workers.⁶⁶ [Fairbrass's translation]

As there are strong parallels between UK and EU policies in respect to voluntary initiatives, Fairbrass concludes that this is a sign of convergence in approaches to CSR at a national level. Seeing that the French government has taken the lead on harmonising their sustainable development strategy with that of the EU, continued Europeanisation of French traditions will no doubt lead to a progressive merging of CSR concepts in the future.⁶⁷

The question is whether actors from other countries

can draw on French concepts of CSR. What the French CSR experience has demonstrated is a willingness to let the government play a role in guiding business and its relationship to society. So, while the government intervention is far from being perfect, it has legitimised the concept of CSR and mainstreamed it through a regulatory framework, as opposed to market-led initiatives. This interaction with public authorities may prove a useful model for stakeholders in other countries in attempting to further the dialogue around CSR.

In the same vein, French CSR has been driven by the internal dimensions of business as it relates to labour issues. This has been, and remains, a traditional focus within France. The regulations around labour could also be a source of debate but, more importantly, how non-francophone actors could learn from the traditional processes that embed such regulation.⁶⁸ The ISEOR conference in Lyon is an example of how thinking is going beyond borders and also how researchers are trying to tap into the French experience. As France begins to develop its own field of corporate responsibility, it stands ready to exert greater influence on the international field of corporate responsibility.

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May 2009 also marked the seventh meeting of the ISO 26000 working group in Québec City. In conjunction with the meeting, a public conference was organised with the objective of helping stakeholders to understand the implementation and the organisational impacts of ISO 26000.⁶⁹

One of the sessions was dedicated to 'How Africa puts sustainable development in action in its industry', which analysed an Ivory Coast corporation, Sifca. Sifca is a private agro-industrial company of over 11,000 employees with a presence in the Ivory Coast, Liberia, Nigeria, Ghana and Benin, and has several strategic partnerships including michelin.⁷⁰ Its principal areas of industry are sugar, palm oil and rubber.

Sifca's focus is an interesting one as it highlights the community-oriented nature of its CSR, also confirming a global compact impact study in 2007 which concluded that African CSR projects were primarily aimed at local communities and poverty reduction.⁷¹ Sifca's focal point is to meet workers' immediate needs through health and safety. To do this, each site has a working group dedicated to sustainable development, suggesting that suppliers and workers are conscious of social responsibility and that they are being integrated at the beginning of the

supply chain. Furthermore, it also demonstrates that CSR is understood as a participative process whereby the structure allows workers to initiate continuous improvements to respond to social needs. An example is Sifca's response in adapting to the rural nature of the supply chain: redeployed workers are provided lodging and, according to Mr Franck Eba, Sifca's head of sustainable development, the company pays for the electricity and water costs as well.⁷²

At a governance level, the company has also undergone a pre-audit based on SA8000, ISO 14001 and OHSAS 18001, which was conducted by the Belgian CSR consulting specialists cap conseil, and they plan to issue their first sustainability report in July 2009.⁷³

However, Sifca is the exception in francophone Africa. While Sifca is actively embedding CSR as part of its strategy, it has assumed large levels of responsibility that the state would normally provide. Its active conviction to meet the needs of workers to make up for weak state welfare is commendable, but it stresses an urgent need for institutional development at a government level.⁷⁴ quoting Mr Eba, 'we just can't do it all.'

African concepts of CSR also reflect this as the philanthropic side is prioritised, due to its immediacy in providing economic welfare, over the more governance-related ethical dimensions of CSR and the environment.⁷⁵ as Wayne Visser, CEO of csr international, has observed

... economic responsibilities still get the most emphasis. However, philanthropy is given second highest priority, followed by legal and then ethical responsibilities.⁷⁶

Dr Ulf Richter, Assistant Professor for Political Economy at the International University of Grand Bassam in the Ivory Coast also confirms, '... most see it [African CSR] as quality management and the fight against poverty'.⁷⁷ ISO statistics would lend support to these statements. In a 2007 report, francophone countries including non sub-Saharan nations had proportionately higher numbers of ISO 9001 quality assurance certifications to ensure trade with developed countries, with only a handful of ISO 14001 certifications, potentially ignoring environmental considerations.⁷⁸

There are also other complicating factors at play. While the same Global Compact study concluded that the role and interest of governments in respect to CSR is lacking in sub-Saharan countries, conditions for funding require that governments focus on poverty reduction, and so CSR is understandably not a primary focus. It would also be easy to look at the number of Global Reporting

Initiative (GRI) reports from 2006 to 2008 and conclude that francophone Africa was completely inactive with respect to CSR, as there were none.⁷⁹ But the landscape of French-African economic activity in general is not geared to respond to an initiative such as the GRI because most businesses are SMEs and there are few TNCs of French-African origin.⁸⁰ The Global Compact may actually be a better measure due to its accessibility and less onerous reporting requirements. According to the Global Compact 2008 annual review, of the French sub-Saharan countries, Senegal and the Ivory Coast had a Global Compact network with another emerging network in Cameroon.⁸¹

The case of Sifca shows there is an opportunity for TNCs to learn from a French-African company and its activities within local communities. An analysis of its local working groups dedicated to sustainable development could provide insights into traditional ways of embedding social responsibility at the bottom of the supply chain and, more importantly, potentially open doors to a better understanding and respect of the French-African CSR experience.

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THIRD QUARTER

JULY–SEPTEMBER 2009

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MINDFUL MINING

The plethora of initiatives that support more responsible business practices is the source of continuing debate. Not only is the number of initiatives a point of confusion, but also their respective scope and relevance to a corporation's needs, as well as their governance and accountability to affected stakeholders. This complexity led the new Ethical Corporation Institute to publish, *The Guide to Industry Initiatives in CSR*.¹

Due to its international nature and the variety of social and environmental issues and interest involved, the mining sector has its own array of corporate responsibility initiatives. This is because other sectors that depend on mining, such as jewellery, are under increasingly close scrutiny over the origin of their precious metals and gemstones. On the social side, issues include: working conditions and labour standards; the human rights of local people; fair trade and conflict-free raw materials; artisanal and small-scale mining; community development and investment; communication, engagement and equitable participation with all stakeholders; and respect for local cultures, traditions and indigenous peoples. There are just as many issues to consider on the environmental side, such as minimising the adverse impacts throughout all stages of a project, including: implementation of environmental management systems; responsible resource extraction and use with respect to ecosystems and biodiversity; responsible use of hazardous and toxic materials; climate change; responsible waste management; and mine closure. Underpinning all of these concerns, particularly in lower-income countries, are apprehensions over the potential involvement of mining operations in bribery,

corruption and the possible exploitation of weaker institutions and economic structures. The tax management practices of some mining companies have also been challenged.²

As a result of these ethical considerations, companies as diverse as Wal-Mart, Tiffany and Cartier have established their own initiatives to responsibly source their jewellery products. Wal-Mart, for example, has developed a system to track each piece of jewellery sold as part of its 'Love, Earth' collection.³ Many companies have sought to work together on the difficult issues involved. The most well known of the collaborative initiatives is the Kimberley Process which addresses the problem of diamonds sourced in conflict zones. However, there are now more than half a dozen international multi-enterprise and sometimes multi-stakeholder initiatives that address the broader range of social and environmental aspects of mining.

Some of these initiatives, such as the Responsible Jewellery Council (RJC), have sought to provide a comprehensive solution. The RJC's difficulties in the third quarter of 2009 remind us of the ongoing contest over the legitimacy of corporate responsibility initiatives. In August 2009, a coalition group of civil society representatives withdrew from the RJC's public consultation of their second draft Mining Supplement for their assurance standard, and rejected the RJC's offer to participate in its Consultative Panel.⁴ The coalition declined to contribute, citing the RJC's refusal to adopt a sufficiently participatory multi-stakeholder process during its standards development as the cause. They argued that it inadequately engaged with civil society representatives such as NGOs; local communities in mining regions; and artisanal and small-scale miner representatives as equal stakeholders.

This should not come as a surprise when considering that the RJC was founded in 2005 by a group of jewellery companies. Its objective is to reinforce consumer confidence in the jewellery sector by promoting responsible practices throughout jewellery company supply chains – from mine to market. The RJC's past attacks on NGO analyses of related industries may not have created the impression that it is open to differences of opinion or priority.⁵

The RJC's proposed certification system includes a set of voluntary standards on business ethics, human rights, social and environmental issues and

mechanisms for verifying responsible business practices through ‘third-party auditing’.⁶ However, its system has been the subject of debate from the outset with concerns that it only serves to benefit its members and avoids key issues such as traceability of materials in the supply chain. The nature of its third-party verification system is also open to questions of independence given that the entire initiative is industry-led and -governed.⁷

The credibility of RJC’s certification system is not just linked to the process of certification, but also to the effectiveness of the standards. When questioned how the standards would prevent the unsafe use of mercury by children extracting gold, which invariably finds its way into the EU and US markets, Mr Michael Rae, CEO of the RJC, honestly acknowledged

Well, frankly, we won’t, because it’s not something that we are saying we are doing.⁸

In light of the NGO pull-out from the public consultation, and with the admission by the RJC’s CEO that its certification system will not guarantee traceability, it would seem that these concerns are justified.

Furthermore, the August 2009 version of the draft Mining Supplement ignored many of the coalition’s recommendations with respect to social and environmental criteria as per its October 2008 letter.⁹ These included a number of fundamental social and environmental requirements such as free, prior and informed consent (FPIC) for indigenous peoples, and the importance of obtaining community consent for resettlement.

The RJC responded with two public letters in September 2009, clarifying its position in respect to the NGOs’ concerns. It requested that the NGOs reconsider their decision not to contribute to the consultation process, extending the time-frame of the consultation to allow for further input, and addressing the issue of independent, third-party verification. However, the failure to give equal voice to stakeholders weakens the legitimacy of the standard.¹⁰ Moreover, the omission of representation of local and small-scale mining communities as a key stakeholder group risks giving preference to the larger conglomerates within the mining sector.

Transparence SA has been a member of RJC since mid-2007 and has taken an ethical stance with respect to its supply chain so that customers can have a guarantee of the material’s origin. While offering a retail platform for its responsibly sourced jewellery, it has also taken a leadership role by connecting sources of ethical stones and metals to other luxury jewellery designers. The brands it works

with include: Cred, FiFi Bijoux, Oria Jewels, Noën and the luxury brand Garavelli. Transparence SA’s founder, Veerle van Wauwe, explained to us that

RJC won’t build supply, it will just certify existing sources. New actors need to emerge, who develop solutions to the environmental and social challenges of mining, otherwise those who need most support will be left behind.¹¹

As a result of concerns over the direction of the RJC, the NGO coalition opted in favour of the Initiative for Responsible Mining Assurance (IRMA) as a more constructive process of engagement for certification purposes.¹² While IRMA has a broader scope with respect to the mining sector in general, it does incorporate jewellery-related supply chains, thus covering many of the same issues as the RJC system. In cooperation with civil society representatives, it is creating a set of standards that encapsulate best practice for the industry through a constructive multi-stakeholder dialogue process that gives equal voice to all participants.

The Communities and Small-Scale Mining Initiative (CASM) is another example of a multi-stakeholder and participatory dialogue process. It is a global multi-disciplinary networking and coordinating forum chaired by the UK Department for International Development and the World Bank which aims to reduce poverty by improving the environmental, social and economic performance of artisanal and small-scale mining in developing countries.¹³ In September 2009, CASM’s annual conference in Mozambique focused on the role that artisanal and small-scale mining can play in rural development and poverty alleviation.¹⁴ In a World Bank press release in the same month, Mrs Esperanca Laurinda Nhieuane Bias, Mozambique’s Minister of Mineral Resources, expressed the government’s support for the initiative due to

. . . the important contributions of artisanal and small-scale mining in reducing rural poverty, creating employment, providing diverse services, developing small industries and reducing the migration of our youth from the rural areas to cities by ensuring sustainable economic growth in these rural areas.¹⁵

Artisanal and small-scale mining (ASM) is practised by people who live in the poorest and most remote rural areas around the world, people who normally have few livelihood alternatives. Due to its marginalised status, ASM often falls outside the scope of legal and regulatory frameworks, and, furthermore, is illegal in some countries. It is not uncommon for entire families to work at an ASM site with men, women and children each having their own designated roles and responsibilities within the

ASM site structure.

Typically, ASM exposes workers to extremely poor and hazardous working conditions, with little or no awareness of health and safety standards and a high rate of major incidents, including fatalities.¹⁶ The handling of toxic materials such as mercury (for artisanal gold mining) without protective equipment or clothing is the norm. There is also a high prevalence of poor health issues and disease among ASM communities, including vulnerability to malaria, tuberculosis, cholera, HIV and Aids.

Given that ASM lacks institutional support in the majority of countries in which it occurs, exact numbers regarding how many people are involved are not known. However, CASM estimates that approximately 20 million men, women and children in over 50 developing countries are directly employed in the sector, with 100 million more dependent on it for their livelihoods.¹⁷ Women are estimated to constitute approximately 30% of the ASM sector, and the International Labour Organisation (ILO) estimates that approximately 1–1.5 million children are currently employed in ASM, and the numbers are rapidly increasing.¹⁸ CASM also estimates that there are many more people engaged globally in ASM than are employed by large mining companies. As the global demand for mineral commodities grows and prices rise, the number of people engaged in ASM worldwide is expected to increase correspondingly.

Many ASM communities are located on the fringes and perimeters of large-scale mining (LSM) operations, and frequently in among them. The presence of multinational companies with LSM operations in traditional ASM areas also creates potential conflicts around issues of land ownership rights and the right to mine generally. Many companies often face the daily reality of ‘illegal’ or ‘artisanal’ mining, including child labour in, on and around their operations. As such, the relationship between LSM operations and artisanal miners has generally tended to be one fraught with mistrust and resentment. However, some companies appear to be learning that building constructive relationships is a far more effective risk management strategy than attempting to eliminate the artisanal miners through increased security measures, or by hoping that the problem will simply go away. As Mr Anthony Kwesi Aubynn, corporate affairs director for GoldFields Ltd’s Ghanaian operations, asserts,

It is widely recognized that maintaining harmonious relationship between large-scale multinational mining companies and local operators is crucial if both parties are to maximize their contributions to the economy and livelihoods of the operational areas.¹⁹

Gold and gemstones attract the majority of artisanal and small-scale miners. CASM estimates that 75% of all gemstones and 15–20% of the total global mineral supply are from ASM sources: a strong indicator of the importance of ASM to the global minerals market.²⁰ The corollary is that with such a large proportion of the world supply coming from ASM, most jewellery brands will have some contact to this type of sourcing, potentially exposing themselves to brand and reputation risks. However, the potential for companies to contribute to the long-term social and economic development beyond mining is equally as important if they are willing to engage with these communities.²¹ If integrated legitimately into responsible international mineral and metal supply chains and ‘formalised’ by national governments, ASM represents a huge opportunity for sustainable development for millions of people worldwide. It is also significant that the challenges facing the ASM sector fully reflect those of the United Nations Millennium Development Goals (MDGs), including: health, environment, gender, education, child labour and poverty eradication.²²

The key challenge for a responsible mining sector is how to effectively manage ASM and its associated risks without compromising companies’ CSR/sustainability commitments. Several mining companies have already begun engaging with ASM in and around their concessions, realising that constructive engagement and steps towards ‘coexistence’ promise far greater benefits, and less risk, than the alternatives, including making a real contribution to poverty alleviation and upholding human rights. LSM companies are also in a position to make a significant contribution by facilitating dialogue, awareness and understanding of ASM at the government level. If this can be achieved in countries of operation, it may then be possible to use leverage to obtain formal recognition of ASM at national policy levels. ASM engagement initiatives at site or project level are increasingly integrated into broader community relations strategies, and include, for example: procurement or purchasing schemes, education and training programmes that could potentially lead to employment opportunities, capacity-building or alternative livelihood programmes and other community development initiatives.²³

Indeed, CASM has an ongoing working group dedicated to the relationship between LSM and ASM—one of the agenda items at CASM’s conference in Mozambique.²⁴ Collaboration between LSM companies and ASM communities, as well as other stakeholders including retailers and jewellery companies, is increasingly becoming a way to ensure inclusion of those in marginalised mining communities. This also addresses the issue of

traceability, whereby stones and metals can be traced back to their origin or source.

However, these initiatives will be of limited impact if the corporate precious metal buyers do not begin to support them. Veerle van Wauwe of Transparency wonders,

Will large companies just sit and watch to see what happens? If they are serious about it, they need to start investing now in solutions in artisanal mining. They could commit to start buying from these sources that are under development, to help them achieve commercial viability.²⁵

Executives in the jewellery business have expressed to the some of the authors of this annual review their worries about the complexity of working on artisanal mining, the potential reputational hazards, and the limited volumes that can be produced from ethical artisanal production. This position demonstrates an approach to corporate responsibility that is reactive and defensive, seeking to avoid perception of malpractice, rather than a strategic approach that seeks to make as much of a positive difference as possible through integrated responsible business practice.

It was therefore significant when, in July 2009, Cartier announced that it had formed a partnership with the Goldlake Group, owners of Eurocantera. Eurocantera is a ‘responsible’ gold mine in Honduras that works in partnership with artisanal miners, utilising an innovative process requiring only water to extract alluvial gold, rather than cyanide or other harmful chemicals.²⁶ The initial three-year agreement assures the entire purchase of Eurocantera’s gold production for the 2009–2010 fiscal year, and at least the same amount for the two following years.²⁷ While the supply of gold from Eurocantera will represent only a small part of Cartier’s supply needs, the significance of the agreement is nonetheless an important one for the luxury brand. Ms Pamela Caillens, Cartier’s Director of Corporate Responsibility, affirms

Eurocantera gold is only a portion of our supply at this stage, but it’s an important step. We want our purchasing decisions [to] make a difference in the way gold is extracted, by helping leaders and pioneers like Goldlake to develop, and by inspiring others.²⁸

MINE’S FAIR

The first company to devote itself entirely to the ‘ethical’ production of gold was the Green Gold Corporation (‘Oro Verde’): a pioneering community cooperative initiative based in the Choco region of Colombia. It has developed its own Certified Green

Gold Program and is currently the only ‘fairtrade’ gold available on the international market.²⁹ In 2004, it participated in the establishment of the Alliance for Responsible Mining (ARM), a multi-stakeholder, miner’s-based initiative to promote responsible mining which is developing a ‘fairmined’ (fairtrade) mark and certification system for responsibly ASM-sourced minerals.³⁰

ARM was one of the first multi-stakeholder initiatives to specifically address ASM, closing the final public consultation to finalise its ‘Standard Zero’ for fairtrade artisanal gold and associated silver and platinum in September 2009.³¹ Standard Zero was first created in 2007 in collaboration with the Fairtrade Labelling Organisation (FLO) and comprises a system that has adapted FLO’s standards for small producers to an ASM context. Standard Zero certification aims to assure a path from mine to market to provide consumers with a guarantee of the mineral’s origins and ensure that workers at every level of the supply chain are subject to appropriate working conditions and fair pay. Nine pilot projects have been under way to test the system’s traceability claims before undertaking the final phase to integrate the consultation input.³² ARM’s ‘fairmined’ mark was expected to be available by mid-2010.

For mining companies, and those in the jewellery sector in particular, these programmes represent a change in the wind with respect to corporate responsibility. Simply being part of an initiative will no longer hold credence if it is not part of a larger multi-stakeholder dialogue process that provides equal voice around social and environmental issues. Initiatives such as IRMA, CASM and ARM have identified the importance of engaging with community groups in the mining sector for the purposes of transparency. More significantly, however, the latter initiatives have gone a step further by partnering with local communities, a step towards achieving the MDGs.

Civil society withdrawal from the RJC public consultation indicates more than a disagreement with respect to process and values. It signifies that, unless initiatives take an approach that is inclusive and accountable, there will continue to be new initiatives, adding complexity to responsible enterprise efforts. Some may argue that this competition in standards is healthy and the market will decide. However, there are pragmatic implications for representative organisations that have limited time to invest in building, promoting and monitoring standards. Calls for unifying them into one coherent system can no longer be ignored, raising questions about the most unified way to better industry practices.³³ All initiatives will do well by not only improving stakeholder dialogue, but by making a concerted effort to consolidate standards

to simplify the process for all involved.

The case of competing standards in the responsible mining field is an example of the complexity associated with the growth of ‘global private regulation’ that has emerged in the past decades around the social and environmental dimensions of trade.³⁴ As traditional forms of legitimacy through government involvement and control do not apply in private forms of regulation, so new questions arise about the accountability of standards and their application.³⁵ The International Social and Environmental Accreditation and Labelling Alliance (ISEAL Alliance) is an organisation that was established to help professionalise this field of standard-setting and certification. As a membership organisation of standard-setters, it needs to balance its own priorities and its need for income. How it manages that balance will be key to whether ‘private’ standards truly serve the public good. Ultimately, the growth of private standards today provide an opportunity for the United Nations to offer guidelines in this field, something that was once envisaged for the Global Compact.³⁶ At this time, practitioners and researchers involved in this field should consider the extent to which any standard is governed by stakeholders, whether a standards body is compromised by requiring successful certifications for its income, what forms of complaints procedures are in place, and whether its processes for assessment and monitoring actually empower those affected by the business activities concerned.

For companies in the mining and jewellery sectors, examples such as ARM and Eurocantera provide a vision for better mining by meeting community priorities. These developments address issues that can guide companies towards innovation that benefits humanity and serve ends that go beyond profit. Veerle van Wauwe’s hope is that

it is time to create a more equitable value chain, empowering mining communities and delivering tangible results for human and sustainable economic development in these communities. Slowly but surely, I have to believe that we will succeed and make a real difference.

BEYOND BEAUTY

The beauty industry is a source of both blemish and rejuvenation when it comes to their social responsibility. The recent proliferation in the number of natural and organic cosmetic manufacturers in the beauty industry represents a return to the sourcing of natural, rather than synthetic, ingredients and the recognition of better environmental and social practices.³⁷ Despite this

encouraging trend, it is not indicative of greater corporate responsibility within the larger luxury conglomerates, as it has been led, primarily, by small to medium-sized businesses.³⁸

Two major beauty industry events held in September 2009 illustrated this. Beyond Beauty Paris is Europe’s largest expo for the beauty and wellness sector, grouping beauty product brands and their suppliers, as well as services, such as spas and beauty institutes. Apart from providing an opportunity for brands to market their products, the event addresses business issues linked to the beauty industry, including sustainability. In previous years, issues such as fairtrade, ethics and toxicity have been conference topics. In 2009, issues relating to sustainable packaging were on the agenda. While the expo has a selective approach to such issues, it is nonetheless an indicator that the beauty industry is somewhat alert to environmental and social performance. More importantly, however, the themes up for discussion were peripheral in comparison to the actions of companies that have sustainability at the very heart of their operations. Concerns over the toxicity of beauty products, ethical sourcing, bio-piracy, animal testing and societal development have been drivers for many small to medium enterprises in creating niche products that are not only respectful of nature, but ecologically restorative as well. These companies are letting their products do the talking and, despite the small market share, their efforts are now becoming recognised by their peers.

Demonstrating this trend were the eventual winners of the various industry prizes up for grabs that aim to recognise the most promising new brands on the cosmetics market. In recognition of the growth in the natural and organics market niche, the ‘Beauty Organic Award’ was added to the three existing awards.³⁹ Despite the one prize category dedicated to organics, all four awards were won by companies producing natural and organic products. This is increasingly impressive when considering that none of the judging criteria included performance with respect to sustainability—perhaps sending a message to the better-known luxury brands that synthetic chemicals do not need to be a part of cosmetic ingredients.⁴⁰

The winner of the Beauty Organic Award was Aïny, which Beyond Beauty described as a

. . . brand which brings indigenous people’s sacred, shamanic sciences together with modern innovations of cosmetology to invite us to take a new look at cosmetics.

The ‘new look’ that Beyond Beauty is talking about is an approach to cosmetics that incorporates an environmental ethic that goes beyond organic

ingredients and an aesthetisation of beauty. Not all of Aïny's products are certified organic, but they practise fairtrade and work with local communities to protect their cultural assets and traditional knowledge about plants. To do this, they have a bio-piracy policy so that no patent can be registered and partner with the local indigenous organisations, helping them to protect their rights. They are 'One Voice' certified with respect to being against animal testing.⁴¹ As such, beauty is situated within a larger ecological system, recognising connections between self and community, ethics and aesthetics, humans and nature.⁴² Consequently, beauty is captured in what the product represents, not just the benefits for personal appearance.⁴³ Moreover, these products reconnect the notion of health to beauty through community values and relationship.

COSMETIC RESPONSIBILITY

The LVMH Research symposium was the second of the September events and proved to be a somewhat different affair. The day-long symposium served as an intellectual platform to study how cosmetics contribute to the emotional well-being of women. An impressive array of studies were presented by speakers from various academic disciplines such as psychiatry, philosophy, psychophysiology and psycho-sensoriality, as well as industry professionals, providing a theoretically rich analysis of self-esteem and a playing field for new ideas.⁴⁴ Absent from the seminars were any discussions about sustainability or corporate responsibility.

The first study provided the context and sought to position the beauty industry in terms of its legitimacy as a source of wellness services. The analysis illustrated that physical appearance was one of the five categories that women value in terms of their well-being.⁴⁵ Other categories included health, relationships and work satisfaction, with health topping the priority list. The study revealed that women in general were dissatisfied with their physical appearance, manifesting a continuing trend further to the 2004 report by the Campaign for Real Beauty, where 69% of women expressed the same dissatisfaction in this area.⁴⁶ The LVMH study showed that women felt better after applying cosmetic products, and in addition to the physical benefits, the cosmetics facilitated a psychological and psycho-socio function (that is to say, integration in society) in improving women's self-esteem. Consequently, the authors argued that the beauty industry was at the service of all women, helping them to boost their self-confidence through cosmetics.⁴⁷

While the conclusion served to support the industry's *raison d'être*, perhaps a greater

opportunity was overlooked to explore the deeper issues as to *why* women feel dissatisfied with their appearance in the first place. This was highlighted by an amusing anecdote when a participant in the audience asked, 'Why don't men wear make-up, then?' **Barbara Polla**, a symposium participant and author of *Les hommes, ce qui les rend beaux* (*Men: What Makes Them Beautiful*), responded that in her 200 research interviews for her book, every man interviewed thought he was beautiful.⁴⁸ The humorous anecdote served to illustrate that women's beauty has been aestheticised in such a way that their intrinsic qualities are undermined by a psycho-toxic version of beauty, whereby beauty has become synonymous with physical appearance.



Furthermore, Ms Polla's comments lent support to the 2004 *Campaign for Real Beauty Study* which showed that 60% of women believe that 'society expects women to enhance their physical attractiveness'. It isn't any wonder that many women in these studies saw the functional purpose of cosmetics as a camouflage.

Contrary to the LVMH study, *The Real Truth about Beauty* report demonstrated that cosmetics are potentially more destructive in facilitating psycho-social function because beauty defined aesthetically creates social divisions. As such, the report revealed that 45% of women believe that 'women who are more beautiful have greater opportunities in life'. This is not surprising given that 47% of women also believe that 'only the most physically attractive women are portrayed in popular culture'.⁴⁹ In Asian countries, it isn't just the most physically attractive women that are portrayed in popular culture, but women with lighter complexions that fit a Western ideal: beauty brand advertising promotes skin whitening products that lighten the skin. Such an approach is not only a reductionist view of beauty that ignores beauty in all its diversity, but it is unattainable for any woman that has a darker complexion, resulting in social hierarchies.⁵⁰ Thus, creation of dissatisfaction is the goal of beauty product advertising, to the detriment of psycho-social function.⁵¹

Similarly, in what has become known as the globalisation of eating disorders, a Harvard Medical School study, conducted by the anthropologist Anne Becker, demonstrated the power television has over the public. Within three years of introducing television to Fiji in 1995, 11% of women reported vomiting to control weight and 62% had dieted in some way. Prior to television being introduced, there had been no reported cases of eating disorders and most women, no matter what their size, were comfortable with their bodies.⁵² While this second example is not directly linked to

the beauty industry per se, it does demonstrate the power of the media and the ability it has to influence the public—something that beauty brands need to be conscious of in their marketing.

Moreover, the purported psycho-social benefits of cosmetic use are a poor filter by which to analyse self-esteem. *The Real Truth about Beauty* report revealed that women who are satisfied with their beauty are *significantly more likely* than those that are less satisfied to define beauty by non-physical factors. The corollary is that women that are less satisfied are more likely to think that cosmetics make a woman beautiful.⁵³

Given the self-esteem problems that this is causing for women, perhaps the beauty industry will better understand the effect of cosmetics as a whole by looking more closely at their psycho-toxic marketing strategies that project an unattainable beauty. Cosmetics themselves might not be blamed for the undermining of women's sense of physical self-esteem, but through their marketing they could add to the problem by promoting unattainable forms of beauty (and at times artificial forms, through digitally airbrushed images).⁵⁴ This in turn creates a want that cannot be satisfied.⁵⁵

This issue became evident during the symposium's opening address on self-esteem and identity by Dr Christophe André, a practising psychiatrist. During the question time following his presentation, when asked about the potential effect of photo-touching on the psyche, he craftily avoided the question by suggesting that the issue was not photo-touching per se, but the individual's ability to recognise that the images may not necessarily be real, rendering void any ethical responsibility on the part of the company. He also added that such a practice could 'also serve as motivation for women' [translated from French].⁵⁶

Given the evidence to the contrary of the power of marketing, this so-called motivation hasn't proved to be so positive for the psyche in Fiji. What the motivation represents is also a question. Would the motivation be to attain such beauty or to facilitate better social positioning? Because cosmetics are often considered luxury goods, and luxury goods confer status and an air of success on the person, perhaps this is the reason why it is no surprise that women feel better upon application.⁵⁷ Therefore, the conclusions of the studies presented at the LVMH symposium were hardly insightful about the specific role of the ability to alter one's appearance. Instead, if a social role for cosmetics is sought, then it requires attention to the full relations of production, marketing and consumption of cosmetics—how they are produced and how they are marketed.

The concept of the metrosexual is an example of

how marketing has influenced the male body image. **Mark Simpson** invented the label further to his book *Male Impersonators*, 'which analyzed the effect an increasingly aestheticized and inauthentic world was having on masculinity', to describe



a new, narcissistic, media-saturated, self-conscious kind of masculinity . . . produced by Hollywood, advertising and glossy magazines to replace traditional, repressed, unreflexive, unmoisturized masculinity . . .⁵⁸

Part of this trend is male body depilation. In a January 2008 article entitled 'Men seeking Beckham effect go wild for Boyzilians', the *Guardian* investigated the new trend for men to remove pubic hair further to Giorgio Armani advertisements featuring 'a trimmed around the edges' David Beckham modelling their latest underwear. In the same article, the increasing trend was confirmed by Mr Phil Swinford of the British Association of Beauty Therapy and Cosmetology stating that

Overall, just 5% of beauty treatments are carried out on men, but as the whole market is increasing, so too are the number of men wanting treatments. Four years ago hardly any women were getting Brazilians or other intimate waxing, let alone men, but now more and more salons are offering it.⁵⁹

But, if the depilation of women's body hair is to be indicative, this emerging trend is sure to continue if the marketers have their way. In her thesis on the history of American women and hair removal, Kirsten Hansen analysed how marketing was a key influence in creating the need for American women to shave their armpits. From the first hair removal advertisement in *Harper's Bazaar* magazine in 1915 when the practice of armpit depilation was relatively unknown, women were assaulted with marketing until, in the 1930s, it had become common practice among average consumers.⁶⁰ What the example of male body depilation highlights, however, is that the beauty industry, like many others, is in the business of creating want that is in direct contrast to sustainability. Not only do its messages have an impact on people, but also an impact on the planet by encouraging consumption.

The final two presentations of the symposium emphasised that such strategies were not accidental, either. The presentation on psycho-sensoriality described 'Affective Design', whereby product materials and packaging provide the emotional stimuli to improve self-esteem, suggesting a more manipulative approach to cosmetic manufacture. Ms Edwige Blanc, Director of Della Vita, a consultancy that specialises in brand marketing, offered some insight into how to

successfully market luxury products. Three categories of luxury were defined: 'Top-of-the-line' or 'Up-market', 'Premium Luxury' and 'Ultimate Luxury'; absent from the categories was 'Sustainable Luxury'. On consideration of the characteristics for marketing Ultimate Luxury, this was not surprising. Ms Blanc outlined that, for the effective marketing of Ultimate Luxury, there needs to be a sense of transgression and dilapidation, the latter being likened to over-abundance and waste. Apart from the fact that this seemed strangely out of place at a time when the world is looking for sustainable solutions to improve the living conditions of all people and the planet, such sentiments are contrary to the etymology of the word *cosmetic* which is derived from *kosmos*. *Kosmos* means to order, to arrange, or to adorn; yet the very dilapidation called for in marketing 'Ultimate Luxury' suggests chaos rather than order.

REDEFINING BEAUTY

These contrasting approaches within the beauty industry demonstrate the gulf that exists in how beauty is defined and the support mechanisms used to defend these views. In light of *The Real Truth about Beauty* report which revealed that happiness, kindness, confidence, dignity and humour are powerful components of female beauty, as well as the physical attributes, it would seem that women's self-esteem would be better served through products such as Aïny's, which re-appropriate a fuller sense of the meaning of beauty. Furthermore, their community approach facilitates a breaking-down of traditional social, cultural and ecological hierarchies that perpetuate certain structures to the exclusion of others.⁶¹

In the same vein, natural and organic products recognise the environmental sensibilities of the consumer and thus incorporate meaning into the product beyond improving one's personal appearance and image of success. Due to the continuing and increasing demand for these types of beauty products, it would seem logical that the larger conglomerates, such as LVMH, position themselves in a way that goes beyond just stimulating the emotions, but connects with real issues that are important to women and their self-esteem. An approach could be to include an environmental aesthetic when marketing, rather than the wasteful implications of 'Ultimate Luxury', which would influence how consumers think about resources and consumption. While this risks being a touch-up of the greenwashing kind, an engaged corporation would also need to demonstrate greater responsibility right throughout the organisation. This aesthetic would then not be marked by image politics, but a sense of beauty that reflects a greater ecological integrity, embracing a natural beauty and

its intrinsic value. Perhaps then cosmetics could celebrate the harmony of women's self-esteem, with nature and with production: a new realignment with the *kosmos*.

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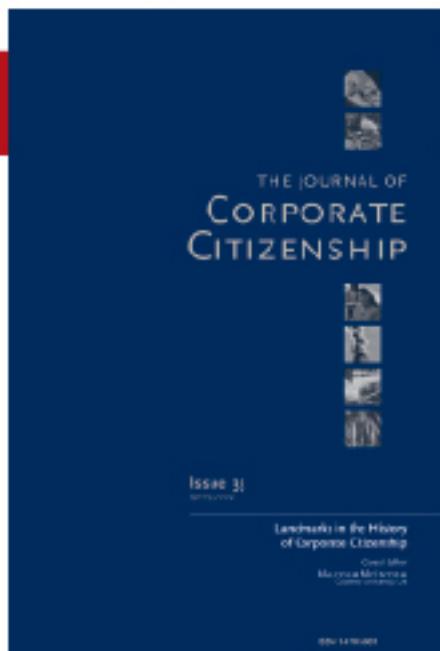
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General Editors David Cooperrider (top) and Ronald Fry of The Fowler Center for Sustainable Value, Weatherhead School of Management, Case Western Reserve University, USA.



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FOURTH QUARTER

OCTOBER-DECEMBER 2009

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Note that the following sections were written by Jem Bendell alone:
The Impasse on Climate, The Paradox of Business Lobbying on Climate, The Carbon Scam, The Global Carbon Charge, Positing Lobbying, Old Truths New Urgency.

THE IMPASSE ON CLIMATE

In December 2009, the attention of the world's media turned to Copenhagen and the summit to negotiate an agreement on international action on climate change. Given widespread international concern about carbon emissions leading to abrupt climate changes, the expectations of some were high.

However, by the end of two weeks, the conference's "noting" of an accord that specified no firm target for limiting the global temperature rise, no commitment to creating a legal treaty, no target year for peaking carbon emissions, and no clear mechanism for creating an internationally equivalent price for carbon emissions, meant that the summit appeared to many as a disappointment.¹ Some delegations were calling it a disaster for their nations.

Yet others welcomed the collapse of the summit, for reasons I will explain below. The way the summit unfolded led some commentators to suggest it marked a new era in international relations. I previously discussed this new era to some extent in *The Eastern Turn in Responsible Enterprise*, as the growing economic power of nations previously grouped together as the "third" or "developing" world presents major implications for the terrain of corporate responsibility worldwide.² The full

implications for responsible management research and practice need exploring, and I seek to aid your own exploration of that in this special extended section to the *Lifeworth Annual Review of Corporate Responsibility in 2009*.

At the end of the Copenhagen summit everyone was being blamed. Many leaders from the G77 block of countries pointed the finger at the high-income nations of the EU and at the USA, and in particular at their plans to obtain an agreement that the Danish hosts had drafted which many said favoured the richer nations. Others pointed the finger at the Chinese, who did little to help the talks progress, and then, during the last days, convened meetings of large non-Western economies to set out what they wanted in an agreement and what they did not, and who said they would not accept any international targets in the agreement, not even for the 'developed' nations.³ Despite this approach from China, the leaders of the G77 delegation blamed only the West for the limited commitments. The fact that the lead negotiator for the G77 was from an oil exporting nation, whose controversial government is dependent on Chinese investment, was not reflected by most media or indeed the non-governmental organisations (NGOs). The previous lead negotiator for the G77, a renowned ethical and tough negotiator, was removed just before the conference by the President of the Philippines, a lady whose husband has been embroiled in corruption scandals involving multi-million dollar payments from Chinese businesses.⁴ Then the campaign group Avaaz blamed the corporate lobbyists from the US (where there are over 2000 of them working on climate change policy), who they said made it impossible for the US president to have much credibility in signing any agreement, given the attitudes of the US congress. As a result they launched a campaign against the US Chamber of Commerce.⁵ Some in civil society began blaming themselves for having been wrong-footed and not realising where the real power lay, and for wasting too much time advocating what the EU and US should do, rather than working on encouraging climate mitigation ambitions of other powerful nations.

So there was much going on beneath the surface, that may never be fully understood. What is clear, however, is that most countries came to the talks with narrow and short-term economic self-interests framing their agendas, whether personal or national, and in such a situation the dominant economic force of the 21st century, China, held sway. Prior to the negotiations I was in meetings that made it clear that negotiators on one Asian nation's delegation to the

Summit were told not to agree anything that would cost the country money. I presume their political bosses had not read the Stern report on what the costs really are of not doing anything to reduce global carbon emissions. At that meeting I attended, the environment minister was sat next to the CEO of one of the largest oil companies in the country. The minister explained to me he favoured a voluntary approach. I return to the issue of responsible lobbying below.

The Copenhagen Summit helped the world see how climate negotiations are not about preventing climate change. Even if the world had implemented the Kyoto Protocol to the full, it would only have delayed global warming by six years, yet CO₂ emissions are now 40 per cent above their level in 1990, the amount Kyoto was meant to return them to.⁶ The ambitions were always too low, but the Copenhagen summit illustrates clearly that we have reached an impasse in how global challenges can be addressed through the interactions of nation states. The global ideology of economic growth overhangs all deliberations, as nations seek to protect their growth rates, rather than their populations (and not seeing the difference, thus demonstrating their ideology). Additionally, the assumption that regulations add costs and reduce growth, rather than stimulating innovation, remains widespread. Yet, as Paul Toni of WWF Australia explained to me when I interviewed him at the Asia Pacific Academy of Business in Society (APABIS), environmental regulations cost far less than predictions from those against them⁷ and drive innovation. (See part of the interview here.)⁷

Forward thinkers must now question how to overcome the inter-governmental impasse and organise ourselves better this century. John Sauven, executive director of Greenpeace UK, said: "It is now evident that beating global warming will require a radically different model of politics than the one on display here in Copenhagen."⁸ Much has been said of the growing power of civil society and, more recently, of well-intentioned business leaders in helping encourage governments to act. While some NGOs, such as Avaaz, have argued that Copenhagen shows the mobilisation of a people's movement around the world, and that it must continue, others praised the role of the media⁹, nevertheless it appeared that civil society was, as I said above, somewhat wrong footed. The limited scope and role of civil society in countries like China means that NGOs play a very cautious role¹⁰ and seek favour with leaders. This can be seen in WWF China's comments before the summit amongst others included that China would not be able to cut its emissions in order to meet a two degree warming target, and therefore other countries would need to cut their emissions further. It can also be seen in AccountAbility's report released in

October, which stated in the third person that its national environmental initiatives give "China a convincing voice in efforts to achieve a global agreement on how to manage the economic, social and environmental threats of climate change. China is now recognised as a part of the select group of countries that are doing most to investigate and devise policies to build low carbon competitiveness."¹⁰ They may be sensible to build bridges and understanding, but it suggests that vibrant grassroots civil society engaging in robust dialogue with leaders is not a feature of politics in some countries. Therefore, civil society groups will need to do some soul searching and consider how best to influence non-Western governments. I have been applying my own ideas about this for three years now, but that's another story.¹¹

THE PARADOX OF BUSINESS LOBBYING ON CLIMATE

Business communities have been vocal on climate policy nationally and internationally for almost two decades. In the late 1980s it was left to scientists to debate their various predictions about rates and consequences of climate change. In the history of climate change policies the role of business has been inauspicious, given how large corporations mobilised throughout the 1990s to create uncertainty about the science of anthropogenic global warming. For instance, "in the 1990s the Global Climate Coalition (GCC) – a front group for 50 major oil, coal, auto and chemical corporations and trade associations – played a key role in delaying and weakening international climate agreements, mainly by pressuring US politicians", says Oscar Reyes of the Corner House. In his December 2009 article he continues that "the GCC successfully lobbied Washington to ensure that no binding targets were included in the UN Framework Convention on Climate Change, agreed at the 1992 Rio Earth Summit. It also promoted a 1997 Senate resolution where US legislators expressed unanimous opposition to legally binding greenhouse gas reductions unless developing countries (responsible for a fraction of the current and historical emissions) adopted the same rules. Al Gore, the US chief negotiator at the time, took this message to the UN climate negotiations and 'demanded a series of loopholes [in the Kyoto Protocol] big enough to drive a Hummer through,' as British journalist George Monbiot put it."¹²

Today, however, the situation is much more complex. Many companies and their associations, such as the US Chamber of Commerce, still deny that curbing carbon emissions is a priority for public policy and lobby against, or focus on obtaining exemptions or

special treatment for their own sectors in order to reduce costs.¹³ For instance, in the US, Washington DC "can now boast more than four climate lobbyists for every member of Congress."¹⁴ A negative approach to carbon regulation is not welcomed by many executives today, a recent example being Apple, who withdrew from the Chamber in protest in October 2009. In a letter to the president of the US Chamber of Commerce, Apple's Catherine Novelli wrote; "we strongly object to the Chamber's recent comments opposing the EPA's effort to limit greenhouse gases," further explaining "Apple supports regulating greenhouse gas emissions, and it is frustrating to find the chamber at odds with us in this effort."¹⁵

Groups like the Climate Disclosure Project and the Institutional Investors Group on Climate Change, and The Business Leaders Initiative on Climate Change, now bring together large swathes of the private sector that lobby privately and advocate publicly on the need for an intergovernmental agreement on climate change. One the one hand this is very promising, representing as wiser approach to business, that recognises systemic threats to value creation, and the role of government to provide frameworks for innovation. The impact can be seen to be positive, such as the work of HSBC in analysing the environmental components of government stimulus packages, as John Cohen and I discussed in the *Journal of Corporate Citizenship* in the first quarter of 2009.¹⁶

On the other hand, I will argue below that further legitimating corporate involvement in public policy development presents a threat to not only effective action on curbing climate change, but to accountable and efficient governance in general. This new paradox of private sector policy advocacy is highlighted by the very agenda of the Copenhagen talks – the development of carbon cap and trade markets. The paradox is not that we see business lobbying both for and against international agreements; they are doing so due to their understanding of the commercial costs and opportunities of climate change. The paradox is that to move intergovernmental processes forward, we will need business influence, yet corporate lobbying is plagued by narrow short term commercial interests that have, to date, damaged the intergovernmental process, by on the one hand holding it back, and on the other shaping its agenda in misguided ways. To understand this paradox, we must understand the history, limitations and injustices of cap and trade systems.

THE CARBON SCAM

The focus of discussions of the UN Framework Convention on Climate Change (UNFCCC) has been

about capping carbon emissions and mechanisms to trade permits to pollute the atmosphere with carbon. The Kyoto Protocol established the concept of carbon offsets, where an enterprise can be financed to adopt technologies or practices to reduce its current or predicted carbon emissions and the reduction in emissions can be deducted from the company or government paying for the necessary changes. The UN Clean Development Mechanism (CDM) resulted from this approach, as did the development of carbon emissions trading schemes (ETS). The reason that this was adopted as the best policy option in 1997, when the protocol was adopted, was that the USA, and then Vice President Al Gore, proposed it as the only option it would sign. This was after intensive lobbying by Enron, the corrupt company that had profited a lot from trading in energy derivatives and the cap and trade sulphur markets in the USA. After the protocol was agreed, Enron's senior director for environmental policy, John Palmisano, celebrated it as an agreement that was full of "immediate business opportunities".¹⁷ The other countries followed, yet ultimately Kyoto was never ratified by the USA. (Perhaps the memory of how a US president can sign up, but the Congress can vote no, meant that China wasn't interested in high-level bilateral meetings with Obama on climate).

The reason for the focus on cap and trade, and the reason for it being adopted by other governments since, is simple – it posed the least threat to the polluting industries of all the policy tools available, and offered the creation of a whole new market for the financial service providers. Other options, such as outlawing certain practices or introducing carbon taxes, were therefore sidelined at that time in intergovernmental negotiations. For instance, a carbon tax was proposed at the EU level during the 1990s but failed due to industrial lobbying.¹⁸

A focus on cap and trade at the UNFCCC negotiations these past decades has been a monumental waste of time and resources. It has been a waste because carbon cap and trade systems are ineffective, inefficient, unfair, unworkable, extremely difficult to agree at an intergovernmental level and can alienate people from decisive action on carbon emissions. I will explain each limitation in turn.

Cap and trade is **ineffective** in delivering real cuts in carbon emissions, according to the top climate scientists and economists who have invented it. One example of its ineffectiveness comes from the post Soviet states. The Soviet Union was given a huge allocation of carbon emissions permits in the early 1990s. "But the following year, it collapsed, and its industrial base went into freefall – along with its carbon emissions. It was never going to release those gases after all. But Russia and the Eastern European

countries have held on to them in all negotiations as "theirs". Now, they are selling them to rich countries who want to purchase "cuts". Under the current system, the US can buy them from Romania and say they have cut emissions – even though they are nothing but a legal fiction," explained Johann Hari in *The Independent*. Those permits account for 10 gigatonnes of CO₂, which dwarf the six gigatonne savings that would come from the entire developed world cutting its emissions by 40 per cent by 2020. Another aspect of ineffectiveness is how cuts through carbon trading are recorded twice. Hari explains: "If Britain pays China to abandon a coal power station and construct a hydro-electric dam instead, Britain pockets the reduction in carbon emissions... [so it can] keep a coal power station open at home. But at the same time, China also counts this change as part of its overall cuts. So one tonne of carbon cuts is counted twice. This means the whole system is riddled with exaggeration – and the figure for overall global cuts is a con".¹⁹ Research from Stanford University of 3000 projects applying for carbon offset funding found that they did not need the funds. They concluded that between one and two thirds of all the total carbon development mechanism offsets do not represent actual emission cuts and that this trend would get worse.²⁰ One of the world's leading climate scientists, who blew the warming whistle in the 1980s, James Hansen, explained that the belief that the European emissions trading scheme has had an effect on emissions is completely misguided: "what happened was the products that had been made in their countries began to be made in other countries, which were burning the cheapest form of fossil fuel, so the total emissions actually increased."²¹ Given these problems it should be no surprise then that one Wall Street Journal poll found that 54 percent of economists, a constituency not normally keen on taxation, preferred a carbon tax to any other option for effectiveness in reducing emissions.²²

Cap and trade systems are **inefficient and unfair**. Permits for polluting are allocated to current large polluters, who then make a disproportionate profit from carbon trading. "In the lead-up to the handout of carbon credits in Europe, the major polluters lobbied their national governments and ratcheted up reported emissions in order to claim many more credits than they actually required. Once the market came into effect in January 2005 they then returned to business as usual. Without reducing any emissions, businesses were able to sell their surplus credits for significant sums. British oil companies BP and Shell, for example, made £17.9 million and £20.7 million (\$40 million and \$46 million) respectively through the sale of their carbon credits," explain Patrick O'Connor and Alex Safari.²³ A recent example comes from Tata. 1700 workers lost their jobs in Redcar, North Yorkshire, when the owner of the Corus steelworks

decided to close its plant. By stopping production at Redcar and increasing production in locations outside ETS areas, Corus/Tata is able to sell its carbon allowances from the EU yet with no impact on carbon emissions. "By ceasing to emit a potential six million tonnes of CO₂ a year, Corus will benefit from carbon allowances which could soon, according to European Commission projections, be worth up to £600 million over the three years before current allocations expire," wrote Christopher Booker in *The Telegraph*.²⁴

The carbon trades are conducted by financial institutions, who charge fees that accrue to shareholders not those needing to adapt to climate changes or rising prices. These financial institutions also create derivatives, which lead to speculative activity that benefits only themselves, and pose[] an unnecessary cost on economic systems and consumers. Today the carbon trading market is worth over \$100 billion²⁵ and "at today's European carbon price, yearly carbon emissions have a market value of more than €500bn, a figure which could increase significantly" as a global ceiling took effect.²⁶ It would increase a lot more, as banks developed secondary derivatives markets. Indeed, Bloomberg notes that the carbon trading will become centred around derivatives. Lisa Kassenaar wrote that "the banks are preparing to do with carbon what they've done before: design and market derivatives contracts that will help client companies hedge their price risk over the long term. They're also ready to sell carbon-related financial products to outside investors". The secondary carbon market in derivatives will be many multiples larger than the primary market.²⁷ No surprise then that, in 2009, Goldman Sachs bought Constellation Energy's carbon trading operation along with a number of other carbon trading related investments. That also helps me to understand one hedge fund manager I met who had quit his job, and in a year blew millions in charitable donations to create climate action NGOs to be seen as experts in carbon markets, and build a brand that could net greater fortunes, with the added bonus of a veneer of cool. There's nothing like talking about saving the planet over a glass of champagne on the top floor of the Ritz Carlton.

The problem with this behaviour is its effect on society and on attempts to curb carbon emissions in socially acceptable ways. Hedge fund manager Michael Masters, founder of Masters Capital Management LLC, says, "speculators will end up controlling U.S. carbon prices, and their participation could trigger the same type of boom-and-bust cycles that have buffeted other commodities."²⁸ In a report on the matter by Friends of the Earth (FoE) US, carbon trading was identified as a derivatives market which may eventually be bigger than the credit derivatives market, which collapsed so spectacularly.

Interestingly, one of the key architects of the 'credit default swaps' that played a key role in that collapse, is now heading environmental businesses at a major bank, focusing on carbon markets.²⁹ Michelle Chan, a senior policy analyst in San Francisco for Friends of the Earth, says that given their recent history, the banks' ability to turn climate change into a new commodities market should be curbed. Her report earlier in 2009 pointed out that regulation of secondary carbon markets were effectively nonexistent. She said the carbon markets already have all the ingredients for a sub-prime carbon market, in particular futures contracts to deliver carbon that carry a relatively high risk of not being fulfilled.³⁰ Others have been more assertive in damning banks like Goldman Sachs. Chronicling the bank's involvement in carbon trading in the EU and its push for such a system in the US, Matt Taibbi says that with Goldman's push for cap and trade, they are seeking to create more bubbles to manipulate markets, "creating what may be the biggest and most audacious bubble yet".³¹ Revealingly, earlier in 2009, Goldman Sachs representatives said in court that their software could help manipulate markets in unfair ways.³²

Another aspect of the inefficiency and unfairness that arise from cap and trade systems stem from how governments must allocate permits, which leads to huge levels of lobbying and agreements which favour special interests. In some countries this situation would create a new arena for corruption. An example of the special interest shakedown that arises from this situation is the sectoral focus being advanced by the World Business Council for Sustainable Development. On the one hand it is great that some companies are clubbing together in sectors to voluntarily reduce emissions, such as the postal and cement sectors. On the other hand, it is inappropriate for sectors to seek their own special allocation of carbon permits so they can avoid paying the same cost of carbon that other enterprises will. That would not only be unfair but the jostling for position makes it a highly inefficient policy, unless you are a lobbyist. As Chad Holliday, chairman of DuPont, noted that "companies do not fall into easy categories anymore and it would be very difficult to put companies and their emissions into nice, neat boxes."³³

These new inefficiencies in the effective organising of economy and society come at a time when nations need to re-tool to low carbon societies. In addition, the system is fundamentally unfair, which has implications for the public support for climate action, which I return to below.

Cap and trade systems are also currently **unworkable**, with huge levels of fraud. Fox News reported that "the top cops in Europe say carbon-trading has fallen prey

to an organized crime scheme that has robbed the continent of \$7.4 billion."³⁴ The problem of fraud and insider trading in the carbon markets, was also highlighted in the FoE US report. The situation was highlighted by the German artist Dirk Fleischmann, who visited a forest reforestation in the Philippines that he had donated to as part of a voluntary carbon offset scheme run by Carbonme.org. He found out that the forest project managers had never heard of Carbon Me and received funds from another source. Carbon Me replied that their small print detailed how the projects promoted on their website were for illustration only and that they would not necessarily be the ones that received funds. Their terms read "Carbon Me with its tree-planting partners will use its/their best endeavours to ensure the trees are planted in the chosen areas. There may be instances when it is not possible to plant a tree in the area requested. In these cases Carbon Me and/or its tree-planting partner reserve the right to plant the trees in the next best or most similar location."³⁵ It is difficult to see what best endeavours they used to plant trees in a forest which was already being planted by another funder. The real funder sued Carbon Me for copyright infringement. It is a story Fleischmann chronicles on his blog.³⁶

In arguing for a focus on cap and trade, most people argue it is the only practical option. "In the actual world, a global scheme of tradeable emissions quotas is the best solution" [], said an editorial in the FT just before Copenhagen.³⁷ In their book *The Hot Topic*, Gabrielle Walker and Sir David King assert that cap and trade is politically more achievable than other measures such as carbon taxes. Yet this statement is undermined by their identification of the political prerequisites for such a deal, including agreement on a global emissions cap and the distribution of emissions rights. The co-editor of *The Economics and Politics of Climate Change*, Cameron Hepburn, points out that seeking agreement on caps and allocations puts difficult issues of distribution and compensation at the heart of the international negotiations, which has clearly contributed to the impasse.³⁸ The past 18 years of climate negotiations have shown how difficult it is for governments to agree on caps and allocations. Some argue for a convergence of carbon intensity of gross domestic product (GDP), others for a convergence of per capita GDP before caps can be considered. Some argue that convergence of allocations is only fair, yet it is nonsensical to argue that a fishing community in the Philippines, for instance, would need or want to emit the same amount of carbon as a citizen of Singapore. To assume so is to assume one concept of human progress. Globally-applied cap and trade systems are also **internationally improbable**, as national allocations of carbon caps are extremely difficult to agree at an

intergovernmental level. The difficulties in reaching agreement has led to crucial time being lost.

The fifth main way that a cap and trade focus is hindering global action on climate change is that it is **alienating** some of the public from action on carbon emissions. Much of the media that is critical of any action on climate change focuses on the scam that is carbon cap and trade. Rather than arguing for effective, efficient and fair action on climate change, the majority of the anti cap and trade analysis rejects action on climate change altogether. In addition, it analyses the personal motivations of leading figures in the climate change field, such as Al Gore and IPCC chair and highlights how much they have to gain personally from cap and trade systems, thereby giving the impression that the darlings of mainstream environmentalism are actually charlatans. For instance, looking at the leading role Al Gore has played in shaping cap and trade, and his business interests in the carbon market, *The Telegraph* predicts that "Al Gore could become the world's first carbon billionaire," a theme picked up in the *New York Times*.³⁹ *The Telegraph* also pointed out that the chair of the Intergovernmental Panel on Climate Change is an industrialist, with long career in oil and heavy industries. Rajendra Pachauri "was, for instance, a director until 2003 of India Oil, the country's largest commercial enterprise, and until this year remained as a director of the National Thermal Power Generating Corporation, its largest electricity producer. In 2005, he set up GloriOil, a Texas firm specialising in technology which allows the last remaining reserves to be extracted from oilfields otherwise at the end of their useful life."⁴⁰

Given all these limitations it should be no surprise that some government leaders were so critical of the approach of the West. The President of Bolivia exclaimed "Capitalism wants to address climate change with carbon markets. We denounce those markets and the countries which [promote them]. It's time to stop making money from the disgrace that they have perpetrated."⁴¹

For there to begin to be total reductions in carbon emissions through behaviour change and technological innovations, "you have to put an honest price on carbon, which is going to have to gradually rise over time," explains climate scientist James Hansen.⁴² As prices will rise, the mechanism for doing that will need to be broadly perceived as socially legitimate. There is a great history of struggles against unfair taxes, such as the British salt taxes in India to the poll taxes imposed in the 1980s in the UK. If the polluters and bankers are receiving the cash from price rises and there is no immediate and corresponding reduction in carbon emissions there will be a justified and overwhelming backlash. The

social legitimacy of any system for increasing the price of carbon is therefore key, and should be the focus of intergovernmental deliberations.

THE GLOBAL CARBON CHARGE

We need to encourage behaviour change, guide innovations, and invest in helping people maintain or develop their quality of life while limiting their carbon emissions and adapting to the increasing impacts of climate change. A globally agreed, nationally implemented, carbon tax, applied upstream at the point of energy production for commercial distribution, would have been far simpler to agree and implement than the cap and trade approach pursued since 1997.

Arguments against such a global carbon charge include that it would fund unaccountable governance, or would be socially regressive, or couldn't specify limits for carbon emissions. Each argument is woefully mistaken.

For instance, a framework for how governments introduce a national or regional carbon charge could be agreed through international treaty. The revenues could be collected and distributed nationally, according to internationally agreed criteria and therefore be accountable to both citizens of that state and the international community. The importance of an international framework for such national carbon charges has many elements. First, it is important for all nations that carbon charges are introduced in a synchronised way, in order not to unfairly distort trade or to allow carbon leakage when businesses seek the lowest carbon taxes. For instance, we do not want to see aircraft flying further distances to get refuelled in countries with lower carbon charges. Second, it is important that countries agree on whether there should be initially differential rates of carbon charge depending on the levels of economic development, and what the yearly escalator of the level of the charge should be in order for it to change behaviour and stimulate innovation without causing the kind of traumatic abrupt changes in post Soviet states in the early 1990s. Third, countries need to encourage each other to make commitments that would ensure that there would not be a public backlash and the revenues would be used in a sensible way. Therefore an international commitment on distribution of the charge revenues is needed, so that governments agree to invest them in helping vulnerable people to adapt to climate impacts and to the initial effect of the charge in increasing costs of the fulfilling their basic needs such as food and energy. Part of this commitment could be to pay a percentage of collected revenues to an international fund, focused on both mitigation, such as forest protection and

reforestation, and adaptation, helping finance the costs of climate related humanitarian emergencies. Fourth, countries would need to agree mechanisms for imposing legitimate tariffs on products and services from countries that are independently adjudicated to not be applying the carbon tax appropriately (or who are not signatories to the agreement). Given the need for an agreement to have these real teeth, and the trade importance of such an agreement, the World Trade Organisation could be one option to host the negotiation and policing of such a 'General Agreement on Carbon Charging and Related Measures'.

The argument that a carbon tax could be socially regressive ignores the realities of what needs to occur for behaviours to change – the cost of carbon must go up and therefore prices will rise. As the *Financial Times* editorial before the summit explained, "politicians must tell their electorates the truth: power, transportation, and carbon-intensive products must become markedly more expensive."⁴³ Therefore, for any policy initiative to be effective it must address the social consequences of such a price rise. Cap and trade systems lead to the revenues from increased prices going to the polluters and banks, and therefore not to those who need support to change. A carbon charge administered by the government could be invested in the necessary social support. In addition, to ensure that price changes are not so abrupt to disrupt people's lives in the way shock therapy in post-Soviet states did, so increases in carbon prices must be controlled, which is not possible if the financial speculators inflate a carbon bubble. If a carbon tax is socially regressive then a cap and trade system is socially degenerate.

The other argument made against carbon charges, by Tim Flannery for instance, is that with a charge one can not lock in a specific limit for carbon emissions.⁴⁴ That assumes a specific limit is actually feasible through cap and trade systems, which the discussion above has shown it is not. A charge is a mechanism that can be increased to the degree that it generates the behaviour changes and technological changes required. Other policy instruments may also be needed to deliver quick cuts, such as prohibitions on certain industries, such as tar sands exploitation, unsustainable logging, and on certain behaviours such as leaving neon signs on at night and air-conditioning units set extremely low. The focus must be on what works, not empty promises on paper.

The existence of carbon charging in a number of countries shows that it is possible. Finland, Denmark, Netherlands, Sweden and Norway established carbon taxes in the early 1990s. In the last two years interest in carbon taxes grew, with US state of California introducing a carbon tax in 2008, and in 2009 France

detailed a new carbon tax set at €17 (25 US dollars) per tonne of carbon dioxide (CO₂),⁴⁵ as did the Republic of Ireland, set at €15 per tonne.⁴⁶ A number of East Asian nations are examining how to introduce their own carbon taxes, including China.⁴⁷ For corporations that operate in markets around the world, the existence of carbon charges is already of commercial importance even if their own country of origin does not yet impose one. The international trade challenges that such carbon charges pose was highlighted at the close of the year, as President Sarkozy of France said that a carbon tariff on European Union borders was necessary to balance international trade for French enterprises. "I will fight for a carbon tax levied on EU borders," for products from countries that did not impose their own carbon charges, he said, something that made immediate news in China.⁴⁸ Meanwhile Minnesota passed a measure to stop carbon at its border with North Dakota. To encourage the switch to clean renewable energy, Minnesota plans to add a carbon charge of between \$4 and \$34 per ton of carbon dioxide emissions to the cost of coal-fired electricity, to begin in 2012.⁴⁹ It is inevitable that trade disputes will emerge on such issues, and therefore now is the time to work towards an effective and fair global framework for carbon charging.

Some analysts of the impasse at Copenhagen are looking at other governance mechanisms to deliver the needed changes. For instance, Simon Zadek, formerly with AccountAbility, is interested in the extent to which voluntary multi-stakeholder processes might deliver changes.⁵⁰ However, approaches that are neither governmental and nor global will not bring global emissions down. It is not sufficient for some to reduce their emissions – there has to be global action.⁵¹

POSITIVE LOBBYING?

Although the lobbying by climate change sceptics received the most media criticism, as well as the campaign attention of Avaaz, most of the visible corporate lobbying of the 15th meeting of Conference of Parties to the UNFCCC was in favour of an agreement. WWF made this situation clear by adding up the market capitalisation of firms that had signed on to various initiatives: 11 Trillion US\$.⁵² For instance the Corporate Leaders Group on Climate Change launched the Copenhagen Communiqué, and received the support of 1000 business CEOs from across all G20 countries. It called for "an ambitious, robust and equitable global deal on climate change that responds credibly to the scale and urgency of the crises facing the world today", including "a reduction of 50-85% by 2050" of greenhouse gases.⁵³ Their

focus was on agreement that could support carbon markets, and there was no mention of carbon charges. Signing a Communiqué is one thing, but other businesses have invested heavily in influencing policy agendas on climate to obtain the kind of cap and trade systems they desire. The Center for Responsive Politics (CPR)'s OpenSecrets.org reports that Goldman Sachs personnel donated nearly four-and-a half million dollars to the Democratic Party in the US, with almost a million of that going to Barack Obama. Goldman staff were the Obama's largest private contributor and together were "the biggest business donor to Democrats in 2008, according to a (CPR) report.⁵⁴

The continuing dominance of the cap and trade policy paradigm is illustrated by the mitigation report of the Intergovernmental Panel on Climate Change, chaired by Indian energy industrialist Dr Pachauri. In a large report on policy measures to reduce carbon emissions, there was only one line on carbon charges, summarising research that proposes "all countries agree to a common, international GHG emission tax; several of the proposals suggest beginning with a carbon tax limited to emissions from fossil fuel combustion."⁵⁵

As the Copenhagen summit showed an impasse was being reached with the current climate policy paradigm, more people began to wonder whether we had been working on the wrong agenda. Even Al Gore, a man particularly responsible for the past 18 year focus on cap and trade, said in a speech at Copenhagen that he personally favoured a carbon tax, although he still did not argue for it and recommended remaining focused on cap and trade.⁵⁶ Earlier in 2009, the chief executives of Caterpillar Inc. and FedEx said they prefer a tax on carbon dioxide emissions and criticized the cap-and-trade measure being debated in Congress.⁵⁷ Exxon Mobil's CEO Rex Tillerson has also said a carbon charge made more sense than carbon trading, as it is "a more direct and transparent approach."⁵⁸ This attitude is shared by some business leaders even in places where one might not expect. In answer to a question I put to a seminar on climate change at the CSR Asia Summit in Kuala Lumpur in October, an executive from China Light and Power (CLP) explained that she would favour a carbon charge as it would allow them to know what the price of carbon would be over time and thus start planning their major infrastructure investments accordingly. With the current uncertainty, she said, it was impossible to factor in carbon costs to strategic and project planning in a way that would be decisive.

Today many business leaders see the seriousness of the climate challenge. Yet they are working on an agenda that was set in 1997, when there was not the

same will to take decisive and swift action on carbon emissions. In addition, such concerned business leaders currently face two problems. First, is that the cap and trade train has left the station, and there is now a community of business, banks, NGOs and others who have a vested interest in cap and trade systems being expanded and would see a global carbon charge as undermining their financial self interests. Second, it appears that there is no multi-enterprise or multi-stakeholder initiative that is explicitly against cap and trade and for a global carbon charging framework.

Part of the reason for that is the failure of international civil society to articulate a principled position on climate justice. On the one hand there appears there is a coming together of environment and social concerns with development charities such as Oxfam and Christian Aid advocating tough action on climate change, and African human rights activist Kumi Naidoo taking the helm of Greenpeace International. However, the development groups are often very careful before campaigning on issues of justice or against corporate power, and usually do so with the safety in the numbers of coalitions⁵⁹, and climate is a new issue for them. On the other hand, environmental groups have been suffering a loss of expertise in the past decades as talented staff joined the private sector, and my own experience with them suggests they have lost a lot of confidence and ambition in the past 10 years, as they focus on sounding reasonable and attracting large grants from major donors as their traditional base of individual members shrinks in the West. As a result there are few voices for economic justice in the international sphere today.

Without coalitions pushing for effective action, commitments to carbon charges may remain off-hand comments in speeches, seminars and newspaper interviews, rather than a concerted campaign for change. In my latest book, I argue the need for explicitly normative associations of businesses that advance changes in society that are collective not private benefit, as such associations are crucial to the manifestation of the corporate responsibility movement.⁶⁰ Existing initiatives on climate could come to play such a role, but to do so they would need to more clearly understand what constitutes responsible lobbying.

Earlier in 2009 consultants Kyle Peterson and Mark Pfitzer tackled the relationship between lobbying and corporate social responsibility (CSR) in the Stanford Social Innovation Review. In the article, the authors advocate ending the traditional divide between a company's corporate social responsibility (CSR) and lobbying activities.⁶¹ They list a variety of areas where companies have advocated policy changes which the authors believe have benefited both the businesses

and society. They write that companies can "create tremendous social value and business benefit, ... leverage their true expertise and natural advantages, and ... build more active, two-way relationships with policymakers and nonprofits." It may appear a win-win, but that depends on the nature of the lobbying, and the follow on impacts of improved relations with regulators and policy influencers. That is another dimension of the paradox. Governmental processes need encouragement, and that can come from responsible businesses. However, it is clear that corporate lobbying can influence agendas that are damaging to effective, efficient and fair policy outcomes. How should responsible business leaders navigate that paradox? I discussed that in my 2005 paper for *Business Strategy and the Environment*, called "The Political Bottom Line".⁶² In it Professor Kate Kearins and I argued that what constitutes 'good' corporate lobbying is not simply what companies themselves consider to be good for society. Instead, some broad principles that are widely accepted in responsible business management should be applied to the development of lobbying positions. This would imply the transparency of one's lobbying, seeking accountability to weaker stakeholders' interests in the development and implementation of one's lobbying, and support for international agreements and principles that are already agreed by intergovernmental processes or accords between independent civil society organisations. As corporate lobbying involves the use of power to affect us all, it is not responsible for companies to simply satisfy themselves of the rightness of their policy positions, or seek consultations only with business-funded organisations to inform their positions. True accountability must be at the heart of responsible lobbying.

It is by the application of this philosophy that responsible business leaders might manage the paradox I identify in this section of the annual review. That is the paradox where intergovernmental processes bogged down as countries are too influenced by commercial interests, yet conversely the need for globally responsible business leadership to move things forward, and the reality of such business influence currently having perverse effects on policy agendas. Ultimately the way a person manages that paradox will come down to their consciousness and courage, something I return to in concluding.

Businesses and governments need to learn the lessons of the current impasse fast. There is a potential that a backlash against the cap and trade carbon systems will overflow into alienation with a corporatized political process. If it appears that the use of political access and public good will accorded to corporations for engaging in an issue of major concern, has actually helped them to seek profits in

ways that threaten civilisation, then there will be major implications for our political systems, and rightly so. First, it will challenge the foundation of the modern corporate social responsibility field, which is founded on the idea that everyone can benefit if a business becomes active in considering and managing its social impacts. Instead, CSR would be viewed in its full context as either deliberately political Public Relations (PR) or consequentially political PR, creating that deadly side effect of poisoning political processes. Second, it will lead more to see existing forms of governance as not only unfair, but dangerous to society, and thus encourage more radical action.

It is important for responsible business leaders to act now, as the lessons of Copenhagen will be learned fast by the whiz kids at Goldman Sachs and others in the cap and trade business. They will recognise that persuading China to come on board will be key to any global expansion of carbon markets. Perhaps Chinese officials are biding their time until the country pollutes enough, and can record it enough, to benefit from future international allocations of emissions permits. On the other hand, as revealed by the November report from AccountAbility, there is strong evidence to suggest that many Chinese leaders are aware of the problem of climate change and are investing heavily in low carbon development paths.⁶³ In that case they may prefer a carbon charging arrangement, where their own levels of carbon charging would be considered internationally acceptable so they won't experience tariffs at the borders of countries that have or will have such charges in future. However, other more sinister options remain, if responsible leaders do not act now. For instance, one scenario is where the elites in emerging economies elites consider that their ever increasing stakes in international banks mean that a global cap and trade system could allow them to extract rents indefinitely from populations around the world.

OLD TRUTHS, NEW URGENCY

Corporate involvement in intergovernmental policy deliberations will be either good or bad depending on the context of that involvement and the intentions of those involved. Blanket support or criticism for corporate influence misses the point – we have complex societies where people in many walks of life can exert a positive or negative influence as far as public matters are concerned. The implication is that we need people in business who find themselves engaged in policy deliberations to reflect on their work as a vocation as much as a profession: to understand themselves as part of a global social movement seeking to transform economies - to be citizens of the world not just subjects of their employer.

We need business professionals to be active members of a real social movement to transform economies. I myself have protested in the past, at G8 Summits. However, what I know of the machines of business, government and intergovernmental bodies, it is clear to me that no amount of marches, vigils, songs, videos or emails, from general publics will in themselves shift things. Instead, they must be complemented by people taking risks in their professional lives. Outsider activism can raise an issue on an agenda, but such activism does not shape the policy response, and it is at that moment of developing policy that the effectiveness, efficiency and fairness of an intervention is determined. It is for this reason that I believe thinking and acting as a 'corporate responsibility movement' is crucial, and explore it in some depth in the introduction to my new book.⁶⁴

To serve the common good, all of us can do well to remember that just because we work on a matter of public concern does not mean we work for the public benefit. Just because we always thought we were doing good, does not mean that we do so today. Just because we proved our commitment in our activist or NGO days does not mean we are moral agents today in our new roles. We must no longer simply hope that we are having some effect or hope that something useful might come of our work in business, finance or public policy. Instead, we must make our judgement now, and live with the consequences.

In exploring the impasse and paradoxes surrounding global climate politics and the way business leaders have engaged with that, one core theme emerges, which is not at all new; indeed it is an age old truth. Whether something we do is good or bad depends not only on the act itself, but on our intention and the context of our act. It is not what we do, but what love we bring to doing it that matters. If we act with loving compassion for humanity and nature, and therefore subsume our self-interest to that wider scene, then the right course of action in any professional situation will become clear.

Although these are age old issues, the current context is unprecedented. We are on the edge of a crash in current civilisation due to abrupt climatic changes. We risk the fear of this trauma allowing selfish individuals to seek their own ends, and subjugate people to unfair systems where the poor have to pay premiums to polluters and banks, just for the right to eat and heat their homes. At Copenhagen, Matthew Stilwell of the Institute for Governance and Sustainable Development said of cap and trade systems: "This is a colonial moment... You've carved up the last remaining unowned resource and allocated it to the wealthy."⁶⁵ At this critical time we need global solidarity, not new attempts to exploit the weak.

During the most famous powerpoint presentation ever, 'An Inconvenient Truth', Al Gore said of climate change "I consider it to be a moral issue."⁶⁶ As such we can reflect on the morality we and others exhibit in our work. Is it people's greed that seeks to exploit our fears, and our fears that let us stand aside or offer excuses, and some people's pride that tempts them to bask in the praise and funds of the greedy? Are these characteristics a contemporary manifestation of evil, hidden by a mask of technical language and convivial appearances? If so, then the gravestone to our species, standing amongst countless other we took with us would aptly read: "We had enough atmosphere for everyone's need, but not everyone's greed."

But we need not be despondent. Whether an event is positive or negative is in part due to how we respond to it. The good news is that the failures at Copenhagen brought world attention to these issues, so that people can learn and a new agenda could emerge. "Copenhagen has soured into a con – but from the wreckage, there could arise a stronger demand for a true solution" wrote Johann Hari.⁶⁷ Climate scientists James Hansen concurs. "I'm actually quite pleased with what happened at Copenhagen" he said on radio, "because now we have basically a blank slate."⁶⁸ Copenhagen could be a new beginning, a call to action for globally responsible leaders.⁶⁹

THE PULSE OF CSR IN ASIA

The final quarter of 2009 confirmed the continuing interest in the nexus between sustainability and business in the Asia region with conferences focusing on the topic.

Singapore is a major hub for international conferences as well as education. It is already home to the Social Innovation Park, which organises the Global Social Innovators Forum (GSF) annually, and Syinc, a network which connects people to seek innovative solutions for social change.⁷⁰ In October, the Singapore Management University debuted on the business-and-society conferencing scene with its 'Social iCon' to explore what it calls "social innovation".⁷¹ The concept of social innovation is popular in Singapore, perhaps because it allows people to discuss social progress in a space outside the governmental sector, yet without overtly challenging the government since phrases like 'social change' can raise an eyebrow in some countries. The use of the term 'innovation' also resonates with the enthusiasm for all things "new" across East Asia at the moment, due to the close embrace of modernity, and the rapid economic changes happening there.

The conference itself, of about 300 delegates, was populated mostly by non-profit sector professionals and business people who volunteer. It appears common in Singapore for civil society leaders to also have full time day jobs in business or government, perhaps due to the limited civil society funding, and the current low status of being in the voluntary sector. This also reflects how volunteering has a form of cultural cache if it is something one does in one's leisure time as an extra-professional activity. A key impact of events like Social iCon could be to help promote the idea that working on social progress outside of the governmental sector is a worthwhile profession.

The speakers were a diverse mix of charity leaders doing traditional charity projects such as housing development; entrepreneurs running small businesses that deliver some social benefit in creative ways; and a few large corporations who sought to promote the positive social impact of their companies. One such company at the conference was Second Life, the world's largest user-created online "virtual community", whose chief executive argued that they create social value through the amount of charitable donations that have been made through the platform. He was not challenged on whether these were donations that would have been made in other ways, and if that small aspect of Second Life qualifies it to be seen as a social enterprise. It appeared that the spirit of the conference was to celebrate action, not to inquire into the form and impact of that action, and its contribution to social progress.

Given this emphasis on celebration, the level of discussion was limited. The lack of debate did little to develop a share concept of what social innovation may entail; a particular shame given that the concept, and its articulation in the Asian context, is weakly understood. Without an easy frame of reference to relate different contributions, the sheer diversity of presentations, and the selection of moderators for their perceived status rather than their ability to synthesise lessons from specific cases, meant that opportunities for deeper synthesis were sorely lacking. Although the focus on innovation at Social iCon and the GSIF can create a positive outlook, it can also impede the discussion from discussing longer-term struggles. With a focus on celebrating innovation, the spirit of the audience is to applaud people for doing easily recognisable and non-contentious 'good' things in (apparently) new ways. In such a setting, a woman working for 30 years training migrant workers while struggling against a sceptical government might not be an obvious choice for the speaker's roster. In comparison, a more likely candidate would be the wife of a millionaire who set up an orphanage for children after the tsunami, especially if there is a transfer of skills to make items

that can be sold, thereby generating revenues for the orphanage. As a result, there is a danger of narcissism and political conservatism in the 'social innovation' field in Asia, which could undermine learning about progress in business-society relations.

Despite the general tone of the event, there were some inspiring people who are applying the concepts of sustainability in innovative yet practical ways. The best example of this was Tri Mumpuni, Executive Director of IBEKA, in Indonesia. "We are tackling the challenges of rural electrification and economic development by creating community-owned micro-hydropower systems throughout Indonesia" she explained in a very small breakout session. "We use micro-hydro, so our electrification can be managed by communities. By giving communities equity in the operations and training them to manage the micro hydropower systems technically and financially, we are creating jobs and revenues, as well as an environmentally sustainable source of electricity." The integration of ecological, economic and community needs in this small scale work is an inspiration for those hoping for non-carbon intensive development.

One notable absence from Social iCon were CSR managers of large corporates in Singapore or the region. The profile of the delegates contrasted with those at CSR Asia's event a few days later in neighbouring Kuala Lumpur.⁷² The CSR Asia conference marked a watershed. It also had 300 delegates, compared to 100 the previous year, who were mostly CSR or PR managers from the private sector. The majority were from East Asia, and were not from the base of the supply chain. There was a distinct lack of voices from wider society such as consultants, unions, religious institutions, strongly critical NGOs and academics, none of whom were on the speaker's list. Only the voice of a rogue journalist seemed to challenge the status quo. So the homogenous character of the conference raised not only questions about racial diversity but also diversity of classes and sectors. This illustrates that CSR in Asia is now as much about large firms adopting their own CSR approaches, as it is being driven by the need to conform to social and environmental audits from overseas. This was further emphasised at the close of the conference when CSR Asia co-founder Steven Frost commented that Asia now has its own CSR constituency and is developing its own CSR agendas.

Despite promoting the conference as being about sustainability, there was only one presentation that looked closely at new business models that place an integrated notion of sustainability at its heart. This was from Shokay founder, Marie So, also a graduate of Harvard University. She explained how the company "aims to impact the lives of Tibetan herders in China

oppressed by poverty. By introducing luxury yak down to the global market, we hope to create a market for yak fibre, thus increasing the value of the raw fibre to provide herders with long-term employment and a greater sustainable income." She explained that as the business is doing well, with a new partnership agreed with luxury brand Shanghai Tang for 2010, Shokay's development impact is four-fold: direct income generation, preserving the local culture, promoting sustainable use of the environment, and community development. "We currently work with 2600 people, providing a sustainable source of employment and income to these herders. By setting up fibre cooperatives in each sub-village, it is our goal to help grow each ecosystem to provide a safe and transparent vehicle for addressing local development."⁷³

In light of Marie So's involvement in international networks such as that convened by CSR Asia, there is a strong chance that there are other innovators who are embodying forms of business that can be part of a fair and sustainable economy. If a conference organiser could go about finding these innovators, profiling them, provide funding to attend, helping them to learn how to present in ways of mutual benefit, and organising workshops where people can learn from their experiences but also work on their challenges, then that would be powerful event.

Could such an event be an academic conference? Probably not, unless conferences come to be understood as potential mechanisms for research rather than just research dissemination and discussion. In November, the Asia Pacific Academy of Business in Society (APABIS) conducted its third international conference entitled 'Finding Solutions to Global Problems.' Drawing together practitioners and researchers from across business, civil society, government and academia, the conference aimed to explore the role of stakeholder engagement, new social partnerships and strategic alliances in the transition to what it termed a "sustainable enterprise economy" (SEE).

Hosted by the Asia Pacific Centre for Sustainable Enterprise (APCSE), at Griffith University, the conference was set against a background of three inter-linked global imperatives - responding to climate change, the global financial crisis, and a moral crisis within economic practice; themes which echoed through many of the presentations. It also aimed to showcase the challenges and opportunities, strategic partnerships, innovation and education/skills-training necessary for a transition to a SEE.

Whilst the usual case studies proved fruitful in providing examples of programmes and initiatives that

organisations are implementing to contribute to sustainability, probably the most challenging session highlighted a re-conceptualisation of what economy means. Illustrating the multi-disciplinary approach of the conference, this plenary brought together an unlikely mix of speakers, namely, the CEO of a large employment company, the head of an Indian corporate foundation, a sustainable fund manager, and an engineering and research projects consultant, to talk about change and action for the new economy.

Nick Fleming, Chief Sustainability Officer at Sinclair Knight Merz and participant of the plenary panel described a sustainable economy as one that not only works towards sustainable development but also demythologises traditional models of scarcity, and counters the power structures that support and maintain such paradigms. He proposed we think of a sustainable economy with "the notion of abundance replaced by limits. Economic value replaced by real societal value – with erosion recognised. Regulated commerce that promotes societal benefit."

Matthew Tukaki, CEO of Drake International, and Ashoke Joshi of the TVS Srinivasan Services Trust (TVS-SST), recounted the practical challenges of developing and promoting the skills necessary for sustainability in both developing and developed economies. In relation to climate change, Tukaki explained

"We're going to see a lot of debate about what green jobs are or what a green collar worker will be. Our focus is on developing the skills, jobs and industry to respond to climate change. Most of the arguments against trading schemes, for example, focus on the jobs that will go. Lost in the debate are the jobs created. We're working to make that happen; to create the skills for the transition."

Describing the skills training and health services provided to 80,000 rural Indian families through the TVS Motor Company's social trust, Ashoke Joshi evoked both the vast spectrum of material and social justice issues in working toward a SEE, but also the profound economic, social and political upheavals involved. Sharing a case study from a company factory, Joshi described an initiative run by the trust and funded by the government, which trained local women to cook chapattis, with an understanding that the factory would buy them at a set rate if they were of a high-enough standard. Today the women make 25,000 chapattis, of which the factory buy a fifth, and

market the rest to other factories up to 50km away. However;

"As the women started making money the men-folk became jealous, they felt the women were getting powerful, and worried they would lose their authority. So they came up with an ingenious argument. They said "You've been cooking chapattis in the community hall, which is meant for meetings only, so you can't do it here anymore". So that almost ended the program. But by then the women were strong enough, had the confidence, had some money and went to the bank. They bought land, built a factory and now have a balance of 6 million rupees. So then you had domestic violence. But that is getting better now."

The approach of the conference was well received by most participants. As one plenary speaker noted,

"I've been on many sustainability panels, but to have people approaching the topic from such different places- that's very rare. It made for an interesting conversation."

For the Asia-Pacific region this might be one of the most significant contributions of the conference, given the current pattern of development of CSR in the region. As discussed in issue 33 of the *JCC*,⁷⁴ and furthermore in *The Eastern Turn in Responsible Enterprise*,⁷⁵ if CSR in the Asia-Pacific develops as a mix of the interests of Westerners and, increasingly, local elites, it will not respond to those that are directly impacted by business activities within the Asia-Pacific.

The APABIS conference hoped to offer something different to the elite focus of CSR for Asia through its cross-sector and multi-disciplinary approaches that embraced differences, and to spark the creative thinking necessary to envision a SEE. By incorporating stakeholders other than business managers and government officials, there was a deepening of the systemic reflection necessary to envision new economic concepts. As a result, there was a new focus on economic justice rather than the more philanthropic concepts of CSR that are dominant in Asia, indicating a potential shift in how the Asia-Pacific region is starting to think about

CSR.⁷⁶ However, whilst more than twenty nationalities were present at the conference and case-studies presented in break-out sessions were drawn from throughout the region (including Australia, New Zealand, Vietnam, Indonesia, Japan, India, Myanmar (Burma), and Fiji), the conference participants were overwhelmingly from Australasia, although there also was strong representation from Japan and Vietnam. If APABIS is to become an important forum for cross-cultural and cross-sectoral dialogue on matters of business in society, there is much work to be done.

Both the conference's approach and its focus were nevertheless not without their critics, illustrating in turn the challenges of systemic change. As argued by Prof. Jean Palutikof, Director of the Australian National Climate Change Adaptation Research Facility,

"the sustainable enterprise economy means very little to me – I think it is used to disguise the fact that no one is doing much about carbon emissions."

Whilst the conference highlighted and bemoaned the 'silo-mentality' found in government, business and industry, and academia, at times the format and participants struggled to break out of the well-worn stand-and-present routine. Disciplinary and institutional divides are well-recognised as limits to exchange and innovation in thinking and processes to adapt to the sustainability imperative. Whilst striving to bridge these divides, this conference demonstrated both the need and the difficulty in engaging in what could be called 'trans-disciplinary' conversations; the importance of moderators skilled in conversations on systemic issues; and the promotion and further development of these more innovative conference formats.

SUSTAINING INNOVATION

The Singapore conference on social innovation also reflects the popularity of the term 'innovation' in management conferences and initiatives on business-society relations. Two design conferences in the fourth quarter of 2009 also suggest that the nexus between sustainable enterprise and design is an emerging trend. The International Design Conference on Sustainability and Design in Mumbai in November explored the theme of Sustainability, Design and Enterprise.⁷⁷ A month earlier, the Design Management Institute (DMI) held its annual conference entitled 'Design, Complexity and Change' to present case studies that draw out lessons on how

design can help reframe, rethink and reinvent futures.⁷⁸ They illustrate how design is a concept that goes beyond the creation of products and is concerned with exploring the role of design in sustaining, developing, and integrating human ideas into broader ecological and cultural environments.

So what does innovation mean? According to BusinessDictionary.com, innovation is the “process by which an idea or invention is translated into a good or service for which people will pay. To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need. Innovation involves deliberate application of information, imagination, and initiative in deriving greater or different value from resources, and encompasses all processes by which new ideas are generated and converted into useful products.”⁷⁹ It is in essence a systematic and systemic approach that directs acts of invention towards a shared purpose, this purpose being of public benefit in the case of social, sustainable or responsible innovation.⁸⁰

Recognising the systemic change necessary for such complex innovation, Paul Toni presented WWF's *Climate Solutions 2* report as part of the APABIS conference in November. The report modelled the ability to grow low-carbon industries within a market economy and highlighted some of the challenges to such innovation. On the practical side, such industries have constraints to growth caused by limits to resource, technology, capital and workforce size and skills but as Toni explained, “these limits are measurable and make it possible to calculate the time required to transform the energy and non-energy sectors to avoid a 2 degree warming.” According to Toni, “there are 24 low-carbon resources, industries and practices available today that are sufficiently large to provide 9 billion people with significant economic development.” However, the maximum possible rate of growth for these industries is lower than 30% a year. Therefore, unless public policy creates the right frameworks for massive investment in such industries to achieve the 30% annual growth rate needed from 2014 onwards, it will not be possible to achieve the necessary reductions in carbon emissions to keep world temperature rises below the 2 degree threshold.⁸¹ So systemically, there are innovation constraints as well.

As such, Paul Toni argued that there are three main reasons why innovations are held back, or at least not promoted by government. First, “incumbent firms argue to maintain the status quo – how can they do otherwise without breaching their duty to the shareholders?” he explained. Second “industry associations are particularly vocal opponents of change because they represent the whole spectrum of opinions in the industry – including those of the

least efficient companies and least prepared.” Third, “Departments of Industry are usually supportive of incumbents for similar reasons and are seldom promoters of change.” As a consequence regulations that would compel innovations are fought against, usually with the argument that they are too costly and would cost jobs. However, Toni presented evidence showing that industry calculations of the cost of regulations in the fields of asbestos, benzene, coke ovens and vinyl chloride were exaggerated by between 50% and 1,500% before regulations were introduced. Part of the reason was that once regulations came into effect, industry began to innovate and find cost savings in so doing. Therefore he called on governments to influence markets and promote the rapid scaling of needed technologies.⁸²

Other deep-seated impediments to sustainable innovation from within businesses themselves were explored in a Boston Consulting Group (BCG) publication in October 2009 entitled ‘The Business of Sustainability.’ The report detailed the results of a global survey of over 1,500 corporate executives and managers which sought to better understand the business implications of sustainability.⁸³ One of the conclusions of the report was that although 92 % of businesses were trying to address sustainability issues, most companies struggled on execution demonstrating a lack of coherence between the desire to act and the ability to implement bold action. The report detailed that one of the major obstacles was the difficulty in modelling a business case for sustainability due to three major factors:

- forecasting and planning beyond the one-to-five year time horizon typical of most investment frameworks;
- gauging the system-wide effects of sustainability investments and;
- planning amid high uncertainty.

Whilst these three points illustrate the ambiguity that businesses face, they also demonstrate the typical decision making mechanisms that businesses use in determining future direction. Expanding upon the third point in particular, the report stipulated that,

‘Strategic planning, as traditionally practiced [sic], is deductive – companies draw on a series of standard gauges to predict where the market is heading and then design and execute strategies on the basis of those calculations. But sustainability drivers are anything but predictable, potentially requiring companies to adopt entirely new concepts and frameworks.’⁸⁴

In criticising deductive logic, where theories arrived at through past experience are used to predict what will happen in future, BCG were giving voice to other forms of knowledge in a domain traditionally dominated by economics, as illustrated by a range of strategy management journals. Economics is a discipline that is highly reductionist and determinist, meaning that to provide insight into society, it reduces complex interactions into a few key variables (reductionism), and then seeks correlations between the variables as a means of identifying cause and effect (determinism). As such, economics has its limits in revealing insight into complex realities. Beyond economics, many of the tools used to describe major trends in society that inform the fields in which companies focus their innovation, depend on quantitative data, including analysis of the subjective opinions and experiences of individuals through surveys. The reliance on what can be inscribed and aggregated, not only enables some useful macroscopic views of trends, but also means there is a temporal and physical distance between the analyst and the realities studied. The data shows how things used to be, not how they could be, and does not provide insight into the complexity of people's lived experiences. It is as if by looking for the 'helicopter view' of a situation, one has to travel away from the phenomena to look back at it through a telescope. What is lost from this approach is not only an understanding of complex consumer needs and wants, but also the potential for a conversation with consumers about what they might want, and how their expressed behaviours might not actually be how they would wish to behave if they had other choices. For instance, the reason that people spend two hours in traffic everyday might be an observed preference, as it is their behaviour, but it is not necessarily their desired preference.

A key lesson here is that in order to become better at strategy, businesses need to get closer to consumers, which is further discussed below. But the main focus of BCG was on the restrictive effects of business executives requiring "proof" of a business plan, where what constitutes proof is narrowly defined, before making a decision to invest in innovation. This was also the focus in *Fast Company* magazine in November 2009. In an interview on innovation in business with Mr. Roger Martin, Dean of the Rotman School of Management at the University of Toronto, he explains that

'Most companies try to be innovative, but the enemy of innovation is the mandate to "prove it." You cannot prove a new idea in advance...'⁸⁵

The alternative he suggests requires 'design thinking.' A simple definition of design thinking is any process

that applies the methods of industrial designers to problems beyond the scope of how a product should look. 'Design thinking' is a user-based approach that observes people in order to create practical solutions in product design and for social problems. It focuses on the nature of the problem itself. Put this way, such a methodology means that products are created in sync with consumer needs rather than creating a product and pushing it into the market place. Mr. Martin suggests that design thinking is a conduit between the intuition of new ideas and the more structured approaches of analysis that

'...enables the organization to balance exploration and exploitation, invention of business and administration of business, originality and mastery.'⁸⁶

This suggests that by thinking like a designer, organisations may be freed up from the burden of proof so that the *best solution* can be explored rather than the illusion of what can be proven.

A November 2009 special report in *Business Week Online* highlighted how design thinking is impacting business.⁸⁷ The article illustrated how companies such as Proctor and Gamble (P&G), GE Healthcare and Philips Lighting use design thinking to solve their problems. At P&G, the number of design facilitators has grown from 100 to 175 since 2008 in an attempt to embed such methodologies throughout the organisation, and judging by their enormous growth between 2000 and 2008 when revenue doubled from \$40 billion to \$83 billion, it isn't surprising that their performance is being heralded as a triumph of design thinking.⁸⁸ GE Healthcare has also adopted design thinking and according to a 2003 report by the Danish Design Center, increased design activity such as design-related employee training boosted the company's revenue on average by 40% more than other companies over a five-year period.⁸⁹

These earnings may convince companies that 'design thinking' is central to the future of innovation, but what might it imply for the social and environmental performance of business, including the challenge of scaling innovation as rapidly as described above? There are two areas of potential benefit. First, as 'design thinking' challenges dominant views of what constitutes proven knowledge in strategic planning, and allows for more complexity and uncertainty in decision making, so investments in innovation may gain more attention. This is because, as BCG noted,

"Decisions regarding sustainability have to be made against a backdrop of high uncertainty. Myriad factors muddy the waters

because their timing and magnitude of impact are unknown. Such factors include government legislation, demands by customers and employees, and geopolitical events.⁹⁰

Second, 'design thinking' could encourage businesses to respond to the needs of consumers, rather than seeking ways of marketing existing things to them. This is closely connected to developing a functional perspective on what consumers do, and why they do it. With this view, a car is no longer just a car, but a means of fulfilling a range of functions to the consumer, such as mobility, status, and fun. With that perspective and recognition of growing resource constraints, changing values and technologies, designers could explore how to serve those needs in different ways. Thus needs for mobility, status and fun could be provided separately, or more sustainable transport solutions infused with characteristics that meet the non-mobility functions of existing cars. Making bicycles cool, for instance, or providing more ticket classes and benefits in public transportation. The importance of taking a consumer need perspective, or 'functional approach', and seeking to meet that within resource constraints, was identified by UN Environment Programme as a key sustainability policy paradigm for governments in 2001 and explored in these pages in 2006.⁹¹

The shift in mindset in design thinking is from regarding a product as simply a physical thing to regarding it as part of a set of relationships that fulfil various purposes for different people, and so those relationships are as important as the thing in itself. In marketing, this view is often discussed in terms of focusing more on the experience of the consumer. There are also strong resonances here with systems thinking, which emphasises that everything is a set of relationships.

The use of design thinking in business innovation has the potential for encouraging more sustainable design, but it depends on what criteria the observation of users occurs, the choice of their needs to be explored, and the intention of the company. In the case of P&G, when designing cosmetic products for instance, do their designers question their users about the wider consequences of the products, or the reasons why consumers have particular 'needs' and tastes? In light of the Environmental Working Group's cosmetic safety database which details hundreds of P&G products containing potentially harmful toxic chemicals, perhaps user observation needs to be coupled with user education as to avoid certain environmental and social issues.⁹² Design may be used to support innovation and the bottom line, but there is also the risk that the broader ecological

boundaries are deliberately circumvented to the detriment of others. So despite the enormous potential of design thinking as highlighted by the examples of P&G and GE, until environmental and social issues become part of the purpose of the organisation, new products may not necessarily be more sustainable.

That said, P&G is starting to apply sustainability criteria to some of their products. Called 'Sustainable Innovation Products' or SIPs, P&G has a goal to deliver \$50 billion in cumulative sales of products with improved environmental impact by 2012. SIPs must have an overall use reduction of 10% in the areas of transportation, energy, water or materials, or have replaced non-renewable materials with renewable ones.⁹³

Design thinking is not a panacea for social and environmental effectiveness of corporations, and should not be understood as a new function within business, but just one way of practising a more connected and holistic way of doing business. A Harvard Business Publishing article in October 2009 suggested that the success of design thinking is as much about embracing different points of view as it is design methodologies.⁹⁴ Although Mr. Peter Holtz, the author of the article, founded his company which is dedicated to experience design, he suggests that the effectiveness of design thinking is that it embraces many different experiences and disciplines. He affirms that,

'What we must understand is that in this savagely complex world, we need to bring as broad a diversity of viewpoints and perspectives to bear on whatever challenges we have in front of us. While it's wise to question the supremacy of "business thinking," shifting the focus only to "design thinking" will mean you're missing out on countless possibilities.'

His comments supported an article in *Fast Company* earlier in the year that commented on the role of Claudia Kotchka, P&G's first ever VP for design strategy.⁹⁵ The author, Dev Patnaik, CEO and founder of jump associates, a firm that helps companies create new businesses and reinvent existing ones was quick to point out that Ms. Kotchka was an accountant by training and spent most of her professional life in marketing and thus had no design experience when she started the role. He insists that what design thinking ultimately embodies is the

'...conscious blending of different fields of thought to discover and develop opportunities that were previously unseen by the status quo.'

So whilst Ms. Kotchka immersed herself in design thinking, it was combining it with her other experiences that made her such a powerful example of design. As Mr. Patnaik concluded,

'To walk away concluding that design thinking is what makes P&G great would be like going to the movies and concluding that Indiana Jones is a great hero because he always wears a hat.'

It should be of no surprise that corporations using design thinking are now employing people from the social sciences such as sociologists, anthropologists, ethnologists and the like because they can open up thinking through entirely different points of view. The key here is the need to transcend organisational silos and the single lenses that come from specialisation in marketing, finance, human resources, strategic planning, operations, and so on. The new popularity of design thinking, like systems thinking, reflects how organisations are trying various ways to overcome silos. Having teams of experts from different specialisations is one way that organisations try to overcome these silos, but they are rarely more than the sum of their parts. Instead, if managers develop a competence for trans-disciplinarity or trans-functionality, they can draw upon the expertise in different specialisations, while rejecting certain knowledge claims from those disciplines that they can spot as the result of unhelpful assumptions or preoccupations. Key to this is understanding a knowledge claim in its full context: to distinguish between what it reveals and what is simply a projection of its method, theory, and assumptions. Two of the best underlying factors in developing trans-functional competence are critical discourse analysis, and the philosophy of science, as they enable people to de-construct the truth claims they hear.

Furthermore, the organisational silos are there for a reason – they have helped incumbent organisations to control their activities, and regulate any potentially disruptive changes. As a means to shore-up success, corporations have created organisational structures to maintain their financial commitments. As many large organisations are either financed by debt or equity, there are requirements to ensure that debt is paid back on a predetermined schedule or that shareholders are paid a return and so it is understandable that companies have ordered their organisations to meet these demands.⁹⁶ According

to Mr Roger Martin, the consequences of such arrangements for organisational functions are many, and of note for CR professionals. One, organisations will only take the risks associated with exploring new ideas when there is a clear potential for a significantly enhanced financial return; investments in new approaches that would deliver similar returns to existing practices are not favoured. Two, due to the outflow of money, there are limited resources which can be dedicated to innovation thus, ironically, working against their own long-term interest. Three, as a result, meeting the budget is the first measure of operational success as opposed to, for example, better environmental performance. And four, because the nature of the work environment demands reliability for financial purposes, work itself is secondary to the business of making and selling, often demoting people to machine-like tasks and blocking creative potential.⁹⁷ A corollary to the last point is that work then becomes a measure of time. The consequence is that performance is measured according to quantity and time rather than quality and objectives, potentially leaving the problem to be addressed unsolved in the interest of rapid turnaround.⁹⁸

It is not just a top down process that enforces silos in organisations. Rather, to be effective in addressing challenges in ways that integrate insights from various organisational functions one must be highly intelligent and enthusiastic about the organisation's purpose. If one is tired at work, or not deeply interested in the goal of the organisation, then learning the ropes of a particular discipline, and being satisfied one is a trained practitioner in that discipline, is a natural option. The same is true of management schools, where academics have the added pressure of the expert expectation, so that choosing to put boundaries around one's expertise is an easier way of life.

Whilst corporate responsibility (CR) professionals are presenting sustainability as a source of business opportunity, little is said about those dominant structural aspects of business that are implicitly opposed to innovation. In the case of business, the requirement to 'guarantee' profitability means that businesses depend on mechanisms and processes that have demonstrated reliability in working toward this goal.⁹⁹ But in the face of climate change, financial crises and continual uncertainty, this raises the question of whether the organisational mechanisms that support profit making are as much hampering as stimulating innovation on challenges such as climate change. For professionals working in CR examining deep-seated impediments to sustainable innovation is important.

Stakeholder dialogue is an area of corporate responsibility where design thinking could have a direct application. Concerns over the effectiveness of stakeholder dialogues in aligning the interests of business and their stakeholders raise the question of why there is little innovation when there is a veritable abundance of differing viewpoints at the table.¹⁰⁰ This would suggest that there are tools necessary from a process point of view to create a shared sense of problem, to explore the *best solutions* and then channel these ideas through to the implementation phase. In light of the diversity parallel with design thinking, perhaps the missing element in innovation through stakeholder dialogue is design facilitation, an admittedly ambitious project. For whilst the design facilitator may be able to unite the stakeholders present to solve a problem, the trickle down effect might be a little less effective if the organisational structures behind them are naturally resistant to innovation. Consequently, the greatest challenge facing the CR movement may not be providing creative ideas for businesses but helping organisations to break free of paradigms that they've established in attempts to sure up profitably and returns for shareholders. If business is to unleash its sustainability creativity, the CR movement will need to not only promote more design thinking, but also transform existing organisational structures that have been designed to resist change. This is where public policy could play a role with a few interventions at the root of the problem, such as obliging corporations to retain a certain percentage of profits to be used for innovation to address a public need.

Indeed, if there is one message from 2009 for the corporate responsibility arena, it is that government can still intervene in markets in game changing ways – the real question is for whom? The growing debates about the forms of capitalism that a fair a sustainable society requires will cast new light on such government action.

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LIFEWORTH CONSULTING

Lifeworth Consulting inspires and connects people and organisations, innovating ideas, strategies and projects, so you succeed by contributing to a fair and sustainable society. Founder Dr Jem Bendell explains our approach:

"We improve the social and environmental effectiveness of people and organisations. Key to real progress is relating changes at individual, organisational, sectoral and societal levels. At Lifeworth we do that by enabling and motivating professionals to improve in concert with changes in their operating environment and society. Whether you work in the non-profit, business or public sectors, we have knowledge, processes, and networks to help, having worked in each sector ourselves. So we take a network approach to improving organisations, sectors, policies and societies; and as a network of independents, our low overheads and flexibility mean we offer cost-effective teams tailored to the specific needs of a project. Consequently we only work with people seeking social innovations for transformative change, who benefit from our assets and approach."

Dr Bendell has a 14-year track record of social innovation, including:

- Developing the original concept for the Marine Stewardship Council, for WWF International.
- Advising and helping implement a strategic realignment of a major Australian business school with 13000 students and 300 faculty to become a leader sustainability, and establish an Asia Pacific centre of excellence.
- Developing one of the first multi-enterprise supply chain eco-audit systems.
- Inspiring the then head of the UN Secretary General's office to launch what became the largest corporate responsibility initiative in the world, through publications on NGO-business partnerships.
- Conceiving, researching and writing the first substantive analysis of the social and environmental performance of the luxury industry, which appeared in over 50 newspapers worldwide and helped inspire a strategic shift in many brands.
- Developing a responsible enterprise strategy for a famous high-jewelry company.
- Developing a strategy, policy and guidelines for private sector engagement by a UN agency.
- Establishing the first responsible enterprise jobs portal in 2001, which is now the largest such portal (www.lifeworth.com)
- Providing informal confidential advice to innovators, helping them create some key initiatives in the contemporary responsible business/finance and sustainable development fields.

Our 18 associates, including all co-authors of this Annual Review, are experienced in working with different cultural contexts and sectors, as well as on a variety of responsible enterprise or societal challenges. We are located in Chennai, Geneva, Grenoble, London, Madrid, Manila, Rotterdam, Toronto and Washington. Between us we speak 8 languages, including English, French, German, Italian and Spanish. We each have particular crafts that we maintain excellence in, to provide for our clients, in addition to specialist knowledge in responsible enterprise. All our associates are involved in responsible enterprise because of a passion to transform economic life to make it more affirming of life as a whole.

Lifeworth Consulting's services include strategy, creativity, communications, liaison and education.

STRATEGY

- Rapidly changing environments mean leaders require strategies that seek shared organisational and societal value. We bring insight from different sectors and cultures as well as social, political, and technological trends and concepts to inform strategic planning or enhancement. We focus both on opportunity and risk.
- We have advised on strategy development for FTSE 100 companies, working closely at board or senior level, and managing stakeholder engagement in the process. We advise on the delivery of such strategies including policy development, integration between international operations, performance benchmarking, establishment of targets and key performance indicators, stakeholder relations, and the selection of evaluation and audit regimes and suppliers. Areas include brand development, carbon management and responsible supply chain management.

- We have advised public and voluntary organisations on their strategies, policies and programmes for influencing or engaging with business. We can produce methodologically-advanced reports to inform strategy.
- Our intellectual contribution to this field of practice includes the book *The Corporate Responsibility Movement*, which describes the emergence and importance of applying ‘movement thinking’ in effectively planning responsible enterprise efforts.

CREATIVITY

- To successfully respond to the social and environmental challenges faced today requires not only an appreciation of risk, but a creative outlook that sees the new opportunities to create solutions. This requires a passion for change, and constant exposure to different cultures and contexts, which we bring to our work on inspiring socially and environmentally positive creativity. Such creativity can occur within any business function, and inform or enact strategy.
- We have inspired creativity in some of the world’s leading international organisations, helping them innovate new responsible enterprise and finance initiatives. We have also conceived ideas for clients which have led to the creation of successful new organisations.
- Our intellectual contribution to this field of practice includes a keynote speech at the International Herald Tribune luxury industry conference, which encouraged an emotional commitment to sustainability that will unleash sustainable design innovations.

COMMUNICATIONS

- To be part of a solution to social and environmental challenges requires that those whom you depend on for your success join you on the journey. Leaders must therefore influence whole value chains, sectors and even systems of economic, social and political activity.
- We have helped clients communicate their responsible enterprise efforts through managing annual sustainability reporting cycles and writing annual sustainability reports (from concept to final publication), including 2 award-winning sustainability reports for multinational FTSE clients, and related web content.
- We have helped clients by conceiving, creating and executing sustainability-related campaigns to generate millions of dollars of editorial press coverage for an outlay of less than 40,000 pounds.
- We write books, UN reports, magazine and newspaper articles, popular blogs and academic pieces, and make keynote speeches, that generate significant media coverage worldwide and are influential in our field. We publish an annual review of responsible enterprise that is well read by relevant professions. We can also leverage the two professional social networks we have founded and the 4000 members of our jobs bulletin on responsible enterprise.
- Our intellectual contribution to this field of practice includes the report *Tipping Frames*, which explains how the responsible enterprise field is a place for the reconceptualising of cognitive frames shaping society and business, and how to use that for positive outcomes.

LIAISON

- Different organisations in different sectors – public, private and civic – have different competencies and networks than can be combined to deliver change at the scale and pace that is required by today’s challenges. To do this effectively requires advice from those who understand each sector and know when and how partnerships can succeed or fail, and act as a trusted interlocutor.
- We have connected international NGOs to create new organisations, UN agencies to environmental NGOs to launch a fashion show, sovereign wealth funds to responsible finance initiatives, and helped business schools, companies and sovereign wealth funds to join UN, NGO or multi-enterprise initiatives. We develop stakeholder engagement programmes, from the head office of UK-based FTSE 100 client, to a site level stakeholder relations plan for a gold mine in West Africa.
- We have created two successful professional networks that provide the opportunity for people to connect. CSRGeneva.org and AuthenticLuxury.net each convene around 500 members in active on-line communities that also meet regularly.
- Our intellectual contribution to this field of practice includes *Partners In Time?* which was the first UN report on

business-NGO partnerships for sustainable development.

EDUCATION

- The past decades of management education have encouraged specialisms that do not help us to see the whole system of an organisation, value chain, sector or society. To navigate the rapid changes in environment, society, economic, politics and technology, executives can benefit from experiential, transdisciplinary, heart-felt and practical education, which also provides them with new contacts and ideas.
- We developed and teach masters level education for responsible enterprise at universities in Australia, Singapore, Switzerland and the UK. We have developed and delivered intensive sustainability training courses, for companies in Spain and Sweden, for instance. We have run workshops at corporate responsibility conferences around the world.
- We are currently developing a network of social and environmental entrepreneurs, who are willing to host study tours of their premises, in order to offer this as part of our educational programmes.
- Our intellectual contribution to this field of practice includes commentary on business education and research in a quarterly column in the *Journal of Corporate Citizenship*.

PROGRAMMES

Lifeworth Consulting operates three main programmes of work.

AUTHENTIC LUXURY

The luxury industry has the mandate and margin to lead us towards sustainable lifestyles. A wave of awareness is sweeping the industry, but effective responses require the right intention and information.

We champion social and environmental excellence as the future of luxury, and help designers, executives, experts and entrepreneurs, to succeed with this approach. We do this through research and producing reports, books and articles on the social and environmental performance of the luxury sector, as well as speaking at high-level events. We also host the Authentic Luxury Network.

Our intellectual contribution to this field of practice includes the report *Deeper Luxury*, researched and written for WWF-UK.

We understand that the luxury industry is different to other sectors, due to the nature of the customer, the importance of brand personality, and the need to excel. Luxury brands require specialist insight and advice on how to achieve social and environmental excellence in ways that be communicated positively to fashion and lifestyle media.

We offer the full suite of our consulting services, to individual clients in the luxury sector, including strategy, creativity, communications, liaison, and education. Clients receive a degree of creativity, inspiration and connection to leaders in this field that is unparalleled. Our next intellectual contribution to this field of practice is a new book for luxury brand managers.

ENTERPRISE TRENDS

The role of business in society is changing rapidly, as the world becomes more interconnected while social and environmental challenges become more acute. Understanding these trends in the context of business, as well as trends in responsible enterprise and finance, from international to local levels, is an essential prerequisite to understanding how to influence markets effectively, or offer services to help processes of change.

We provide insight into responsible enterprise trends through our strategy, communications and education services. We have helped international non-governmental organisations, UN agencies and business schools better understand changes in the relevant business environment. We produce regular research reports and articles on these trends.

Our intellectual contribution to this field of practice includes our series of annual reviews.

ENGAGING CHANGE

Partnerships between organisations in different sectors have become more common in the past decade, and there is evidence of both success and failure. Leaders need to know when and how to partner with others, in order to achieve a scale of change that meets the scale of challenges faced, while delivering internal benefit.

We are some of the most experienced cross-sector partnership practitioners, analysts and educators in the world. We help organisations with how to partner to create significant change, rather than because it seems a good thing to do. We bring an unusual level of rigour, from social sciences, for helping our clients understand when there is potential in partnership, or when to use other methods of exerting influence on a market.

Our intellectual contribution to this field of practice includes the first UN report on business-NGO partnerships in 1999, as well as a new UN paper on how NGOs work in networks more effectively to influence economic governance issues, called *Noble Networks*?

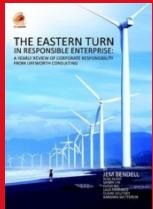
More information is available at <http://www.lifeworth.com/consult>

PREVIOUS REVIEWS

Capitalism in Question is the 9th and final Lifeworth Annual Review of Corporate Responsibility, available for free download from <http://www.lifeworth.com/consult>

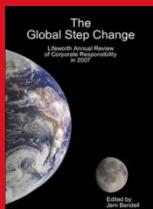
Previous reviews are available from Lifeworth's online bookstore at <http://stores.lulu.com/lifeworth>

The Eastern Turn in Responsible Enterprise – review of 2008



'The Eastern Turn In Responsible Enterprise' describes the rise of Asian business and finance that was hastened by events during 2008. It argues that although expanding economic power generates difficult social and environmental challenges, the world needs Asian business and society to help innovate the technologies, processes and concepts that will help us meet the critical challenges of our time, such as climate change and poverty eradication. It explores some initial implications of this global shift, and some characteristics of Asian forms of corporate social responsibility. Print: €30.00 / Download: €5.00

The Global Step Change – review of 2007



This seventh annual review from responsible enterprise consultancy Lifeworth describes the emerging trend for companies to identify targets for social and environmental performance, in response to a recognition that the current pace of change is not sufficient to meet international targets on climate change and global poverty. It is co-written and edited by Dr. Jem Bendell, an Associate Professor with Griffith Business School and Visiting Fellow of the United Nations Research Institute for Social Development. Print: €19.74 / Download: €8.00

Tipping Frames - review of 2006



The sixth annual review of corporate responsibility trends, worldwide, written by leading analysts in the field. Introduces a concept to understand how corporate responsibility is a arena for the re-framing of basic concepts of society and economy. Print: €17.34 / Download: €7.50

Looking for applicants to your job opening, course or event?

List it for free on the world's most comprehensive portal on jobs and events in responsible enterprise at

<http://www.lifeworth.com>

