THE GLOBAL STEP CHANGE

2007 Lifeworth Annual Review of Corporate Responsibility

Jem Bendell with Jonathan Cohen and Claire Veuthey

ABOUT the REVIEW

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TABLE of CONTENTS

1 *Reckitt Benckiser targets a new standard in carbon reduction, Press Release, 01/11/2007. http://www.reckittbenckiser.com/RBTemplates/MediaLatestNewsItem.aspx?pageid=400*
2 *Environmental Leader (2007) Cisco To Implement Department-Level Carbon Quotas, December 19, 2007. http://www.environmentalleader.com/2007/12/19/cisco-to-implement-department-level-carbon-quotas/*
3 *Jonathan Birchall, 2007, P&G sets 'greener' products targets, Financial Times, October 28 2007, http://www.ft.com/cms/s/0/d27db95a-8597-11dc-8170-0000779fd2ac.html?nclick_check=1*
4 *Climate Solutions, WWF.http://www.wwfindia.org/about_wwf/what_we_do/cc_e/pub/index.cfm*
5 *June 12 – 14. More information from: http://netimpact.org/displaycommon.cfm?an=1&subarticlenbr=1864*

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FOREWORD

By Professor David Grayson
Director, Doughty Centre for Corporate Responsibility, Cranfield School of Management

As they have done for several years now, the Financial Times invited a number of their leading writers at the end of 2007 to give their predictions for the year ahead. Stefan Stern, who writes for the FT on management issues, wrote: "Goodbye to corporate social responsibility? Never mind rising sea levels: the waves of cynicism washing over corporate executives as they push their CSR agendas promise to become life-threatening in 2008. In the inevitable life cycle of management fads CSR is now heading for the exit. Customers are generally unconvinced by the hype. And "social responsibility" was always too flimsy a concept to gain serious traction with business leaders.

That gives us a clue as to the identity of the next Big Thing in management: sustainability. Unlike CSR, this concept has some meat and commercial potential to it. Innovations that make money while helping to reduce carbon emissions are actually worth pursuing. So here's one further prediction for next year: the urgent rebranding to be carried out by all those CSR consultancies, which will be replacing the old acronym with the more contemporary "sustainability" label."[1]

Some may think this is semantic fiddling whilst Climate Change and planetary degradation burns. They would be wrong. Any campaigner or marketer will tell you that language matters. It can frame the debate. Look at how American politicians have tried to use wedge issues by shaping how voters perceive the question: "right to life?" or "right to choose?" "Gay marriage?" or "Civil partnership."

In his book The Tipping Point, Malcolm Gladwell writes: "There is a simple way to package information that, under the right circumstances, makes it irresistible. All you have to do is find it." As last year's Lifeworth review described, CSR provides an arena where people influence the definitions and frames concerning businesses' role in society.[2] Ironically then, "Corporate Social Responsibility" is not the term one would create if starting from scratch and trying to package information in a way that would resonate with businesses. Rather then sounding "irresistible", it can sound complex, earnest and dull. "Sustainable business" or "sustainable enterprise" suggests long term commercial success as well as environmental and social sustainability. This Annual Review discusses the emergence in 2007 of 'sustainable enterprise' as a new rallying cry, defining it as "innovative commercial activity that generates sustainable development" (see 'sustaining conversation'). The owner-manager of Impact Development Training Group, David Williams has adopted it as the mission of his company, describing sustainable enterprise as "about creating and innovating new business strategies and activities that accelerate positive social change, protect and preserve environmental integrity, whilst enhancing business performance."[3] Instead of emphasising responsibility, the focus is on opportunity. This is particularly important if we are to engage the mass of small and medium size businesses around the world - an argument developed in a Doughty Centre Occasional paper: 'Small is sustainable (and beautiful!) - encouraging European smaller enterprises to be sustainable'.[4]

This is part of "a new mindset for Corporate Sustainability", as a number of us from universities around the world including MIT and Beijing, have argued in a new paper of that title. We argue that with such a new mindset, businesses can increase innovation. This "can help open the doors to radical new business models, engage profitably with previously untapped markets, and enable the business to become a truly agile, strategic entity through a systemic and integrated approach."[5]

Linking to business opportunity, will make it easier to embed inside more companies. However, we still need to identify the barriers that even the businesses committed to Corporate Responsibility and Sustainability recognise they face in embedding their commitment in their core operations; and find practical ideas for how these could be overcome. This is a key part of the work of the Doughty Centre for Corporate Responsibility. It will also be the theme of the 2008 Colloquium of the European Academy for Business in Society (EABIS) which will be hosted by Cranfield September 10-12th 2008. The title for this year's colloquium is: "Corporate Responsibility: leadership and organisational change."[6]

All of these are essential elements - but still only part of what is going to be required - for the kind of global step change which Jem Bendell argues for in his introduction to this latest Lifeworth Annual Review. The urgency of the global challenges we now face such as on water, food, poverty, makes the search for better models of sustainable development ever more critical. This is why we need to speed up the dissemination of new ideas, make them more readily available and easily accessible. The Lifeworth annual review is one practical way of doing this. I am delighted that the new Doughty Centre for Corporate Responsibility has been able to help make this happen this year.

Prof David Grayson CBE is director of the new Doughty Centre for Corporate Responsibility at Cranfield School of Management. He is a visiting Senior Fellow at the CSR Initiative, Kennedy School of Government, Harvard; and is a director of Business in the Community. He chairs the UK's Small Business Consortium and is also chairman of Housing 21 - a social enterprise providing extra-care housing to older Britons.

INTRODUCTION: GLOBAL STEP CHANGE

*By **Dr Jem Bendell***
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In recent years a comprehensive corporate responsibility strategy has typically involved a commitment to continuous improvement, to being near the best in class, and engaging stakeholders. In 2007 that changed as the scale and urgency of social and environmental challenges became more widely understood, as well as the risks and opportunities to business. There was a wave of announcements of specific time-bound environmental targets, concerning actual performance, rather than management processes.

Awareness of climate change drove this agenda, with many companies announcing specific targets as part of their membership of initiatives like The Climate Group, the Carbon Disclosure Project, or the WWF Climate Savers initiative (see "*carbon the new black" on page 13* and "*the green media frenzy" on page 15*). For instance, the household products company Reckitt Benckiser announced the target of a 20% reduction in the company's total carbon footprint by 2020, applying to all emissions associated with its products and packaging. Progress is being sought through collaboration with suppliers, measured by independent experts, and to be verified by third parties and reported annually.[1] Cisco is pioneering a system of giving each of their departments a carbon quota, with senior managers being assessed on how well they manage their carbon budget.[2]

Awareness that the carbon challenge involves reducing resource consumption and waste as a whole is encouraging the establishment of a broader set of environmental targets. In October the world's largest consumer products company Procter & Gamble announced the target of a 10 per cent reduction in its waste and energy and as well as water consumption by 2012, which it says would result in a 40 per cent reduction over the decade.[3] It extended its commitment to performance goals on responsible enterprise by aiming in the next five years to sell at least $20bn of products whose environmental impact is at least 10 per cent less than those of previous products. That is the first time we believe a consumer products company has set itself a financial target for developing and selling new "greener" items as a whole, rather than for waste or energy reduction, or phasing out certain materials.

The emphasis on targets comes at a time when some key concepts in CSR were being challenged. Can continuous improvement and being best in class be sufficient if there are absolute performance levels needed to avoid costs of carbon and avert a climate disaster? Should holding stakeholder dialogues be a sign of good performance when leading research institutions are finding they make little difference to aligning the interests of businesses and their stakeholders? (see "*silence is golden" on page 57*). Might 2008 see the extension of this target trend to a broader range of corporate responsibility issues, such as development, labour and human rights? After all, for as long as the international community has had targets on climate change it has had targets for poverty reduction and the fulfillment of human rights, with the Millennium Development Goals, for instance.

This raises the question of whether companies need targets for all aspects of their social and environmental performance. Answering that depends on what we think is being achieved at present and how quickly, in relation to the goals we have. At the turn of the year Lifeworth decided to poll its 4000 newsletter subscribers on this issue. As over 90% of the respondents are actually working in corporate responsibility, the others having a professional interest in it, their responses give an impression of what the profession thinks is being achieved. We suggested two goals to measure performance by - a situation where all global economic activity is:

- "environmentally sustainable, by harvesting products and services within ecosystems' regenerative capacities and producing bi-products that are recycled or only released safely and within a company's fair share of the Earth's capacity to absorb them"
- "socially responsible, by delivering benefit to all affected by their operations and supply chains, and being subject to credible systems of mandatory accountability to anyone seeking redress."

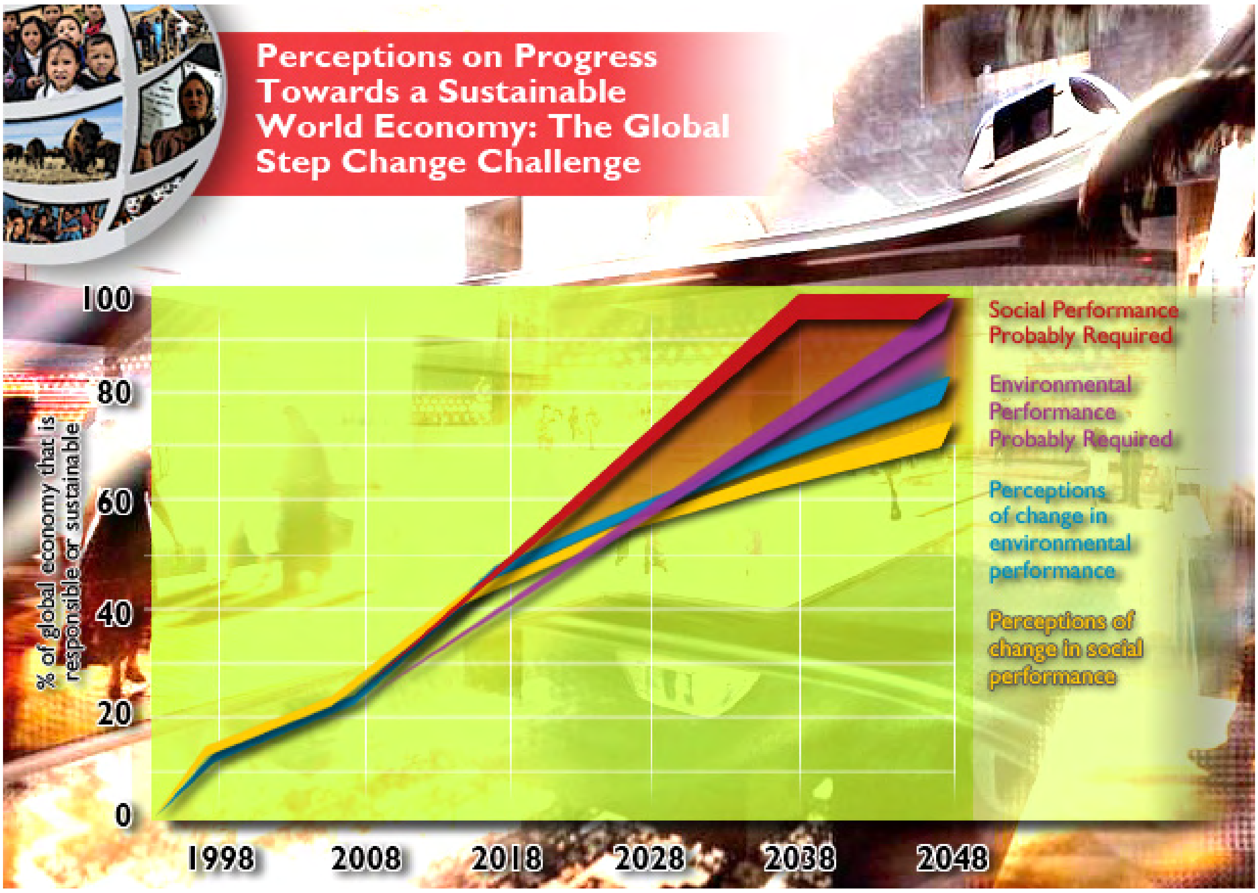
On average, corporate responsibility professionals perceived almost a doubling of the percentage of environmentally sustainable economic activity in the past decade, up from 13.2% to 22.5%. They see this increasing in next decade, to about 47% of companies, and then increasing at a slower pace through to 2028, where they anticipate about 57% of economic activity will be environmentally sustainable. If their predicted rate of progress would continue, rather than further taper off, then overall performance would be 67.6% by 2038 and about 78% by 2050. This means that the professional corporate responsibility community, as represented by Lifeworth's subscribers, think that current rates of progress would create a sustainable economy by around 2070.

Like us, many of these respondents know how pressing the issue of climate change is. The IPCC previously stated the world needs to see over 50% reductions by 2050, and the latest science now suggests an 80% cut by that time to ensure we do not go over a critical threshold of 2 degrees warming. That would mean at least a 20% reduction in the next 10 years, and given the growing emissions with industrialisation in the global South, possibly even double that amount in the industrialised countries to offset that. Hence WWF reminds us that "in five years it may be too late to initiate a sustainable transition."[4] A slower rate of change appears to be futile, and so achieving a sustainable economy by 2070 will not actually be possible.

he respondents perceived that we are working from a better starting position with social issues, but that the rate of improvement will taper off more quickly than the progress on the environment. This means these corporate responsibility professionals perceive we are starting from a less difficult place with social issues but they will not improve as fast as with the environment, reflecting perhaps the current emphasis on the urgency of environmental challenges. We should recall that the world community made a commitment to eliminate world poverty by 2025. To do so would require economic activity to be socially responsible. Professionals estimate that on current trends only about 50% of economic activity will be socially responsible by then. It will only be about 75% by 2050. The results are summarised on the graph.

What are the implications? A redoubling of efforts? We asked the CSR professionals and they predicted a doubling of existing effort would bring achievement of a social and environmentally sustainable economy forward a decade or two. It is debatable whether that is fast enough for companies to help meet the challenge of climate change or the global commitment on poverty. What these professional perceptions indicate is that we need a global step change towards a sustainable economy, involving a step change in the way responsible business is promoted. The message is that although more of the same current CSR practices may be continually better, best in class, and welcomed by some stakeholders, it will not deliver the sustainable global economy in time.

Understanding the nature of this global step change requires a clear vision of what that sustainable economy will look like. Such an economy will require sustainable consumption. Today global consumption levels are 5 times what they were just 50 years ago, and the natural world is buckling under the weight of demand. If everyone lived like Europeans, ecological footprint calculations suggest we would need three planets to support us. If everyone lived like the average Asian we would also need more than one planet. Indian middle classes have a higher per capita consumption of carbon than the average Briton. So it would be physically impossible for all the world's poor to achieve higher wellbeing in ways as resource-intensive as the new middle classes in Asia and elsewhere. Resource-heavy development is, by objective measures, only a possibility for a minority or for the short-term. How can all of humanity live well in a way that will endure? Humanity's challenge is to find ways to improve human wellbeing within the limits of the



Earth's resources; to stop living as if we have another planet to go to.

Reduction in the consumption of resources does not have to mean reducing wellbeing. Instead, it means a reduction in the actual resource through-flow of economies. This will require the 'dematerialization' of systems of production-consumption (i.e. physical efficiency of those systems), and the 'optimization' of systems of production-consumption (i.e. better management, planning, and changed attitudes and behaviour in those systems). This requires a shift in economic paradigm from the linear 'take, make and waste' approach to resources to a circular 'make and remake' approach. It requires a shift towards considering what human need is being met by consumption.

Such a shift will need strong leadership from government and business. It is a common misconception that sustainable consumption is about shopping by individuals. Business is the biggest consumer of resources, and can provide alternative products and services, and government is the biggest guide of this. Individuals cannot get 10 times the amount of cars out of the same bit of steel, business can. Individuals cannot purchase public transport solutions that don't exist, business and government can provide them. Individuals cannot systematically redistribute consumption opportunities to those in need as prices for natural resources are corrected and rise, governments can. Individuals cannot get prices to rise in the market place for their produce so they have sufficient income to invest more time and resources into maintaining their lands, business and government can.

In many cases the poor may need to increase their consumption of resources to improve their quality of life. This means rich consumers must reduce their consumption rapidly towards a more fair allocation of resources, both within and between states. For any increases in poor people's quality of life to endure they must be based on more resource-efficient solutions. It makes little sense to help people today by ruining their, and our, tomorrow (see *"the rose water debate" on page 24*). Thus redirecting resource consumption into more sustainable infrastructures and products is key. For example, the same amount of energy might be required to build a train system as a system of airports and roads but the former will create a level of mobility with less ongoing energy demands.

Therefore the 'Global Step Change' requires a reduction, redirection, and redistribution of consumption. It involves stepping:

- more **lightly**, by reducing the total level of resource consumption involved in meeting our needs and aspirations;
- more **carefully**, by reducing our demands on sensitive ecosystems and exploited people;
- in **the right direction**, by increasing the proportion of resources that go into creating enduring means of meeting human needs in resource-light ways;
- **together**, by increasing our support for others, particularly in developing countries, to meet their needs and aspirations through stepping forward more lightly, carefully and in the right direction.

Achieving this step change will require the financial system to be more supportive of longterm value creation. Throughout 2007 awareness grew of the need to address both the societal and economic implications of our global financial system. During the year this involved greater criticism of the operations of hedge funds (see "*cannibal capital*" on page 27) and private equity firms involved in leveraged buy outs (see "*private equity public inequity*" on page 29). As the year ended and the impact of the sub-prime mortgage situation led to extreme volatility in the stock markets, so this discussion was intensified, with some calling for a fundamental change in the way financial institutions are regulated and bankers are remunerated. The implications of this deeper awareness of the causes of corporate irresponsibility for the philanthropic community began to be debated, with major donors like the Gates Foundation being criticised for not embracing mission-based investing unlike other leading foundations (see "*donor accountability and innovation*" on page 46). Meanwhile the massive growth of the UN Principles for Responsible Investment, with a membership accounting for about 13 trillion dollars of assets under management, indicated that some people in the financial industry are ready and willing to take on the challenge of encouraging a sustainable world economy.

Part of the step change will require mainstreaming consciousness of the need for sustainable consumption worldwide, and encouraging behaviour change. Interesting then that in 2007 the CSR spotlight swung onto some of the most iconic brands and the celebrities who endorse them. In Italy a TV programme accused top name brands like Prada, Gucci and Dolce & Gabbana of sourcing their high-end products from factories employing workers illegally, with poor pay and conditions. A book on Italy's organised criminals, even suggested that the designer suit worn by Angelina Jolie at the Oscars had been made by a tailor in the employ the Camorra, the country's "other Mafia" (see "*Dolce and Gabbana*" on page 49). WWF sought to make sustainability desirable across the world, including in emerging markets, by pushing luxury brands to embrace social and environmental excellence as part of their brand identities. A tactic that appeared to work with their report appearing in over 50

Lifeworth's work on transformative alliances for a global step change

Partnership excellence: a report and tool on partnerships between businesses and public benefit organisations, such NGOs and UN agencies, to help organisations assess and evolve their existing partnerships towards a more transformative agenda. With UN System Staff College and WWF. A workshop will also be offered.

Network excellence: a paper, chapter, report and tool on how organisations work through networks to achieve changes in government and intergovernmental policies on corporate responsibility and accountability. With UN Research Institute for Social Development UNRISD). A workshop will also be offered.
More information on either, email: enquiries at Lifeworth.com

newspapers and fashion magazines worldwide (see "*responsible luxury" on page 51*). This attention coincided with leading luxury groups like L'Oreal, which owns Giorgio Armani and Ralph Lauren, mapping out their own targets for energy, packaging and waste reductions.

At Lifeworth we welcome this target-trend. Targets express an awareness of the scale and urgency of an issue and a willingness to engage with it. Although investing in new management processes are key, making a commitment to a performance target helps add the substance. An emphasis on purpose, performance and pace of change is what distinguishes progressive executives from the CSR crowd. We think the concept of "responsible enterprise" could describe the efforts of such executives, and are launching an online directory for them to post the targets their companies have adopted. Visit *www.responsiblenterprise.com* to upload your targets.

We should, however, remember that targets themselves are not the mechanisms of change. It appears that many countries will miss their Kyoto targets, and the first Millennium Development Goals on primary school education have already been missed. The solution may be for wider coalitions of groups to apply themselves to the factors that shape our economy. To explore ways of collaborating to shift whole markets (see *"change the system" on page 32*).

This suggests there is a research and education dimension to the global step change. The year saw more academic institutions begin to embrace that challenge, with many signed up to new UN Principles of Responsible Management Education (see *"the responsibility of business schools*" on page 39). In the coming years we will witness, and hopefully participate in, more discussion and initiative that takes corporate responsibility to this more transformative level. Lifeworth is involved in two projects on this agenda (Box 1). In addition, the first Net Impact conference in Europe will address this agenda in June 2008. "Sustainable Prosperity – Taking on the Global Challenge" will bring hundreds together in Geneva to share ideas on a global step change in the contribution of responsible enterprise to a sustainable world economy. At Lifeworth we are pleased to be advising on the programme and look forward to seeing some of you there.[5]

Lifeworth's predictions for 2008 and beyond:

- Many more companies will announce time-bound environmental performance targets
- Some companies will announce time-bound social performance targets
- Some Asian-based multinationals will announce targets
- More Private Financial Institutions and NGOs will encourage time-bound targets from companies

More networks and partnerships between companies and their stakeholders will focus on how to shape the market drivers that reward meeting such targets, including public policy, financial systems and consumer awareness.

Jem Bendell,
Director, Lifeworth Consulting
Associate Professor, Griffith Business School.

WORLD FIRST QUARTER REVIEW

Carbon: the New Black

Dr Jem Bendell
Adjunct Associate Professor, Griffith Business School, Australia

Ms Claire Veuthey
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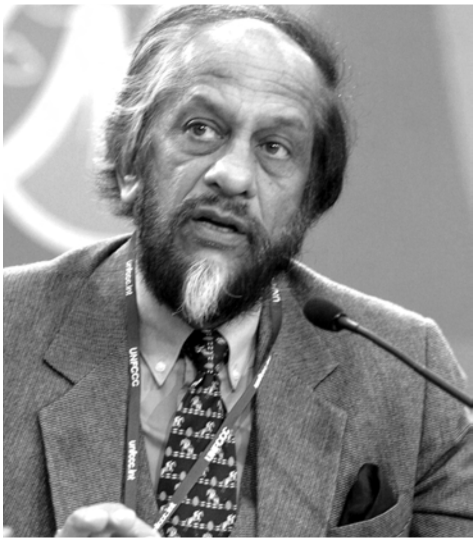
'Do you care about the environment? We do too!' used to be the sort of advertising copy only marginal, 'tree-hugging' organisations would use. It is now in the marketing lexicon of UK-based easyJet, one of the most high-profile low-cost airline companies, part of a growing sector that have certainly contributed to massive increases in airline traffic in recent years. EasyJet has a prominent 'Environment' link on its website. It flaunts the company's Environment Code, its support for the UK's Stern Review, use of biodegradable chemicals, and other environment-friendly measures[1]

EasyJet is not an exception; global warming is now on the agenda at every major business. In the first half of 2007, especially since the release of the latest Intergovernmental Panel on Climate Change (IPCC) report on climate change, its buzzword status seems even to have overtaken 'terrorism' in the media. As the Lifeworth Annual Review of Corporate Responsibility concluded in February, climate change has reached a tipping point, going from marginal to mainstream.[2] To use the language of the fashion world: carbon is the new black.

Some still cling to the idea that global warming is a huge hoax. 'The Great Global Warming Swindle', a documentary transmitted on the UK's Channel 4, made strong arguments against the claim that carbon dioxide produced by industrial activity was the main reason for rising global temperatures.[3] Its key counter-argument relied on the 'solar forcing' theory, according to which the natural fluctuation in solar activity (sunspots) explains changes in global temperatures. The time period presented as evidence was between the 1940s and 1970s, when temperatures dropped in spite of rapid industrialisation and massive increases in carbon emissions. The hitch with this argument is that there could be a time-lag in the climate-changing effect of greenhouse gases (GHGs) and that sunspot activity in the past decades has been low while temperatures have risen. Even if solar forcing explained previous changes in global temperatures, it does not seem a key cause for current rises.[4]

The programme claimed two principal reasons for the existence of this supposed hoax: first, that there were institutional interests in its maintenance, e.g. that an industry of journalists, researchers and NGOs depended on a climate change myth to justify their activities. However, this conspiracy theory runs contrary to long-standing evidence of corporate funding of research questioning human-induced global warming, and lobbying against government action on carbon emissions.[5]

Secondly, the programme asserted that focusing on climate change also served other powerful interests: namely, keeping the Global South from developing, and maintaining the status quo. But the emerging world has as much, if not more, interest in maintaining global public attention on the topic of global warming. The heightened impact of climate change on the poor, particularly those vulnerable to natural disasters, illustrates climate change's global effect—and that it is in the common interest to avert it. 'It is the poorest of the poor in the world, and this includes poor people even in prosperous societies, who are going to be the worst hit', said IPCC Chairman Rajendra Pachauri. 'This does become a global responsibility in my view.'[6] Christian Aid launched a campaign in February which presented global warming as the most critical matter for the world's poorest.[7] Additionally, increased attention and action taken to counter global warming—namely, the development of renewable energies—would greatly benefit the South by providing sustainable energy solutions without necessarily impeding their economic development. And the need to diversify energy supplies to reduce GHG emissions would push energy prices down, making energy accessible to the poor.[8] Finally, the strategic interests of major Western corporations—and thus of our own pensions and investments—are deeply embedded in Southern economic development. Preventing the South from reaching economic development through the artificial preservation of a global warming conspiracy would therefore be self-defeating.



IPCC Chairman Rajendra Pachauri: climate change will hit the poorest

Speaking in January at the World Economic Forum, Michael Cherkasky, CEO of Marsh & McLennan, warned of 'complacency' in business and government, accusing them of focusing on reacting to, rather than preventing, disaster.[9] From touring some conferences on climate change in recent months, we have found that, for those who accept the science of climate change, there is often some way to go in understanding how to act on this at work. One response has been to ignore its relevance, by taking the stance that climate change exists but overlooking how it relates to one's profession, politics or organisation. Another is to downplay it, by accepting its status as a problem but as one less important to them than issues such as HIV/Aids, poverty or terrorism, which they prefer to focus on exclusively. Others pigeonhole the topic of global warming as a 'luxury problem' only the West has the time and affluence to worry about, and so not a concern for the world's poor. Lastly, still others displace the issue by claiming that its global status requires global action, therefore implying that to change their own activities would be inadequate and thus pointless. This position is displayed both by some in industrialised countries, who argue against changing their ways unless the emerging world joins in, and developing countries, who deny responsibility for the current state of the atmosphere and refuse to incur costs for a situation they have had no historical influence on. These responses effectively render someone's acknowledgement of climate change to be inconsequential. Together they form the Ignore, Downplay, Pigeonhole or Displace (IDPD; pronounce it 'iddy piddy') response to climate change.

Leading corporate citizens should avoid these standpoints and be clear about their inadequacy. We can't ignore or downplay climate change because it affects all of society, while energy consumption is involved in the pursuit of nearly any profession or endeavour. We can't pigeonhole it as a Western concern because it is already affecting millions of poor people worldwide. We cannot displace responsibility for action as the global nature of the challenge means that it is everyone's responsibility to act, and, if we need other people to act to be able to sustain our own actions, then this implies an additional arena of action focusing on engagement.

Green Guilt Offsetting?

Since the watershed moment in 2004 of HSBC announcing its intention to go 'carbon-neutral', many companies have become actively engaged in similar climate change responses. Typically, this includes a mix of energy efficiency measures, reducing consumption and waste, switching to suppliers of energy that are investing in renewables, using on-site micro-generation of power, and purchasing 'carbon offsets' for the amount of carbon still produced by their operations. In many cases the financial benefits have been clear: both DuPont and GE have taken measures that have saved them billions of dollars and substantially reduced their emissions.[10]

The Greenhouse Gas Protocol identifies three 'scopes' of emissions in order to differentiate between direct and indirect emissions. Scope 1, or direct, emissions come from sources 'directly controlled or owned by a company'; this includes emissions resulting from transportation, heating, lighting, etc. Scope 2 and 3 emissions are indirect, the former being electricity bought by the company from a third party, whereas Scope 3 covers the range of emissions resulting from the company's operations, such as the emissions caused by the use of a company's products, the transportation of purchased materials, employee travel or commuting, and waste disposal. The World Business Council for Sustainable Development (WBCSD) recommends reporting all three scopes of emission to fully understand and address the environmental impact of an organisation's activity.[11] However, in 2007, most company claims to be going carbon-neutral covered only Scope 1—direct emissions. Interesting exceptions included Unilever, which began looking at the energy consumption involved in the use of its products, and HSBC, which began calling on its suppliers to reduce carbon.[12] Meanwhile, further steps will be required from the finance sector to address the carbon profile of their investment portfolios and project financing if their claims to be addressing climate change are to be substantiated.

The lack of regulation in the voluntary market for carbon offsetting has fostered a climate of uncertainty: the complexity of choosing the kind of carbon offsets to buy, how much, and from whom, could deter individuals and organisations from doing so. For example, although popular, purchasing carbon offsets from tree planting is problematic—namely, because a standing forest can eventually release its stored carbon, and the fact that these projects don't promote structural change regarding fossil fuel dependence. Whether the carbon captured by a project would have been captured without the investment from a carbon offsetting scheme is also key for the effectiveness of this as a mechanism to combat climate change.[13]

Verifying the existence of carbon reduction projects and whether they actually add anything new is also key in a situation where unreliable sellers, or 'carbon cowboys', could operate. As with all purchases, the risk of fraud exists, with the funding of projects that turn out to be imaginary. Companies could also potentially sell the same credits several times. The Kyoto mechanism provides a tracking system to avoid this, but the lack of a central registry on the voluntary market still affords ample opportunity for abuse.[14]

In response to this, self-regulation measures have been developed by more conscientious traders. The Carbon Neutral Company, one of the biggest intermediaries, uses KPMG to audit its carbon credit accounts. Industry standards and benchmarks are being set to emulate the regulated market. Nevertheless, there remains a problem with including reforestation projects as offsets. Unless undertaken in full knowledge of the region, local plants, soil and ecosystem, replanting destroyed or damaged forests can further damage to delicate, fragile ecosystems if foreign or over-aggressive plants are mistakenly introduced. In addition, as climate change makes regions more arid, there is a risk of these new forests drying up and burning. As a result of such concerns, the Gold Standard Label has been developed to guarantee that key environmental criteria have been met. Tree planting projects are excluded from this scheme; only green energy projects (energy efficiency and renewables) are accepted, and projects must also contribute to broader sustainable development goals and be verified by an independent third party.[15] The absence of a credible system of endorsement for 'carbon sequestration' projects, such as reforestation or underground carbon capture, is one area where business could partner with expert and authoritative groups to find verifiable solutions.

The carbon offsetting agenda is being driven by the need to communicate to consumers that 'something is being done' by the business community. But, when all is said and done on offsetting, too much is said and too little done to make a real impact on reducing emissions. A closer look at the leaders of 'climate neutrality' by the World Development Movement (WDM) is revealing.[16] HSBC states that 'we achieved carbon neutrality in September 2005 through our carbon neutral pilot project'. However, WDM in analysis of HSBC's website found that its CO_2 emissions actually rose from 585,000 tonnes of CO_2 in 2004 to 663,000 tonnes of CO_2 in 2005. Barclays launched a scheme with Climate Care to promote offsetting to Barclays' customers travelling abroad. Meanwhile, Barclays claimed: 'Carbon neutral flights really need not cost the earth. Offsetting a flight to New York costs around £12. It's so easy and cheap for everyone to get involved, that it could really take off.' While encouraging its customers to offset CO_2 emissions, the latest figures for Barclays' CO_2 emissions show a rise from 200,145 tonnes in 2004 to 207,650 in 2005. It appears that the advertising in this area is either inaccurate or disingenuous, with further misrepresentations identified by WDM in January including:

- BSkyB claims in its 2005 Corporate Social Responsibility report that carbon emissions are '0% . . . after carbon offsetting'
- Lastminute.com advertises offsetting alongside selling its flights and holidays. It says: 'Offsetting lets you repair the damage done by your emissions by funding projects that reduce CO_2'
- Climate Care states: 'Offsetting means paying someone to reduce CO_2 in the atmosphere by the same amount that your activities add. In this way you can 'neutralise' or 'balance' the CO_2 added by your activities'

For it to be a means of climate change reduction rather than just 'green guilt offsetting' for consumers and staff, carbon offsetting will need to be a minor part of a comprehensive package of initiatives to reduce all three areas of an organisation's emissions. And corporate communications will need to exercise a little more rigour on this topic than is apparently being applied at the moment.

When all is said and done on offsetting, too much is said and too little done to make a real impact on reducing emissions.

The Buzz on Biofuel

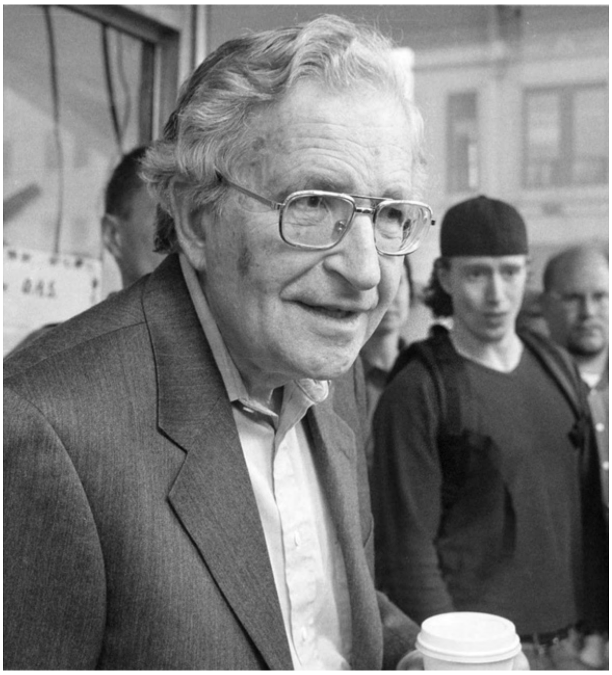
In March, US President George Bush met with the three largest automotive manufacturers in the US to discuss reducing US gasoline consumption by 20%. The discussions centred around ethanol, with GM, Ford and Chrysler agreeing to develop cars able to run on biofuel, or at least a mix of 85% biofuel and 15% gasoline. Derived from renewable sources, domestically produced, with minimal direct GHG emissions, biofuels appear to be a promising alternative. Biofuels range from energy crops raised solely for ethanol production (soybeans, corn) to biowaste made from agricultural and animal waste, and. except for GHGs emitted during transportation and production, biofuel combustion itself does not release carbon dioxide. It can also be mixed with gasoline to up to 20%, lessening reliance on fossil fuels and decreasing carbon dioxide emissions.

But it has become apparent recently that the production and sale of biofuels doesn't provide as neat an answer as had been hoped for. Problems with crop growth and its regulation, limited environmental benefits, serious potential damage and effects on the global economy present major limitations to its viability in the struggle against global warming. The GHG emissions and environmental damage generated during production vary greatly depending on the type of biofuel. 'Biowaste', or waste-derived biofuel, is produced by 'digestion' of agricultural byproducts and biodegradable waste, and does not generate significant carbon dioxide. Production of biofuel derived from energy crops grown specifically for energy generation (including sugar-, soy- or corn-based ethanol, methanol and biogas), however, sometimes use fossil fuels, arguably countering the initial benefits.[17] Growing soybeans and corn also requires nitrogen-rich fertilisers, which, when run off by rains into nearby rivers, could cause significant environmental damage.[18] In March, European leaders agreed to make biofuel 10% of all European transport fuel by 2020. This has encouraged countries such as Indonesia to increase palm oil production, which has traditionally been developed at the expense of the rainforest and has led to large-scale forest fires, which are a major contributor of GHGs. In spite of this, 'no mandatory certification exists at present that will guarantee that tropical rainforests [. . .] are not destroyed for the production of palm oil', said Andris Piebalgs, the European Energy Commissioner. Such inadequate regulation, in spite of the laudable intention, might actually worsen global warming by accelerating the destruction of tropical forests.[19]

European Energy Commissioner Andris Piebalgs: No guarantee for rainforests

The first signs of the social implications of using food for fuel also became apparent in early 2007. 'The growth of the biofuel industry has triggered increases not only in the prices of corn, oilseeds, and other grains but also in the prices of seemingly unrelated crops and products. [. . .] Rising feed prices are also hitting the livestock and poultry industries', noted experts Ford Runge and Benjamin Senauer.[20] Rising food prices in the US or other rich nations could perhaps be considered worthwhile for the production of environment-friendly fuel. But in poor countries, such as Mexico, the sudden 50% increase in the price of corn-based tortillas in January pushed people to the streets in protest, after which the President was pressured to agree to cap corn flour prices. Increasingly, warns Noam Chomsky in the Independent News, as starchy food staples—corn and sugar cane in the Americas, cassava in sub-Saharan Africa—are snatched up for ethanol production, the poor will have fewer and fewer options to feed themselves.[21]

It appears there are no simple technical fixes. Carbon offsetting and waste-derived biofuels could play a role if properly regulated. There is a role for leading businesses to help find the right regulatory frameworks, both statutory and professional, and at national and international levels, to allow business to apply its entrepreneurial flair to the climate challenge. In addition, as the limits of the current solutions are all too apparent, business could support government frameworks for the development of other renewable energy resources and new forms of consumer–producer collaboration so that people can gain the utility they require for less resources and energy.



Noam Chomsky: Biofuel production will limit food options for the poor

There is a role for leading businesses to help find the right regulatory frameworks, both statutory and professional, and at national and international levels, to allow business to apply its entrepreneurial flair to the climate challenge.

Drowning in Oil?

In early 2007 the ramifications of the Russian government's December 21st deal with Shell over the Sakhalin II oil project were becoming clear. Shell had lost half of its 55% share of the $20 billion project, as a result of a suspension of the project due to environmental breaches. The government-owned oil company Gazprom had taken a majority stake.

In the Western media these actions were portrayed as part of a move against private ownership of Russia's oil and gas industry which had started with the destruction of Yukos and continued with the state regaining control of Gazprom, which then acquired Sibneft. The state-owned share of total oil production has increased from 16% in 2000 to almost 40%. The suggestion was that the Russian Ministry of Natural Resources' concerns about ecological impacts of Sakhalin II project did not reflect a new environmental concern, but were a tactical use of such concerns to achieve the state's political and economic goals—a move back to resource nationalism.[22]

Clearly, there are legitimate concerns about the environmental impacts of the project, particularly concerning the whale population. The project has been the focus of a campaign by NGOs such as WWF, the International Fund for Animal Welfare (IFAW), Friends of the Earth (FOE) and regional and Russian groups, which has delayed the agreement of loans by the European Bank for Reconstruction and Development (EBRD) and the UK's Export Credit Guarantee Department (ECDG). It was this delay that meant Shell did not have the level of involvement of the UK government (through the ECDG) and other Western governments (via the EBRD) that might have put more pressure on the Kremlin to maintain its existing agreements with Shell. Consequently, 'the world has watched', according to US Deputy Secretary of Energy Clayton Sell, in March, 'as the Russian government has taken greater and greater control over Russia's energy resources, while private entities have been marginalized'.[23]

'The outcome of the "Sakhalin Episode" marks a clear change in the "rules of the game" in terms of the role of foreign investors in the Russian oil and gas industry', concludes analyst Dr Michael Bradshaw of Leicester University.[24] A wider look around the world at resource nationalism in other countries such as Venezuela suggests that, despite record profits, the future of 'Big Oil' multinationals will not be easy.

In the last ten years, the confrontation between Shell and Greenpeace over the disposal of the Brent Spar oil platform in the north Atlantic has come to be regarded as a turning point in corporate citizenship, when business leaders woke up to the power of civil society and public calls for them to be more responsible. In time, the confrontation with NGOs over Sakhalin should come to be regarded as an even more seminal moment in the history of the corporation and its relations with society. By delaying loans and guarantees from government-backed agencies and giving the Russian government a reason to suspend the project, environmental campaigning has cost the company thousands of times more money in assets and lost future earnings than Brent Spar, and poses a greater challenge to the very core of Shell's business. This challenge is twofold.

First, it involves the asymmetrical pressures from civil society. Currently, international oil companies (IOCs) face far higher pressure from a critical media, an active civil society and informed communities in their home countries than many of the nationally owned or promoted oil companies in Russia, China, Malaysia and Brazil, among others. Consequently, they are pushed to adopt higher standards, and are more quickly criticised when failing to meet them, with real financial implications. This poses a strategic challenge for IOCs, which could mean operating community and government relations in entirely new ways in host countries. For example, IOCs may find it beneficial to support the development of an effective civil society and critical media in countries with oil reserves, and work towards improved international regulations on social and environmental issues, including international mechanisms for enforcement. As a matter of long-term survival, IOCs might also sensibly support an international convention on corporate accountability.

The second part of the challenge involves examining the future opportunities for energy generation. In light of resource nationalism, Shell and some other IOCs have begun to focus on the niche of projects that require the most sophisticated technology, to secure oil from difficult regions such as the Arctic or unconventional sources such as Canadian oil sands and liquefied coal. The problems with this are obvious. Getting oil from sand or coal consumes huge amounts of energy, and thus greatly increases pollution, while despoiling pristine environments such as the Arctic, which will generate huge outcry, not just from NGOs but from the public at large.

In the short term Shell and others may be able to pursue this strategy because of high oil prices and security concerns in the US and Canada about energy independence. But, in the long term, oil price fluctuations, the growing cost of carbon and growing awareness that the changing climate is itself a security threat will likely derail it.

In a BBC debate, Solar Century director Jeremy Leggett asked Shell's CEO Jeroen van der Veer whether it is possible for the company to go into the Arctic and Canadian oil sands and for the world's atmosphere to stay below the 450 parts per million of carbon identified as a crucial threshold to avoid a catastrophic acceleration in global warming by the IPCC. When pushed, van der Veer replied that 'we are not responsible for deciding the energy mix of the world'.[25] This is reminiscent of the stance Shell took in the mid 1990s on involvement in public matters, before the Brent Spar and Ken Saro-Wiwa episodes led them to accept their influence and express an intention to use it responsibly. Clearly, everyone is responsible for deciding the energy mix of the world, with some more influential than others. Companies such as Shell have major influence in political processes and the economics that frame political discourse. CEOs in such companies with sufficient awareness and courage must face these difficult conundrums to find a long-term viable strategy.

Everyone is responsible for deciding the energy mix of the world, with some more influential than others. Companies such as Shell have major influence in political processes and the economics that frame political discourse.

James Leaton, a key figure in the coalition of NGOs working on Sakhalin Island, thinks there is a way forward. He told JCC that 'Oil companies are about project management, technology and marketing, to supply liquid hydrocarbons for transport fuels. Unless they start putting these skills and resources to more sustainable options, companies like Shell, who are investing in more carbon-intensive fuels, will be stranded in a carbon-constrained world.'

For Shell and other oil companies to explore new directions more vigorously is a tough challenge, requir-

Deforestation on Russia's Sakhalin Island: a result of the Sakhalin II project

ing significant refocusing, retraining and restructuring. It would necessarily involve levels of risk taking, innovation and flexibility that might not be generally associated with the mind-set of large bureaucratic organisations. In addition, for such a reorientation to work, IOCs would require an appropriate regulatory environment and the right signals and cooperation from consumers, investors, staff and suppliers. Whether they take up this challenge will determine whether the IOCs help us drown in oil or begin to genuinely build an ark of alternatives.

The Sakhalin episode was not an outright victory for campaigners. The environmental record of Gazprom is hardly excellent, and in January the EBRD announced it was no longer considering the current financing package for Sakhalin II. 'With the departure of the EBRD, the NGOs have lost an opportunity to leverage compliance on environmental and social issues', noted Dr Bradshaw. Organisations concerned with the operations of the oil industry, and the extractives industry as a whole, will need to develop new ways of applying pressure on companies from emerging economies, many of which are nationally owned. Consequently, in the search for new levers, their attention may shift further to the private project finance markets and to intergovernmental agreements. It would make sense for the IOCs to work with NGOs on such efforts to mainstream attention on social and environmental issues by private project financiers, and to promote more enforceable international standards. In the BBC debate, Leggett suggested Shell's shareholders wouldn't let van der Veer respond to the real implications of climate change. Many of those shareholders are institutions that invest in other companies. Engaging shareholders to facilitate understanding of their longer-term interests and the implications for needed social change and regulatory innovations, in all financial centres, is a key task for contemporary corporate citizenship

Work–life Blending

With the global search for talent, employers have paid increasing attention to their 'work–life balance' policies to attract potential employees. Some have rejected this as an inappropriate label for what they call 'work–life blending': 'balance' implies a distinct separation between 'work' and 'life', whereas 'blending' describes the inseparable mix of the two. As The Future Laboratory's January 2007 report explained, the evolution and spread of technology, as well as changing expectations regarding one's job, made work–life blending one of the main trends impacting the world of work.[26] Today, according to their report, nearly half of all workers (46.8%) have jobs that involve them working away from the office. From this, 41% of the men who spend time out of the office say that it constitutes more than ten hours (or more than a day) each week.

Work–life blending is a growing phenomenon, to which several factors have contributed: mounting expectations of constant connectedness both at work and home blurs the boundaries between previously compartmentalised 'work' and 'life'. Technologies enable easier access to telecommuting, as well as self- and side-employment, or other DIY escape routes from traditional corporate settings. As a result, a new generation of workers[27] happily email friends from work, and polish the next day's presentation from home. They also increasingly seek meaning in their work. This application of a 'consumer's judgement'[28] to their career means that they are more likely to look for a profession that is fulfilling—in ways other than financial—if their current job doesn't fit their values.

The rejection of the implication of a 'work–life balance'—that work is so awful it shouldn't be considered as part of life—is one of the main thrusts for 'blending's new popularity. As blogger Ryan Healy wrote, we would never consider looking for a family–life balance or a friend–life balance;[29] why would a work–life balance make any more sense, especially if, as Healy thinks, this balance is doomed to fail?

Someone personally invested in work will probably: care more about their work and its results; work harder to reach objectives; and do a better job. Having a profession that reflects this sense of self means they will probably try to tease out issues with friends, in the same way they would a strictly 'personal' issue, which could be conducive to more creative problem-solving. Some argue[30] that too many hours in the office makes one's marginal productivity plummet, and therefore being able to alternate the time allotted to various activities during the day could also help to avoid being overwhelmed or burnt out. Finally, Healy claims that making one's schedule fit one's needs is not novel but, if sought, requires flexibility—i.e. the willingness to do a little work at home if necessary. Work–life blending involves not worrying about which tasks go in the 'work' box and which go in the 'life' box.

Critics would point out that this blending is only something geographically flexible twentysomethings with white-collar jobs and no family obligations would seek. Once Wednesday afternoon piano lessons kick in, taking extra time to put the finishing touches on Thursday's presentation might become difficult, even unacceptable. Not all jobs can be done from home; those that can usually require a significant investment in the appropriate technology. So work–life blending is really practical only in a region with widespread, reliable and accessible technological infrastructure, where having a cell phone, personal computer, printer, scanner, BlackBerry and/or fax machine are part of the way of life, and for individuals of a certain professional standing.[31]

Beyond the caveats, however, the focus on work–life blending is increasing. Whether this is a positive development is yet to be determined. A survey[32] released by Digital Life America in February 2007 showed that owners of BlackBerry-like devices in the USA were split about whether these gadgets further bind one to one's work or not: one-third agreed, one-third was indifferent and one-third disagreed. The same survey showed that users of such technology tended to work more, felt that they didn't have enough personal time, but also that they earned more. 'Contrary to shiny happy ads suggesting we do more in less time, in fact, there is evidence to suggest that we simply do more, more of the time. [. . .] While being "always on" is natural for young people, many of those in the 25–54 age group with families and corporate jobs are struggling with work– life blending. There is a need for the mainstream workplace culture to offer ways to counterbalance', said Digital Life America analysts.[33] Dartmouth's Tuck School of Business panellists agreed that technologies such as the BlackBerry have a tendency to make work become very present in one's personal life, making the determination of family time a challenge.[34] Donna Hall, Director of Marketing Strategies at Digital Life America, explained the feeling of being too tightly bound to work by business technologies as resentment for this intrusion: 'Many have been given a BlackBerry by their employers. The expectation on the part of the employer is that once they have it they will be accessible at all times. There are no more boundaries or times when they are unreachable, even on vacation.'[35] Finally, not only is better technology pushing us to work more overall, it has raised expectations—and stress levels—for documents previously written in weeks to be produced in hours.

Shell CEO Jeroen van der Veer: 'we are not responsible for deciding the energy mix of the world'

One could therefore wonder whether work–life blending is as healthy as it appears: if one is very invested in one's work and stress levels are high at the office, how and when does one relax, or reflect about work? 'Going home' might just mean moving one's body between two locations; one called 'work' and one called 'home'. For some, being able to make a clear distinction, be it geographical or chronological, can be important to one's capacity to let go and enjoy the present. Plus, sharing both personal and professional life with the same people can be problematic—excusing sloppy work or behaviour in a friend is easier than in a co-worker with whom there may be little emotional bond.

Time will reveal whether more work– life blending will mean the extension of corporate consumption of people's time, or an empowering of people so they can 'consume' a wider choice of working options. Individuals, which include workers, demand more affordable custom-made solutions for everything: grocery shopping, friendship and, yes, work. As Ryan Healy laments, there are those who are still 'thinking of work and life as a constant tug of war. If you are doing something you love then why can't they be one and the same? The goal of a blended life is not living to work and it's not working to live. The goal is to have a life.'[36]

The Rose Water Debate

'So, this Valentine's Day, you can be a romantic, reduce your environmental impact and help make poverty history. This is about social justice and making it easier, not harder, for African people to make a decent living.' So argued the British International Development Secretary Hilary Benn in February, calling on British consumers to buy flowers from Kenya.[37] Much of this production comes from the shores of Lake Naivasha, 120 km north-west of Nairobi in the scenic Rift Valley. The Kenya Flower Council (KFC) says flower farming is an important economic activity for the country. 'This is the fastest growing sector of the economy, only second to tea', said Loice Mwangi. In 2005, Kenya exported 81,000 tons of cut flowers and earned US$350 million (KES24 billion). The sector today employs between 50,000 and 70,000 people, with another one million depending on the farms through auxiliary services, according to Jane Ngige, the KFC head.

Benn's comments came as some were questioning the suitability of these burgeoning imports of flowers from Kenya into Europe. Kenyan journalist Ochieng' Ogodo wrote in February how 'Beneath the graceful expression of love the roses convey and the lucrative business flower production is, there is the hidden cost little known to many: environmental degradation, socio-economic imbalance, blatant human rights violation, and adverse health consequences for workers.' Ogodo warned 'it [Lake Naivasha] could soon become little more than a turbid, smelly pond, threatening the livelihoods of over 300,000 people living around its shores'.[38]

It is estimated that the flower farms are extracting around 20,000 m^3 of water daily from the lake. Many think this is an underestimate, as there are now more than 2,000 hectares of land covered by the steel and plastic greenhouses where the flowers are grown. Each hectare of flowers grown with even the most efficient watering mechanism uses about 40 m^3 of water a day, but flowers grown in the open use three times this amount. Some experts have estimated that at this rate of consumption the lake will be lost within 10 or 15 years. According to Earthwatch-supported ecologist Dr David Harper of the University of Leicester, 'The companies will not be able to grow flowers then because the water will become too alkaline. The companies are shooting themselves in the foot.'[39]

"The lake will be lost within 10 or 15 years at the rate the flower farms are consuming water."

Dr Julius Kipng'etich, head of the Kenya Wildlife Service (KWS), is one senior Kenyan official brave enough to openly question the industry, in the face of its vested interests. 'For a water-stressed country like Kenya, we have to ask ourselves: Is it a sustainable industry? It is a challenge for us.' Another is Peter Kenneth, Assistant Minister of Finance and himself a flower farmer near Nairobi, who said, 'There is a danger that Rift Valley lakes will dry up. You can see that conflict will break out.

Kenya needs to understand what the real cost of a poor environment is.'[40]

WWF calculated that the UK importation of flowers from Kenya consumes 2,216,120 m^3 of water each year from Kenya. This includes the 'virtual' water—the total water used in the production of a crop or the processes of a given product. The adjective 'virtual' refers to the fact that most of the water used in production is not visible in the end product. It is sometimes described as 'embedded' water. 'When consumers buy a Kenyan rose, do they consider the 2.7 litres of blue water that was evaporated for its production or that this polluted 1.3 litres of water resources in Kenya?' asked Stuart Orr.[41]

The flower debate in the media has mainly been about climate change, and whether it was sensible to promote the flying of products such as flowers thousands of miles to an end market. The fact that countries with scarce water resources are exporting those resources around the world through horticultural and agricultural produce poses an equally important concern that must be grappled with by business. Deciding how to respond is difficult when mixed messages are coming from civil society and government, both at home and in the exporting countries.

British International Development Society Hilary Benn: called on consumers to buy Kenyan flowers

The case of flowers from Kenya highlights a problem that will not easily be resolved. Traditional promoters of development, such as the UK's Department for International Development (DFID) and various UN agencies, are not conceptually and organisationally well prepared for supporting social progress in the emerging world, within the context of scarce natural resources and growing concerns over climate change. As these agencies struggle with retooling themselves, leading companies will need to work out how best to address the intersecting concerns of poverty, climate and natural resources.

Good corporate citizens should be listening to people in the global South who want to improve their lives in harmony with nature and who question the growing reliance on those export industries that harm their livelihoods through heavy resource consumption and pollution. In this regard, it is worth noting the declaration of African civil-society organisations at the World Social Forum 2007 in Nairobi, Kenya, in January:

> We reject these new foreign systems that will encourage Africa's land and water to be privatised for growing inappropriate export crops, biofuels and carbon sinks, instead of food for our own people. We pledge to intensify our work for food sovereignty by conserving our own seed and enhancing our traditional organic systems of agriculture, in order to meet the uncertainties and challenges that will be faced by present and future generations. Agricultural innovation must be farmer-led, responding to local needs and sustainability. We celebrate Africa's wealth and heritage of seed, knowledge and innovation. We will resist these misguided, top-down but heavily-funded initiatives from the North, which show little or no understanding or respect for our complex systems. We ask that we be allowed to define our own path forward.

WORLD REVIEW SECOND QUARTER

Dr Jem Bendell
Adjunct Associate Professor, Griffith Business School, Australia

Jonathan Cohen
Research Associate, Lifeworth Consulting, Switzerland

Cannibal Capital

In June the world's biggest unions launched a multi-fronted campaign to impact sections of the financial industry, with a series of protests and policy proposals at the G8 meeting of industrial nations in Germany. Members of the International Trade Union Confederation, the world's largest union federation representing more than 168 million workers around the world, pressed various ministers about the problems associated with hedge funds and private equity.[1] These two forms of financial operator have both boomed in recent years, and each poses different challenges to corporate citizenship, which were becoming clearer during the first half of 2007.

Hedge funds have boomed since the turn of the millennium while many stock markets were not doing so well. This is because they focused on betting that stocks would go down. They did this by short-selling, which is the practice of borrowing shares with a promise to give them back at a later time. The trader sells them when the share price is high and then buys them back—to fulfil the promise—after that price falls, thus making a profit from a fall in share price. This works well when the interest on the borrowed shares is low, and the time elapsed before buying back the shares is also short, so that overall interest charges do not eat into the difference in share price obtained. Some hedge funds therefore even do these trades in a matter of minutes.

Over 8,000 hedge funds exist, mostly in the US and UK. As their influence has grown, hedge funds have come under attack from regulators, pension funds, and even some business executives complaining about 'short-termism', a lack of transparency, and increased volatility in share prices. The average stock ownership period has fallen during recent years, from an average of two years in 1998, to 14.6 months in 2000 and just 9.4 months now. Some major companies have seen their share prices fall by 30% in a single week after hedge funds have targeted them.[2] The problem for corporate citizenship is that this short-term pressure does not encourage companies to plan for the long term and thus invest in research, in staff development, community relations and so forth. Business groups, such as The Conference Board and Business Roundtable, published reports last year that revealed that a focus on short-term earnings undermines companies' ability to create long-term value.

Another reason for notoriety and criticism is the eye-popping amount of money hedge funds make. Hedge fund managers can take 20% of the profits generated in trades, with the top hedge fund manager, Steve Cohen, earning around a billion dollars a year.[3] Leaving aside concerns about the ethics of a financial system that can create such earnings amidst such inequality, cumulatively these earnings draw on the collective wealth of the asset owners and employees, an issue we return to below.

This points to the key question about hedge funds: are they good for the economy?

If hedge funds make a significant proportion of their money from betting against poor-performing stocks, then do they have an interest in the overall market declining? Man Group CEO Stanley Fink said on the BBC last year that if you think that there will be no union action, no political changes or new regulations, then invest in equities, but if you think there could be, then invest in hedge funds.[4] Does that imply Man Group has a strategic interest in volatility, or even in general economic decline? Most hedge funds have an edge because of their short-selling, and so they may have a strategic interest in economic downturn in general, but then that would involve a situation where there would be less money to be made in future, which would reduce the pot from which they can draw: they would have got a bigger piece of a smaller pie.

How have hedge funds responded? Some have parroted the old Milton Friedman rationale that they have created huge wealth for the financial centres that have supported them, like London, and have increased liquidity of money, which they suggest is helpful for the market as a whole. Looking at the corporate social responsibility report of Man Group, the largest hedge fund in the world, the question of the societal benefit or impact of hedging is ignored. It recognises responsibilities to all those with which they have a 'direct relationship' or have an interest in or concern about Man Group, but there is no evidence of the company addressing how its core business impacts on the wider population. Their ethical policy states they will not 'take any stance in respect of politics and religion which is not a neutral one', which seems difficult to square with the important role of financial regulations in providing a framework for instruments such as short-selling, and is not up with the latest thinking on progressive corporate political engagement, described in previous JCC World Reviews.[5]

More hedge funds floated on stock markets, and attracted large sums from around the world. Man Group financial performance was reported as strong because of Japanese interest in buying shares and giving their money over to manage.[6] With all that money coming in, the share price of hedge funds has the potential to do well. But what of the underlying conditions? Hedge funds did well as the market fell but, as the market is on the up, the key innovation of hedge fund—short-selling—is no longer such a great bet. If the new capital injection is herd behaviour, perhaps a hedge fund bubble could be forming.[7] The irony would be if a hedge fund manager spotted this and created a fund to short-sell publicly listed hedge funds that focus on short-selling stocks.[8] Now that hedge funds can be retailed, such a 'hedge-cutter' fund might attract interest from disgruntled CEOs.

Most hedge funds have a strategic interest in economic downturns because they short-sell. But that means less money to be made in the future. They would get a bigger piece of a smaller pie.

Private Equity, Public Inequity

Another segment of the financial industry that received some heat in 2007 was private equity. Also in June, while more than a hundred bankers and investors attended a dealmaker conference at the New York Stock Exchange, two union groups protested the growing and, in their view, 'unchecked power of these well-heeled and secretive investment firms'. Andrew McDonald, director of the private equity campaign for the Service Employees International Union (SEIU), which represents 1.8 million workers, told Reuters that 'America is waking up to the fact that private equity is everywhere and it has a huge impact not only on the economy but workers and communities'. In April, the SEIU had unveiled a report highlighting its concerns about buy-outs, which can lead to job cuts, the elimination of pension plans and cuts in health coverage.[9]

Buy-out firms have been active for more than 20 years, but in early 2007 scrutiny of them grew. The floating of the Blackstone Group, the takeover of iconic companies such as Chrysler, Hertz and Tommy Hilfiger, and the billions of dollars made by the dealmakers, have helped raise their public profile. Key to their recent growth has been an era of cheap debt. This has enabled many private equity firms to punch way above the weight of their own bank balance. Worldwide, the private equity industry is thought to have about $300 billion in cash, which might amount to $1 trillion in spending power when firms borrow against their capital, according to Ernst & Young.

Ben Schiller[10] summarises the main criticism of private equity firms as being that 'after buying out companies, they load them with debt, take out the cash, and then sell the emaciated carcass a few years later. In Germany, private equity firms have famously been described as locusts for their asset-stripping activities.' Key here is the widespread use of leveraged buy-outs (LBOs), which involves borrowing other people's money to buy other people's companies in return for giving them your debts and demanding large dividends. For instance, the private equity partners who took over the British retailer Debenhams increased the company's debt from £100 million to £1.9 billion, paid themselves dividends of £1.3 billion, tripling their investment in just over two years.[11] To the non-financier this sounds somewhat like getting a mortgage from a bank to buy a house and giving the existing tenants the debt and upping their rent. Nice 'work' if you can get it.

Unions are particularly concerned with job cuts. They cite the example of the Automobile Association (AA), where new owners Permira and CVC cut 3,400 jobs within months of taking it over.[12] However, in April a study by the *Financial Times* suggested that the 30 largest private equity deals made between 2003 and 2004 in the UK have created 36,000 new jobs, many in the country. In response, Paul Kenny, general secretary of the union GMB, said, 'The FT finding that some companies owned by private equity grew jobs and turnover does not invalidate the GMB experience of job losses at the hands of private equity in the mature sectors of the economy like AA and Birds Eye, and the related tax breaks, asset-stripping, saddling of thriving companies with massive debts and culture of secrecy.'[13]

In addition, recent evidence suggests that short-term pressures on executives from these LBOs and hedge fund activity are limiting investment in various areas, not only employment. In a survey last year of 400 senior US executives by the *Journal of Accounting and Economics*, four-fifths of respondents said they would cut spending on research and development, advertising, maintenance and hiring to meet their quarterly targets.[14]

Some commentators on corporate social responsibility argue that 'there is nothing inherent to the private equity model that should mean that privately owned businesses must be inherently less sustainable or less responsible than [publicly listed companies]', and see the issue merely as one of increasing the knowledge of private equity managers and their stakeholders about best practice.[15] That is a convenient position to take if selling advisory services and seeing a major new market from the backlash against private equity firms. However, there can be no denying the 'tax breaks, asset-stripping, saddling thriving companies with massive debts and the culture of secrecy' that Kenny describes poses problems for how companies create value for society. 'When you have something in private equity you don't have the public visibility about corporate social responsibility activities in the same way as with public companies,' says Arthur Probert from Tomorrow's Company.[16]

Paul Kenny of GMB: Private equity deals can lead to job cuts

Private equity managers themselves have differing perspectives on corporate social responsibility. On the one hand, there is evidence of progressive behaviour. Private equity firms made their $32 billion takeover of energy company TXU dependent on the firm cancelling 8 out of 11 coal-fired power stations on environmental grounds. David Russell, head of responsible investment at the Universities Superannuation Scheme, a pension fund with £29 billion assets under management, explained that that all of the fund's current private equity assets are invested in wind farms.[17]

However, some of the large PE investors take a dim view of how societal concerns relate to them. At a Treasury select committee in the UK, CVC Capital managing partner Donald Mackenzie said, 'A lot of public companies we speak to spent too much time on regulatory issues, social responsibility and corporate governance . . . And they forget their prime purpose—which is to grow the company as rapidly as possible.'[18] One sector already causing concern is retailing. In May, Somerfield Stores, UK grocer, pulled out of the Ethical Trading Initiative after being bought out by private equity group Apax Partners. Mallen Baker of Business in the Community sees PE managers demanding a new rigour in corporate social responsibility thinking. 'They are skeptical, because flawed arguments based on wishful thinking are the sorts of things they pride themselves on being able to see through.'[19] However, the idea that there can be a business case for voluntary corporate action on all social and environmental issues has already been shown up as wishful thinking and the agenda has moved on to focus on creating the right frameworks and drivers for business to be more responsible, accountable and sustainable. That requires a systemic view, appreciating the importance of value creation across the whole economy in the long term, and a sense of moral purpose to act beyond, but not in contest with, what is financially sensible for one's own company today. If the financial system empowers those who take no such long-term or broader view and seek to maximise short-term returns based on debt to equity calculations, then we have a problem that can not be resolved by Blackstone or Primera, for instance, hiring a corporate social responsibility manager and joining a few relevant membership organisations.

However, apart from some in the trade union move-

If the financial system empowers those who don't take a broader view and seek to maximise short-term returns, then we have a problem that cannot be solved by hiring a corporate social responsibility manager.

ment, by mid-2007 the connections were not being clearly made between these new financial powerhouses and the interests of wider society. In Melbourne, Australia, the top business conference of the year was packed with seminars about social and environmental challenges. During a panel on Private Equity during this 'Future Summit' the audience sat hushed listening almost in awe to the millionaire dealmakers on stage and did not ask any questions about how PE is helping or hindering a sustainable Australian economy.[20] In May, PE even made it into *Vanity Fair's* annual 'Green Issue'. Nearly all articles addressed crucial issues such as climate change. The one on private equity marvelled at the billions that PE firms are making by 'doing the math', mentioned some protests, but concluded 'just deal me in'.[21]

Change the System

The connections between the basic models of corporate financing and their potential for creating societal as well as private wealth needs exploring. Currently the focus of initiatives about the regulation of Private Equity(PE) and hedge funds focuses on the two Ts: transparency and tax.

Peter Linthwaite, director of the British Private Equity and Venture Capital Association, which represents hundreds of private equity firms, acknowledges that there is ‘a wider base of people with a legitimate interest’ in the industry and ‘there will be more people than just the investors and employees who will want to know about how these companies are run’.[22] Faced with potential regulation, his association has convened a group to develop a voluntary code to promote transparency in the industry. Chaired by Sir David Walker, former chairman of Morgan Stanley, the group’s ten members include industry leaders such as David Blitzer, senior managing director of Blackstone, and Lord Hollick, a partner at Kohlberg Kravis Roberts (KKR).

Transparent behaviour can still be problem behaviour. Bill Stein, writing in the *New York Times*, focused on the question of taxation. ‘Long ago, I had a European history teacher named Mrs Enright. She explained to me that one of the causes of the French Revolution was the sad truth that the aristocracy was not taxed at all, while the workers and burghers were taxed highly. Is this our future?’[23] Stein argued that the US must ‘make the tax on private equity and hedge funds approximate the treatment of other highly paid people—or it can continue down the road to the Bastille’. In the UK, some PE managers told the Treasury they would support tax rises on carried interest, the share of profits that account for most of dealmakers’ pay.

Some commentators, particularly in the US, vociferously disagree. ‘What we don’t need is government intervention to restrain a model that genuinely creates wealth in a world that needs wealth creation. What we will, and should, see is a greater requirement for transparency and accountability in how the sector goes about its business,’ argued Mallen Baker in May. However, given that the pressures from financial markets are often pointed to by corporate leaders as barriers to more effective corporate contributions to sustainable development, it seems too early to argue against government intervention, especially when it is government that has shaped the rules and trading environment that have given birth to these innovative financial practices in the first place. The techniques of highly leveraged buy-outs and short-selling are so problematic for long-term corporate planning that by using such instruments hedge funds and private equity could be cannibalising capitalism, eating it up from within.

Currently it is the institutional investors who pay the price, as they have to invest across the whole market to reduce their risks, and so they buy the heavily indebted stocks when they are sold back onto the stock market by PE firms. Yet about half of the $1.1 trillion under management by PE comes from such institutions, including esteemed US pension groups such as CalPERS and even university endowment funds and central banks. Even within existing regulations on fiduciary duty this practice could be challenged. Because, if the value of the whole portfolio of investments is taken into account, not just the performance of individual equities and instruments, then by pumping up a system that costs their portfolio as a whole, through funding PE, trustees could be in contravention of their fiduciary duty. Yet they face a prisoner's dilemma: if they stay out of PE and hedge funds, their wider portfolios will still suffer while they miss out on the short-term earnings from these financial players. So although the ITUC are examining the possibility of blocking member pension funds from investing in buyouts firms that engage in activities detrimental to workers' rights,[24] a broader international response will be required. Interestingly, some institutional investors in the UN Principles for Responsible Investment (UNPRI) initiative have established a working group on private equity.

Mallen Baker: PE managers are demanding new rigour in CSR thinking

This situation suggests that institutional investors should take greater leadership in considering the kind of financial system that is supportive of their members' interests and work towards that. Therefore, not only do such institutions need to establish what forms of hedging and PE might be compatible with long-term value creation and the broader interests of their members, but develop an understanding of the kind of global financial system that will deliver that goal. The implication might be a new public policy agenda from investors seeking to promote more patient and accountable capital. With this understanding the pressures from the European Commission on the Swedish government to remove 'preferential treatment' of investors with long-standing share ownership could be seen as against their interests.

As we reflect on the responsibilities of financial institutions it would be useful to consider how understanding of the responsibilities of non-financial corporations has developed since 1990s, in the West. There has been a shift away from an agenda where business managers sought to satisfy themselves that they were being smarter about managing their social and environmental impacts for financial returns, or in agreement with their own ethical preferences, towards an understanding that as managers of powerful organisations they needed to be more accountable to those they affected. This is a matter of principle, underpinned by notions of equality, dignity and fair play: stakeholders should be respected. This same shift in thinking has not occurred in the realm of responsible finance. Instead, six broad types of approach can now be seen. One approach is to buy into a narrow range of stocks that are preferred for a mixture of financial and ethical reasons, such as clean technology funds. Another approach has been to invest across the board, but screen out those companies in sectors you don't like, such as tobacco or armaments. A third approach has been to buy into those stocks that are the best performing of their class on ethical issues that concern you. A fourth approach has been to engage with companies you have stocks in to seek improvement in their performance on ethical issues, within the framework of what's financially material, such as some of the members of the UNPRI. A new approach is emerging, whereby investors seek to engage companies on the basis of a broader understanding of what is material to the performance of the portfolio as a whole, what James Gifford of the UNPRI calls 'portfolio wide materiality'. Lastly, some institutional investors recognise that their members have concerns beyond the financial, and so they want to uphold certain traditions and values. The question of the accountability of the owners, and finding a new accord between financial property rights and duties, defined as capital accountability by one of these authors in a UN publication in 2004, has not been discussed in responsible investment circles.25 Indeed, most regulatory innovations in recent years have helped make capital less patient and accountable.

The lack of engagement on either regulatory issues or matters of their own accountability by financial institutions could be a result of the lack of informed pressure coming from civil society. NGOs have focused much of their effort—for example, through BankTrack, a network that tracks the impact of the private financial sector on sustainability26—on either project finance, which is only about 1% of global finance, or on ranking the high-street banks' incorporation of social and environmental issues into their wider lending practices. The problematic practices of the financial services in areas such as currency speculation, offshore trusts, short-selling and leveraged buy-outs have not been engaged by most mainstream NGOs. There could be

The rapid changes in finance mean there is an urgent need for a reversal of that brain drain, and for people from the business side to join with NGOs, unions and others who are interested in addressing the root causes of corporate social irresponsibility.

two reasons for this. First is the brain drain from NGOs into the worlds of socially responsible investment and corporate social responsibility management or consulting. Many of the leading people in responsible finance, such as Nick Robins, Rob Lake, Raj Thamotheram and Steve Waygood, left NGOs. Second is the institutionalisation of NGOs, so they become less innovative and more risk-averse over time. It is more of a challenge to make the case to your membership for why, for instance, currency speculation should be curbed to promote sustainable development than why a fence should be put around a forest to protect a bird. Given climate change, driven by dynamics of global finance, the latter may be increasingly futile, but it's still an easier communications option, which makes it an easier fundraising message. The rapid changes in finance mean there is an urgent need for a reversal of that brain drain, and for people from the business side to join with NGOs, unions and others who are interested in addressing the root causes of corporate social irresponsibility.

Food is Going to the Dogs

A staple of NGO fundraising appeals for years has been to highlight the amount of money Americans spend on pet food compared to the notably smaller amount one is asked to contribute to the cause in question. Americans love their pets. They spend money on their pets as if they were kids. Pet food alone is a $14-billion-a-year industry.[27] In fact, it has been said that, for baby-boomers, pets have now become the kids, because people are treating them that way. So we should not be surprised by the stink caused in April by a story of pet food from China that killed furry loved ones in homes across America.

Add a sense of helplessness and fear[28] about the supply chain when human food was also thought to be toxic[29] when the tainted pet food was linked to chickens from Indiana and hogs from California,[30] multiple varieties of farm-raised seafood were detained at the border,31 mix in a touch of greed to the scandal when a pet food company officer sold stock before the recall,[32] and the makings for a major story are in place—the kind of a story that most readers can relate to.

The steady drum beat of stories about food containing illegal substances, such as forbidden carcinogenic chemicals and drugs such as antibiotics, continued in relation to an ever-widening array of food products. Stories included substances prohibited by Chinese authorities, and the removal of more than 10,000 tubes of Chinese-made toothpaste from stores in the Dominican Republic. The European Union had the foresight to develop a rapid electronic alert system in response to such risks, specifically from China.[33]

The global sourcing of ingredients in processed foods and a doubling of food imports to $80 billion, according to the US International Trade Commission, as a result of the lowering of trade barriers some ten years ago, pointed to a further exponential spread of concern, which led to the New York Times calling America's food import rules 'relatively permissible' and its inspection regime 'weak'.[34]

China's sheer lack of quality control and widespread corruption quickly became the main story. The world's most populous country responded by exhibiting a close variation of the five stages of grief,[35] starting with denial.[36] Anger was directed internally—by sentencing to death the top drug regulator for taking bribes,[37] as well as externally toward the US for blocking suspect imports. Bargaining resulted in the Chinese rejection of water, seafood and fruit imports from other countries such as Australia and the US.[38] Depression and, finally, a modicum of acceptance ensued with the announcement of new and stricter food safety standards,[39] as well as the closure of 180 food factories.[40]

Consider the huge trade surplus involved—China had an approximately $150 billion surplus[41] with the US and replaced it as the largest exporter in the world in 2006,42 with expectations for an unprecedented $100 billion surplus in the first half of 2007 alone. The sheer volume of products from China that enter the United States, and the rest of the world, promised that what started as a pet food scandal would be a story . . . with legs.

The Green Media Frenzy

Mainstream media thrives on catastrophe, shock and misery, so perhaps the notable increase in coverage of green issues and green business issues shouldn't be surprising. The United States has often been seen as behind the rest of the industrialised world in its awareness of environmental issues. In 2007, it became apparent that the trend of featuring environmental issues in the mass media via news, television shows and popular culture was spiralling as never before.

The Global Warming Survival Guide stared out from the cover of *Time* magazine's April 9 issue, and included '51 Things You Can Do', which stated 'You—along with scientists, businesses and governments—can create paths to cut carbon emissions'.[43] *Time's* June 18 issue urged readers to 'Take Your Planet to Work (Going Green at the Office)', and noted that 'One office worker can use a quarter ton of materials in a year'.[44]

As mentione, *Vanity Fair* unveiled its 'Green Issue' in May, which featured articles on lawsuits against Chevron for destructive oil drilling in the Ecuadoran Amazon, 'The Rise of Big Water', as an industry, a sleek new electric car, and also skewered energy industry executives in the article 'Texas Chainsaw Management'. (Yes, and that one on private equity.)[45]

The Discovery Channel launched the first 24-hour television network dedicated to green lifestyle programming, Planet Green, in April. The initiative includes a $50 million investment in new original content and a multi-platform offering with interactive tools and comprehensive 'how to' resources. Planet Green will begin airing in 2008 and is expected to debut in over 50 million US homes.[46] Meanwhile, the cable network's Health Channel covered 'Green Yard' programming, and its Travel Channel featured an 'Eco Lodges' episode.

Sir **David Walker**: Chairing a group promoting transparency in corporate financing

The Sundance Channel launched a weekly bloc of environmental programming in April called The Green. It kicked off each bloc with an original documentary series that took a look at 'the leading edge of a new green world'. The first few segments focused on alternative fuel, green building and eco-fashion.[47] Both

When the biggest climate change denier nonchalantly changes tack to engage the issue on its own terms rather than insisting it doesn't exist, it has conceded the fight.

the Discovery Channel and Sundance Channel created advisory committees with a selection of notable names and organisations to support programme development, partnership outreach and corporate innovation activities.

A key actor in the climate change debate took notice of the increased media attention and responded by buying 'Let's Talk about Climate Change' full-page ads in the major publications such as the *Washington Post*. That key actor was none other than Exxon. When the biggest climate change denier nonchalantly changes tack to engage the issue on its own terms rather than insisting it doesn't exist, it has conceded the fight. The vice president for public affairs of the world's largest publicly traded oil company, Kenneth P. Cohen, said that the company never denied the existence of climate change.[48] No, they have only heavily funded those that do.

The main classic rock 'n' roll radio station in the Washington DC area, 94.7 FM, has banked that green is good, to paraphrase Gordon Gekko in the movie Wall Street, with a new name—The Globe—and mission: 'We want to be a part of the solution.' Its website lists its top 12 priorities, which include 'The Globe' at number one, and 'Think Globally, Act Locally' at number three, with regular on-air tips on how to go green with energy, electronics, landscaping, cars and shopping, and ads featuring global positioning gadgets with the pitch that they can find the nearest place to recycle garbage.[49] Green Weddings graced the cover of the Washington Post 'Home' section on June 21, and declared that the '$73 billion wedding industry is paying more attention to the environmental implications of their choices'.[50]

Even *Wine Spectator* magazine's June 30 issue declared 'Wine Goes Green'. Articles examined how producers make wine while reducing pollution and conserving energy with solar panels to subterranean cellars, and new organic wine-making methods.[51]

Being Consumed

Against this backdrop of environmental concern, the topic of sustainable consumption has been aired more often at corporate social responsibility conferences. A twist on the familiar subject occurred in June at Canada's largest oil conference. A representative of the US National Petroleum Council told several hundred oilmen that in order to address worldwide energy needs an abundant new source was needed, and announced the launch of Vivoleum—a fuel made by 'transforming the billions of people who die into oil': all a hoax devised by the Yes Men.[52]

Andy Bichelbaum of the Yes Men, a political prankster group, posed as the representative, and was thrown out along with a companion after handing out Vivoleum memorial candles purportedly made from the remains of an ExxonMobil worker who had died following the clean-up of a toxic waste spill. The janitor, in a video tribute, announced that he wished to be transformed into candles after his death. The candles were actually said to be made of paraffin, beeswax and human hair.[53]

Vivoleum.com, the spoof website, quickly got yanked off the internet the next day, along with the Yes Men's email service, in reaction to a complaint whose source their internet service provider declined to provide. The provider also made the Yes Men remove all mention of Exxon, who was ostensibly the manufacturer of Vivoleum, from TheYesMen.org, before email service was restored.[54]

The hoax about the sustainable consumption of consumers conjured up shades of the cult 1973 science fiction movie Soylent Green, which revealed in the dénouement that the main ingredient of the essential food source in society was, in fact, people.[55]

The Yes Men were making a number of points. One is how we are ourselves consumed by the economy we have created. In his 2007 book Consumed,56 Benjamin Barber develops the theme. He suggests our global economy is designed to overproduce goods and necessitates the corporate targeting of children to make them demand more products and services. Barber asserts that in place of the Protestant ethic once associated with capitalism—encouraging self-restraint, preparation for the future, protection of children and community, which he sees as characteristics of adulthood—we are constantly being seduced into an 'infantilist' ethic of consumption. The system we have created, he says, has as its primary goal not the manufacture of goods we need, but the needs themselves. For the sustainable consumption agenda to be embraced by business people and the larger public, there is a need to understand how product and service design, marketing and advertising can be done in ways that communicate to people about consumption opportunities without their being consumed by debt from overspending, environmental destruction from overdevelopment, and personal dissatisfaction from perpetual want.

WORLD THIRD QUARTER REVIEW

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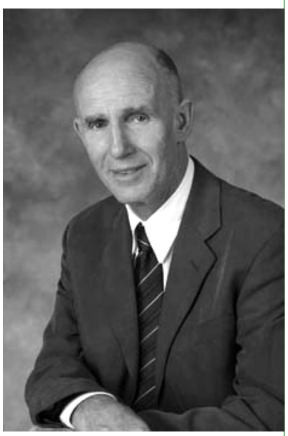
The Responsibility of Business Schools

In July, the UN Principles for Responsible Management Education (UN PRME) were launched in Geneva. They call for the incorporation of universal values in curricula and research, and are offered as a guiding framework for academic institutions to advance the broader cause of corporate social responsibility (see Box 1). The Principles have been developed by an international task force of 60 deans, university presidents and official representatives of leading business schools. The initiative has been co-convened by the United Nations Global Compact, the Association to Advance Collegiate Schools of Business (AACSB International), the European Foundation for Management Development (EFMD), the Aspen Institute's Business and Society Program, the Globally Responsible Leadership Initiative (GRLI) and Net Impact.

The launch of the Principles is the latest illustration of a trend in management education that appears to be responding to criticism of business schools from business, students and wider society during the first years of the 21st century. The Economist recalled,
five years ago, business schools, particularly in America, came under attack from all sides. Fairly or not, they took some of the blame for the corporate scandals that erupted at firms such as Enron and WorldCom. Jeffrey Skilling, the former boss of Enron, was a star of the Harvard Business School class of 1979. Other corporate villains and their lackeys have boasted MBAs. Many agreed with one commentator that the only way to solve the ethical problems of corporate America was to fire everyone under 35 with an MBA.[1]
Even esteemed professors of management were critical. In an article published in 2005, the late Sumantra Ghoshal of London Business School argued that, by assuming executives are the self-interested agents of shareholders, driven by maximisation of their self-interest, business-school teachers had freed their students from 'any sense of moral responsibility'.[2] Applications for MBA courses began to dip and graduating MBAs began to experience great difficulty in finding work, according to The Economist.



Michael Powell, Pro Vice Chancellor of Griffith Business School: front-runner in the globally responsible leadership initiative

Since 1999, the World Resources Institute (WRI) and the Aspen Institute's Business and Society Program have been publishing reviews of the social and environmental content of MBA programmes. The 2007 report ranked universities on their incorporation of such issues into the business curriculum, as well as their research. The top ten of the schools studied in 2007 are listed in Table 1. The global rankings are dominated by North American business schools which might reflect the methodology of the rankings, including the way different issues are weighted. Nevertheless, the publication of this ranking has increased the pressure and incentive for business schools to consider corporate responsibility in their teaching and research.

Box 1 The principles for responsible management education

As institutions of higher learning involved in the education of current and future managers we are voluntarily committed to engaging in a continuous process of improvement of the following Principles, reporting on progress to all our stakeholders and exchanging effective practices with other academic institutions:

Principle 1: Purpose. We will develop the capabilities of students to be future generators of sustainable value for business and society at large and to work for an inclusive and sustainable global economy.
Principle 2: Values. We will incorporate into our academic activities and curricula the values of global social responsibility as portrayed in international initiatives such as the United Nations Global Compact.
Principle 3: Method. We will create educational frameworks, materials, processes and environments that enable effective learning experiences for responsible leadership.
Principle 4: Research. We will engage in conceptual and empirical research that advances our understanding about the role, dynamics and impact of corporations in the creation of sustainable social, environmental and economic value.
Principle 5: Partnership. We will interact with managers of business corporations to extend our knowledge of their challenges in meeting social and environmental responsibilities and to explore jointly effective approaches to meeting these challenges.
Principle 6: Dialogue. We will facilitate and support dialogue and debate among educators, business, government, consumers, media, civil society organizations and other interested groups and stakeholders on critical issues related to global social responsibility and sustainability.

Source: www.unglobalcompact.com/HowToParticipate/academic_network/index.html#bus_ed

Some of the more recent innovations in teaching challenge the normal approach of management education entirely. The Economist described the new approach taken by Yale School of Management during 2007.

Instead of the well-worn method of teaching functional subjects, such as marketing, strategy, accounting and so forth, students who are now completing their first year at Yale are taught with eight courses that each address different themes, such as the customer, the employee, the investor, competitors, business and society, and innovation.

To rewrite the curriculum, weekly meetings of multidisciplinary teams discussed what each subject could bring to a course. This encourages the faculty out of their academic silos and enables them to see the bigger picture, something returned to below.

Globally, one of the most active projects to transform management education to promote corporate responsibility in business has been the Globally Responsible Leadership Initiative (GRLI), which was launched in 2004 by senior representatives from 21 companies, business schools and centres for leadership learning. The partnership's Co-founder and General Secretary, Anders Aspling, who is also Dean of Vlerick Leuven Gent Business School in Belgium, explained to JCC that 'business schools and centres for leadership learning can play a pivotal role, alongside business, in developing the present and future leaders required to ensure that business is a force for good'. Michael Powell, Pro Vice Chancellor of Griffith Business School, the first Australian business school to be involved in the GRLI, told JCC that 'it is important to connect with those professors and deans around the world who are seeking to provide a new form of management education, so we can support each other in our efforts'.

Table 1 The top ten business schools for corporate responsibility, according to the US-based Aspen Institute

			Student Opportunity	Student Exposure	Course Content	Faculty Research
1	Stanford	USA	1	11	2	3
2	Michigan (Ross)	USA	10	27	4	1
3	York (Schulich)	CAN	2	6	17	5
4	UC Berkeley (Haas)	USA	4	32	1	5
5	Notre Dame (Mendoza)	USA	5	15	17	9
6	Columbia	USA	13	13	7	16
7	Cornell (Johnson)	USA	6	24	11	20
8	Duquesne (Donahue)	USA	21	1	27	29
9	Yale	USA	3	18	5	69
10	IE Business School	ESP	8	5	7	52

Source: www.beyondgreypinstripes.org/rankings/index.cfm
More information from www.beyondgreypinstripes.org

Autistic Academe

There is much to collaborate on, because if management education is to be transformed it will require a changing of the incentives for the current unhelpful patterns of behaviour by faculty. This is an issue for all social science, not just management education. *The Economist's* analysis of the challenge facing business schools alludes to one of these broader challenges: the incentives shaping research. 'Business-school faculty members often seem to place greater weight on winning the approval of peers in their academic discipline than on gaining the approval of their business-school colleagues'. The way to win that approval is by publishing in the A-rated academic journals. This is because, in the name of accountability, around the world, academics' performance has increasingly become rated on the basis of their publications in journals that are held in high regard in a particular discipline. Aside from the fact that this discourages multidisciplinarity, the highest-rated academic journals usually uphold a particular concept of valid research, which expects research questions to arise from theory rather than practice, and incorporates many hallmarks of a positivist paradigm of science. Consequently, these assessment systems have promoted three main hallmarks of an academic approach around the world. First, a focus on particular details at the expense of context to a degree where one's analysis is irrelevant, often coupled with an elaborate verbosity on minor details. Second, a dislike or inability to explore the values and emotions of others as significant phenomena in society and a dislike or inability to reflect on one's own values and emotions as key in shaping one's research. Third, an inclination for repeating procedures, as in particular research methods, rather than changing one's approach depending on circumstances in order to achieve useful outcomes.

Is it mere coincidence that each of these hallmarks of the esteemed 'academic' approach are the same as the main symptoms of autistic spectrum disorders (ASD)? Also called autism spectrum conditions (ASC), these are a range of psychological conditions characterised by widespread abnormalities of social interactions and communication, as well as severely restricted interests and highly repetitive behaviour.[3] Autistic traits have been recognised as beneficial for disciplines such as science, mathematics, engineering and computer programming, with some people with ASD displaying extraordinary powers of calculation.[4] As a letter-writer in *New Scientist* once noted, 'many people with this condition go undiagnosed right through life and are often academically very successful'.[5] That people with autism can play a useful role in society should be welcomed but, if societies' institutions of knowledge production demand it of people in order that they have a successful career, we may produce more mentally impaired societies as a whole.

In management academia the problem has been compounded by the dominance of economics, widely understood as the most autistic of social sciences for its extreme and scientifically questionable assumption of so-called 'rational' human beings who act according to narrow self-interests.[6] The Corporation film and book made a name for itself for suggesting that, as defined in law, the corporation was psychopathic in terms of not having regard for the well-being of others, and previous studies have reported on psychological studies of psychopathic traits in successful business executives.[7] Encouragement from an autistic academe for the disregard of values and emotions can only support psychopathic behaviour in business.

As the business environment evolves with growing social complexity, so these traditionally dominant ideological assumptions in business schools are making them less relevant to modern business practice. A survey by Egon Zehnder, a recruitment firm, found that just one in five of the international corporate executives it polled thought that an MBA prepares people for real-life management.[8] As business schools are, *The Economist* notes, 'where academic theory and the practical world engage with each other', the current situation is a huge missed opportunity for research and practice to infuse each other in ways that benefit society as a whole.

As the business environment evolves with growing social complexity, so these traditionally dominant ideological assumptions in business schools are making them less relevant to modern business practice.

How effective might the various initiatives be in promoting change? The UN Principles are a useful start, but perhaps they do not yet fully address the factors that are creating the current situation. *The Economist* notes that 'One problem is the shortage of talent available to provide the blend of academic excellence and practical insight that everyone wants'. The reason for this is the current incentive system for academics. Therefore collaboration on changes in professional standards and incentives, such as teaching and research assessments at national and international levels, will be required to support the right kind of faculty development. This means the role of regulators, funders and employers needs examining. In addition, the Principles do not address the internal mechanics of a change process in a university, such as the adoption of a policy and communication of this across the university, allocating resources, setting benchmarks, creating staff incentives, and reporting on performance. This will also need to come. Finally, the Principles could be seen as culturally Western and perhaps too specific on the question of what constitutes 'responsible' management education. The Principles mention environment and stakeholder relations, for example, and there were debates in the drafting process about mentioning ethics and diversity, among other issues. Perhaps the Principles could be more fluid and adaptable, allowing different organisations to have their own understanding of responsible management education that is culturally specific and sensitive to their understanding of the market needs, while connecting with the universal values at the heart of the UN Charter and declaration of human rights. This broader approach, while also paying attention to the internal change processes and accountability, is the one taken by a sister initiative, the UN Principles on Responsible Investment (UNPRI).

Many business schools saw their founding mission as the professionalisation of the management of business, in much the same way as medical schools have institutionalised medicine. Professions usually have at least four elements: an accepted body of knowledge; a system for certifying proficiency of that knowledge before it can be practised; a commitment to the public good; and an enforceable code of ethics. Perhaps we could benefit from a managers' equivalent of the Hippocratic oath in medicine.

Those Who Teach Can Do


Kori Udovicki, UN Assistant Secretary-General: CSR can help ensure that everyone benefits from growth

The old saying goes that 'those who can, do; those who can't, teach'. With corporate responsibility it is important that this negative view of teachers and scholars does not gain further support. The authenticity of academic institutions professing responsible business, manifested by how they themselves operate responsibly, is important. Although not yet an explicit principle, the UN PRME explains how signatories 'understand that our own organizational practices should serve as example of the values and attitudes we convey to our students'.[9] Fortunately during 2007 there were signs of significant progress in one area of this: the environment.

In June, the leaders of 284 American colleges and universities from 45 states which represent about 15% of the country's higher-education institutions announced the American College and University Presidents Climate Commitment, a pact that urges educational institutions to eliminate greenhouse gas emissions. Their pact calls for development of a plan to achieve climate neutrality as soon as possible, as well as publicly reporting the action plan, inventory of carbon emissions, and periodic progress. Signatories are required to choose at least two actions from a list including building all new constructions to at least the US Green Building Council's LEED Silver standard, supporting shareholder resolutions addressing climate change and sustainability issues in companies in which the school invests, and purchasing energy from renewable resources.[10]

Earlier in the year, *BusinessWeek* magazine announced 'The Greening of America's Campuses',[11] while the Association for the Advancement of Sustainability in Higher Education (AASHE) revealed 'an explosion of activity around sustainability on campuses across the US and Canada'. More than 600 environmental projects were reported on North American campuses during the previous year. The combined green power purchases of the top ten higher-education purchasers in the US tripled in 2006. AASHE's own growth during 2006 mirrored the trends highlighted in the report, with membership having more than quintupled since the beginning of the year.[12]

New Europe, New Drivers

A UN Development Programme (UNDP) study on corporate social responsibility (CSR) in Central and Eastern Europe revealed that civil society is a missing element in holding corporations accountable for their impacts on society and environment in the region. In contrast to Western Europe, where CSR is influenced by the active pressure from various civil society organisations (CSOs), the CSR agenda in Central and Eastern Europe is driven mainly by companies themselves, especially large corporations and international organisations present in the region.[13] The impact of civil and consumer groups is still limited owing to underdevelopment of the non-governmental sector. Indre Kleinaite of the Lithuanian sustainable enterprise network Gyva.net told JCC that 'the Soviet system formed a passive society who then developed an obsession with the market economy as a panacea for all their inherited problems, and paying most attention aspiring to Western ideals of consumerism'.

The UNDP report was the first comprehensive regional study on the level of CSR implementation in eight Eastern and Central European countries. The conference to launch the report was opened by Ms Kori Udovicki, UN Assistant Secretary-General, who stressed that 'Eastern Europe has learned that markets are indispensable for fast growth, but we also need institutions that can remedy the less positive consequences of the drive for profits. CSR is one such tool to help ensure that everyone benefits from growth'. Mr Richard Howitt, MEP, Rapporteur on CSR, called for more support from the European Parliament (EP) and European Commission (EC) for involving CSOs and small and medium-sized enterprises (SMEs) in the region. Ms Lyra Jakuleviciene, Head of UNDP Lithuania and leader of the regional CSR project, concluded, 'while there are some success stories to be proud of, there is also plenty of work to be done'.

In recent years there have been signs of growing civil society activism in Lithuania, albeit leading to a backlash from some in business and government. Since 1991, when Lithuania regained its independence from the Soviet Union, privatisation was undertaken to move towards a market economy. One case has now inflamed civil society protests. The private owners of a popular cinema named 'Lietuva' (Lithuania) in Vilnius decided to demolish it and build apartments instead. Over the period 2005–2007 a number of protests merged into a civil society movement for public spaces and public interest, which has delayed the property development process.

Indre Kleinaite of gyva.net: former Soviets have developed an obsession with the market economy

In July 2007, a lawsuit was launched by the developers against four activists for inquiring into the real-estate project. Gediminas Urbonas, artist and one of those activists, says that this constitutes an unprecedented attack on public expression. He adds, 'it is a very concrete illustration of how capital squashes public discourse by paralyzing active individuals'. The activists called for financial support from people to be able to hire lawyers to defend the case in the court.[14] The case sparked an active media debate from free-market advocates labelling the case a 'falsification of public interest',[15] arguing that a few independent film lovers are pretending to represent the public by calling the movement a symbolic fight for Lithuania. However, as a free and active civil society is a necessary driver of corporate responsibility, a corporate backlash against social activism will not be helpful.

Richard Howitt, MEP: More support needed from Europe for CSOs and SMEs

Meanwhile, identifying other drivers for CSR in the region is important. One such driver could be the need to address the widespread emigration of skilled people from Central and Eastern Europe. Unemployment is no longer an issue in countries such as Lithuania where thousands of people have left to pursue better-paid jobs elsewhere in Europe, especially the UK and Ireland. This means local businesses are now lacking workers and experiencing skills shortages. Could businesses have been more attentive to this social trend and taken measures to improve the pay and conditions of workers so more might have chosen to stay in countries such as Lithuania? Might CSR in the workplace be one way to tempt them back?

In the absence of a tradition of NGO advocacy funded by donations from individual citizens, it is likely that new social enterprises will be a key way for social and environmental concerns to be articulated in post-Soviet states. The success of Latvian high-end cosmetics company Mádara is illustrative of how young Eastern Europeans motivated by social consciousness can express themselves. The company makes completely natural flower and herb cosmetics for body and facial care. These products are made only from plant extracts, natural oils, butters and waxes, without petroleum ingredients, chemical preservatives, parabens, artificial colourants and other potentially harmful substances. For all print and packaging, Mádara uses paper from forests certified under the Forest Stewardship Council (FSC), a system of sustainable wood supply that WWF helped to create in the early 1990s. The paper is manufactured in accordance with a strict environmental policy that calls for minimal carbon emissions and the recycling of water. According to co-founder Zane Rugina, the brand 'tells a story about a healthy and natural lifestyle, about dignity and respect towards secrets of natural beauty'.[16]

The debate about CSR in Eastern Europe is part of a broader debate about the type of economic system countries in the region want to shape. Canadian activist Naomi Klein once wrote that 'the alternative to capitalism isn't communism, it's decentralized power'.[17] Indre Kleinaite explains that 'in the post-Soviet Union some are now arguing the alternative to communism is not just capitalism, but a balanced system that allows both private and public interests to go hand in hand like two forces in a union where none of them is dominating the other'.

Naomi Klein: 'The alternative to capitalism isn't communism, it's decentralized power'

Donor Accountability and Innovation

In July, One World Trust published a report on the accountability of new institutions created to donate large sums for the long-term funding of post-conflict reconstruction and peace-building.18 These 'Multi-Donor Trust Funds' aim is to ensure coherent funding rather than piecemeal, ad hoc cherry-picking of projects by donors, smoothing out lumpy income streams and providing consistency. However, the report argues that as they are multi-million-dollar funds for the reconstruction of a country or region it is also essential that there are adequate accountability mechanisms in place, and provides recommendations for improvement. This was the latest report in an emerging trend to consider 'donor accountability'.

Earlier in the year the former director of a large charitable foundation, Joel Fleishman, published a book that called foundations a 'great American secret' and raised the concern that 'foundations are not, in effect, accountable to anyone'. They are required to file annual tax returns and to give away a mandated percentage of their assets each year, but there is no 'authority' that monitors what they fund, nor do they publish information on their failures. Only a tiny fraction even print an annual report.[19]

In a book edited by the Ford Foundation's Lisa Jordan and launched at the UN earlier in the year, an agenda for donor accountability was mapped out. This expanded the call made by the UN Non-governmental Liaison Service report on NGO accountability late last year for greater focus on donor accountability.[20] Four principles were outlined for more accountable donors. First, donors should seek to make their generation of funds both transparent and more democratically accountable to those affected by the activities involved. This would mean that the assets of charitable foundations should be managed in the most responsible manner, ensuring companies invested in are accountable to their stakeholders. Second, donors should seek to make the administration of their activities both transparent and more democratically accountable. This involves issues such as the governance of the fund, the salaries of the officers and so on. The third principle suggests that donors should enhance the transparency and democratic accountability of their grant-making decisions and of the activities they fund. Therefore applicants and recipients could be given new ways for feeding back to grant-makers. Finally, donors should take steps to influence the regulatory environment in order to ensure support for democratic accountability, and thereby address the broader processes that give rise to the need for giving in the first place.[21]

Donors should enhance the transparency and democratic accountability of their grant-making decisions and of the activities they fund.

As Fleishman's book illustrates, most donors are nowhere near this fourfold approach to their accountability, with many not recognising accountability issues of concern at all, and most not understanding how the way their funds are generated could have as much an impact on the mission they serve as the donations they then make with those funds. One foundation that has come under the spotlight is the Gates Foundation. According to the LA Times:
The Gates Foundation has poured $218 million into polio and measles immunization and research worldwide, including in the Niger Delta. At the same time the foundation is funding inoculations to protect health, it has invested $423 million in Eni, Royal Dutch Shell, Exxon Mobil Corp., Chevron Corp. and Total of France—the companies responsible for most of the flares blanketing the delta with pollution—beyond anything permitted in the United States or Europe.[22]

In response, the foundation first announced a systematic review of all of its investments to determine whether it should consider divestment from some companies.[23] Later, it revoked this pledge and said it would continue its current practices.[24] In May, the LA Times kept the Gates Foundation-gate story alive by focusing on Darfur and PetroChina, an oil company in which Gates trustee Warren Buffett owns a large stake via his Berkshire Hathaway company. PetroChina is heavily invested in oil extraction in the Sudan.[25]

The decision not to change investing practice was explained by the Gates Foundation as follows:

> Many of the companies mentioned in the Los Angeles Times articles, such as Ford, Kraft, Fannie Mae, Nestlé, and General Electric, do a lot of work that some people like, as well as work that some people do not like. Some activities might even be viewed positively by some people and negatively by others . . . Shareholder activism is one factor that can influence corporate behavior. The foundation is a passive investor because we want to stay focused on our core issues.[26]

In other words, every year the Gates Foundation will put 5% of its money to good causes while 95% of its money continues to be asked to do whatever will deliver the returns. Or, simpler still, doing something good with more than 5% of its power is just too 'complex'. Speaking of the problems described in the LA Times as caused by corporate activities invested in by the Bill and Melinda Gates Foundation, its CEO Patty Stonesifer explained that 'it is naive to suggest that an individual stockholder can stop that suffering. Changes in our investment practices would have little or no impact on these issues'.[27] Would it be naive for us to think that the CEO of the largest foundation in the world has not heard of the world's leading institutional investors in the UNPRI, accounting for $10 trillion of assets under management, engaging on precisely that agenda and to deliver long-term returns? Or would they be naive in doing this? One foundation that has joined the UNPRI is the Nathan Cummings Foundation. Yet most of the tens of thousands of foundations in the world, and mainstream human rights, development and environment charities, have their funds managed without any attention to responsible investing.[28] It would make sense for them all to join the UNPRI as asset owners. If they are not managing their assets responsibly, why should private investors listen to what they have to say on the subject? In September, the UK Social Investment Forum (UKSIF) and Ethical Investment Research Service (EIRIS) teamed up to launch an online resource to help promote charities manage their assets more responsibly, assisting those that are beginning to address the issue.[29]

Every year the Gates Foundation will put 5% of its money to good causes while 95% of its money continues to be asked to do whatever will deliver the returns.

If large foundations such as Gates joined initiatives such as the UNPRI, they might learn more about modern finance and explore innovative approaches to creating change. As Fleishman notes, there is a whole field of mission-based investing in development, with venture philanthropy, funding social enterprise, corporate engagement, and using your assets to leverage other private finance into funding the right kinds of business. One project seeking to do this met in Geneva in September. A partnership between WWF and the

UNEP Finance Initiative, it looks at how NGOs, donors and private financial institutions can work together to reduce the risk of investing in sustainable SMEs in emerging markets.[30] One mechanism they are exploring is whether foundations could use their assets to write letters of guarantee to cover initial losses of private funds invested in social or sustainable enterprise, and thus reduce the risk profile sufficiently to drive more private finance into those businesses.

Once foundations become more engaged in mission-based investing, and using their assets in new ways, perhaps they might even stumble across a way of making leveraged buyouts or short-selling a progressive activity. Perhaps one day, when the necessary procedures and insurances are worked out, large philanthropic foundations could lend stock to activist not-for-profit hedge funds, charging no interest but requiring a percentage of profits, so the hedge fund could short-sell companies that don't help the achievement of the foundation's mission? Lessons could be learned from Karmabanque, which is currently running an ethical activist hedge fund.[31]

Once foundations become more engaged in mission-based investing, and using their assets in new ways, perhaps they might even stumble across a way of making leveraged buyouts or short-selling a progressive activity.

WORLD REVIEW FOURTH QUARTER

Dr Jem Bendell
Adjunct Associate Professor, Griffith Business School, Australia

Dolce and Gabbana

Publicly challenging corporations is considered a dangerous business in many parts of the global South, as recognised by *Ethical Corporation* magazine in their selection of the Best Ethical Leaders of 2007, which included the anti-corruption journalist Lala Rimando, from the Philippines, the second most dangerous place to be a reporter after Iraq.[1] But that a leading journalist on corporate irresponsibility and crime in Europe required police protection during 2007, after "highly credible death threats", was a stark reminder of the continued problems with organised crime, corruption and related commercial interests in the 'developed' world.[2] Roberto Saviano had written a book on the Camorra, the lesser known yet more powerful branch of the Italian mafia, based around Naples.

In November the English translation of 'Gomorrah: Italy's Other Mafia' was published, and made the book review sections of leading newspapers, though not the business news or lifestyle sections. Perhaps journalists, or their editors, did not want to detonate the full explosiveness of this book, given the significant income from high-end brand advertising. The book reports that a white suit worn by one of the world's most famous women, Angelina Jolie, on the red carpet at the Oscars, was made by someone employed by organised criminals accused of multiple murders. No wonder then that the publishers decided not to mention that a white suit worn by Ms Jolie at an Oscars ceremony was from Dolce and Gabbana. Bloggers such as BabelMed made the connection, as could anyone searching Google for images of Ms Jolie at previous Oscar awards.[3]

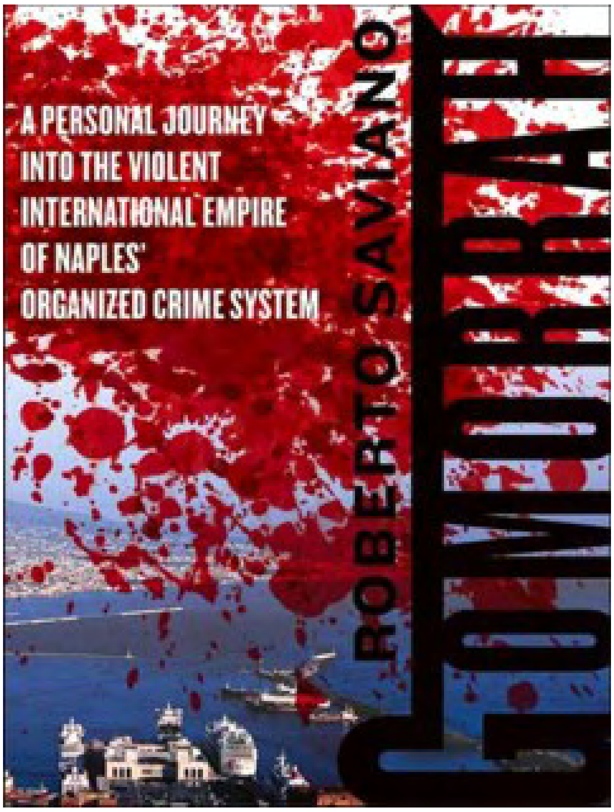
Although this is a brand bomb waiting to explode, Saviona's analysis is wider than attacking one company. He describes a widespread system of commercial dependence between Italy's fashion industry and organised crime around Naples, so extensive that it suggests many famous brands will be contaminated by association. He describes an auction process where multiple suppliers compete to try to meet an order, with the fashion brand only paying one of the suppliers who meets the quality, quantity and deadline first. As they are not paid until after delivery Saviano says most bidders are financed by the Camorra. He also suggests that the well made products that are made for the fashion labels but are excess to requirements then find their way into the counterfeit market, through the Camorra. He argues this system keeps prices paid to suppliers by the fashion brands as low as possible, so they do not challenge the counterfeiting directly.

In December an Italian TV documentary on Rai 3, entitled 'Slaves of Luxury', dug deeper into the supply chains of leading Italian fashion labels.[4] The programme detailed cases of illegal Chinese immigrant labour in Italy making accessories for D&G, as well as Prada and other leading brands. The programme had an audience of four million and the forums on RAI's website were swamped with concerned viewers.[5]

"We asked to meet with Dolce & Gabbana also, considering that we found their trademark [in the factories with illegal labour], but their response was "no comment" explained RAI 3's Milena Gabanelli. Given that Ms Jolie was still being photographed wearing D&G branded products during 2007, the risk to her own reputation as a conscious global citizen remained.[6] One option for her might be the Star Charter for responsible brand endorsement, launched in a report by WWF-UK in November, which offers six principles to guide celebrities.[7]

Some brands did respond to the TV journalists. One was Prada, whose group communication and external relations director Tomaso Galli explained that the company has "two different kinds of inspectors, those who check quality and those who control the working conditions of the suppliers. But we're not the police and our inspectors do not have an unlimited access to all areas and documents. Regrettably, situations like the one described in the show, which we agree are unacceptable, may occasionally occur notwithstanding our controls, but they are odd and the show did not bother to mention what the overwhelming reality is."[8] This does not refute TV presenter Sabrina Giannini's point that companies like Prada only inspect labour conditions after the contracts are signed, and take quality, price and punctuality far more seriously. "The compliance with the rules could be verified from the start, thus 5 months earlier, and it was sufficient to ask the proprietor for the pay envelopes and registration numbers of the employees," she explained. Furthermore, the programme shows that Prada's 'piattine' nylon bags retailing in Milan for 440 euros are bought from suppliers for just 28 euros. "Is it the proprietor of the [factory] the one exploiting his workers, or is it Prada that pays too little and, right from the start, must realize that at these prices it is possible to produce only under certain conditions?" she asked.

Three judgements have been issued by the Public Prosecutor's office in Florence, against the owners of Chinese firms in Italy that exploited illegal labour to produce shoe soles for Christian Dior, Gucci, and handbags for Gianfranco Ferrè. Despite these few cases, it is a situation "that as a whole is tolerated, perhaps to prevent these companies from going directly to China" argued Milena Gabanelli.



Robert Saviano's explosive book on Italy's fashion industry and organised crime

The programme discussed the damage these practices may have on the 'Made In Italy' label and brand. "What the world envies us is precisely the prestige of our fabrics and the skill of our artisans. If this is not preserved, there is a risk of ruining a unique heritage. But instead, there are those who prefer investing a great deal in advertising, perhaps overlooking the substance" said Sabrina Giannini. CEO of luxury brand Tod's, Diego Della Valle, agreed on the programme: "I tell other important brands like our own that we must be very careful not to water down the great consideration that the world has of articles made in Italy... When people have money, especially in these emerging countries, they want to buy the major Italian brands, and also articles made in Italy, but this serves especially to preserve the great Italian handicrafts sector. Well, for 10 or 15 years now I have been saying that if we don't watch out, we will lose the "Made in Italy" little by little."

Responsible Luxury

How Mr Diego Della Valle's sentiments have translated into effective action is debatable, given that his company, Tod's, came bottom of the first worldwide ranking on the social and environmental performance of the world's largest luxury brands, which was published by WWF-UK in November. 'Deeper Luxury: quality and style when the world matters'[9] was covered by over fifty newspapers and magazines worldwide, and numerous blogs, with the *Financial Times* headline "Luxury brands fail to make ethical grade."[10] UN corporate reporting expert Dr Anthony Miller, commented that the luxury goods industry looked like it was "having its own Nike moment," referring to the mid-90's criticism of labour practices in Nike's supply chain that made the company invest heavily in its corporate responsibility programme.[11] Fashion UK commented the report "could herald a huge change in the way global luxury brands operate".[12]

Leading industry executives speaking at the *International Herald Tribune* (IHT) conference on luxury, in Moscow, on the day of the report's launch, portrayed a growing awareness of the importance of ethical performance. Laurence Graff, chairman of Graff Diamonds, and Yves Carcelle, chairman and chief executive of Louis Vuitton, spoke positively of their company's responsibilities. Tom Ford, the former Gucci top designer said that "we need to replace hollow with deep."[13] However, in Conde Nast Porfolio.com, Lauren Goldstein Crowe contrasted "the words v. the reality," citing the WWF-UK report as an opportunity for needed leadership on this agenda.[14]

The industry response to the report was mixed. Within days, Just-Style.com reported that "PPR Group commits to improving sustainability" as a result of the publication.[15] Pierre Simoncelli, Managing Director of Sustainable Development at L'Oreal, which owns luxury brands like Ralph Loren and Giorgio Armani, said the report "demonstrates that a quality product must involve a quality value chain, where everyone in that chain benefits and their environment is sustained. Bendell and Kleanthous' analysis should be welcomed as an important contribution to the strategic planning of all high-end brands and their suppliers." However, the director of the Council for Responsible Jewellery Practices was not pleased, slamming the report for what he saw as its negative tone.[16] WWF-UK 's co-author of the report Anthony Kleanthous explained in the *Guardian* that, although 'press coverage has focused on the ranking, and on what these companies are failing to do right for the environment... the main thrust of the report looks to a future in which the very definition of luxury deepens to include not only technical and aesthetic quality, but also environmental and social responsibility."[17]

The longest chapter focuses on commercial reasons for that new approach to luxury. It examines key challenges facing the industry and suggests that greater depth and authenticity is a strategic response. These challenges include modern technology, which means that what's on the catwalk today can be copied and in high-street retailers within weeks, and growing levels of counterfeiting, both of which the report suggest requires brands to offer something deeper than purely appearance. Sales growth in societies with high social inequality means that luxury brands face a crisis of legitimacy and a regulatory backlash, the report says, so their products will increasingly need to benefit the local economy with good jobs. The more youthful profile of luxury consumers worldwide means luxury brands need to find ways to build in value to casual fashion items, without making them non-casual, with sustainability and ethics an obvious approach, the authors contend. The report also argues that the increasing availability of luxury items means that brands must find new ways of maintaining their cachet, rather than relying on the memory they were once scarce and exclusive, and that superior social and environmental performance is a way to restore that cachet. The report therefore offers a business case for responsible enterprise that does not depend solely on levels of consumer awareness. The consulting firmed hired by WWF to research and co-write the report, Lifeworth, subsequently launched the Authentic Luxury Network to bring together executives, designers, analysts and entrepreneurs who want to lead the creation of more sustainable and ethical luxury.[18]

The scale of the environmental challenge is so great and pressing, and the reach of NGOs into Asian societies currently so limited, that if the brands that affluent Asians esteem can excel in sustainability, then awareness of sustainable living may grow in emerging economies fast enough to curb global consumption and pollution within environmental limits. Other efforts to promote that awareness are growing. For instance, the Malaysian government embraced the concept of eco fashion and luxury, through the launch of the ecoStyle awards, with entertainment company IMG. The award was established to honour several leading international designers, acknowledging their efforts to present stylish sustainable initiatives and opportunities to the world. Nominees included Anna Cohen, ready to wear, Q Collections furniture, Stella McCartney, and Terra Plana footwear. In December the winner Dr. Ken Yeang, a leading green architect, was announced at the ecoStyle Gala event in Kuala Lumpur.[19]

Luxury Brands and their buyers need to face a challenge: the need for greater depth and authenticity

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Outsourcing Intellects

Perhaps sensing this growing attention to luxury ethics, in November the *Harvard Business Review* provided an in-depth case study on the commercial pros and cons of outsourcing the production of a fictional British luxury brand, which in many respects mirrored the situation with Burberry.[20] That British luxury apparel company had previously raised some concerns in the industry and with unions when it closed its Welsh factory in Treochy earlier in 2007 as it moved more of its production to Asia.[21]

Case studies have long been recognised as useful teaching aids for the way they can encourage debate and reflection. After the fictional case HBR included the feedback from four different fashion industry experts. However, what was surprising was that all commentators agreed about the commercial imperative of outsourcing production to places with cheaper labour. Research by marketing agencies, cited in the 'Deeper Luxury' report, suggests that there are strong commercial reasons for luxury brands to maintain high labour standards throughout their supply chain wherever they source from, as well as maintaining a significant proportion of their workforce in the country associated with their brand. Affluent Asian consumers do not expect an expensive British brand to be made in factories on the outskirts of their own cities. "Brand-savvy consumers in India and China are not happy to pay for a premium label assembled in their own backyard," reported the fashion chronicler Monocle.[22] This is one reason why the Chinese owners of MG cars are investing in British production. The debate over "Made in Italy" sparked by RAI 3 also illustrates awareness of the importance of providence, but also the importance of maintaining what values and practices a region is meant to embody. Luxury brands involve building in value to the product more than taking out cost. If luxury industry executives are blinkered by mainstream management models into simple cost-cutting strategies then they may be liquidising the cultural capital of the brand: its heritage and its current contribution to society.

Although the importance of providence and country of origin is being recognised as important in the high-end marketplace, economic globalisation is doing more than shift the geographies of production beneath the brand. They are also shifting the geographies of ownership. This is not new. For instance Gucci has not been owned by Italians for since the early 1990s, but by Arabs and then the French group PPR, while the British luxury brand Mulberry, known for its attention to heritage and British values, is owned by Singaporean billionaire Christina Ong. In addition to MG Cars being owned by a Chinese firm, Lotus cars has been owned by the Malaysian firm Proton for many years. Despite this, towards the end of 2007 some high-end brand managers expressed concern with takeovers by firms from the global South. There were debates about the effect on brand value, management and employment practice of Tata taking over Jaguar cars. Then the management of Orient-Express gave a snooty response to interest from Tata's hotel business.[23] Tata Hotels then protested to the Securities and Exchange Commission for what they called Orient-Express' "fossilised thinking".[24] As this globalisation of ownership continues so high-end brands will be less able to rely on consumers' assumptions that the national identity of a brand defines its quality and style. The values beneath those national identities will need uncovering and upholding.

Sustaining Conversation

In November The A to Z of Corporate Social Responsibility was published, including over 300 entries spanning 544 pages.[25] A useful resource, it also highlights the growth in terminology concerning companies' relations with society. Some of the terms used the most in the West in the last 2 decades feature, such as environmental management, sustainability, stakeholders, corporate social responsibility, corporate accountability and corporate citizenship. As the Lifeworth Review of Corporate Responsibility 2006 identified, the meeting of people and organisations in discussion about CSR is a phenomenon that could tip cognitive frames about the role of business in society, so definitions are important. The concept of "luxury" was identified at the top of a pyramid of cognitive frames about progress and quality that influence the business environment and need to change as part of a cultural shift towards sustainability.[26]

One term that began being used quite extensively during 2007 - sustainable enterprise - does not appear in the A to Z. In 2007, conferences in California[27] and Cornwall employed the theme. The University of North Carolina has established a Center for Sustainable Enterprise, as has the Stuart Graduate School of Business[28], while Cornell University now has a Center for Sustainable Global Enterprise.[29] Coventry University is launching an MA in Sustainable Enterprise, and Griffith Business School[30] has made the promotion of sustainable enterprise its overall mission. At the British House of Lords, "The Roundtable in Sustainable Enterprise" met throughout 2007 to discuss policy innovations.[31] The buzz continues in 2008 with the Impact Conference "Leadership for Sustainable Enterprise" in June.[32]

The growing popularity of the term reflects a number of trends. First, that corporate social responsibility (CSR) is still often regarded as, and practised as, corporate philanthropy, whether by its advocates or critics. Commentators from McKinsey, Foundation Strategy Group Advisors, and the Eden project, amongst others, often describe a 'straw man' of CSR as a form of guilty philanthropy that can distract us from the commercial opportunities in addressing societal needs.

Second, is that corporate citizenship has become an unclear term more of intellectual discussion than practical use. It was promoted in the late 1990s as a way of emphasising corporate leadership in addressing societal problems, helping move the focus away from internal operational responsibilities to a broader focus on partnerships.[33] The notion of it actually describing corporations behaving as citizens, and thus as members of political communities that govern their rights and freedoms, has not taken off in the business world, although it remains in civil society, academia and policy fields as 'corporate accountability'.[34] The term has now been further elaborated and reworked to suggest that as people are dependent on corporations for the realisation of their rights as citizens, we are somehow in an era of corporate citizenship.[35] The debate about problems with corporates having rights US courts of law and in some international trade agreements complicates this further, and thus the term is not as widely used in the business world.

A third reason is the upsurge in interest in entrepreneurship coming from California. That interest is backed by billionaires in their 30s, who founded companies like ebay, google, myspace, etc. They have poured funds into projects and people that use entrepreneurial approaches to solve social problems. The term being used by groups like the Skoll Foundation and Schwab Foundation to describe this approach is "social enterprise". Some use the term purely to describe for-profit enterprises and entrepreneurs that solve social problems. Others make no distinction between whether the enterprises are for profit, not for profit or charitable. This leads to a situation where people who previously would have identified themselves as activist, or community worker, now win prizes as social entrepreneurs. The pen is mightier than the sword, when signing cheques. Muddying the distinction between those who use market approaches but do not seek to make profits for shareholders, and those who do, will only be useful to the latter - and their investors. The That is not to be facetious, but to recall the use, power and limitations of language. Terms that become popular, like social enterprise is, and sustainable enterprise is becoming, are useful as they help convene people to share ideas. Hundreds of people conferencing in rural Cornwall in October is a reminder of that. The emphasis on enterprise is useful, as it is hopeful and encourages a practical and action oriented focus. Yet the power of language is also to exclude. Thus growing attention on social and sustainable enterprise may draw attention away from how to deal with unsustainable and anti-social enterprise, and how to address challenges that can not be solved through the marketplace, let alone the system of wealth ac-

Responsible enterprise describes innovative commercial activity that voluntarily considers its social and environmental effects; it may help resolve social problems or promote sustainable development but the foremost purpose is commercial.

focus on and excitement with enterprise is, however, relevant, as it reminds us of the transformative role of disruptive innovations that move markets to new patterns of social provision and power relation.

Fourth, is the resurgence of interest in the environment and how the commercial implications of this are now clear, with vast amounts of money flowing into environmental technologies. Consequently "sustainable enterprise" appears to capture the new mood. A definition might be: sustainable enterprise describes innovative commercial activity that generates sustainable development. Expect to see it in the 2nd edition of the A to Z. Also expect to see debates, papers and perhaps even conferences about the difference between social enterprise and sustainable enterprise. Then expect to see CSR champions who want some of that enterprise buzz rebranding themselves as working in "responsible enterprise". While we are at it, let us offer a definition: responsible enterprise describes innovative commercial activity that voluntarily considers its social and environmental effects; it may help resolve social problems or promote sustainable development but the foremost purpose is commercial.

cumulation and financing we call capitalism. Issues of governance and power may be marginalised by the concept, yet working for policy frameworks that guide innovation and profit seeking towards more socially and environmentally appropriate activities is important.

Just as a map is not the terrain, language is not the reality it describes but a reality of its own. Words are our choices about how we wish to conceive of the world. French painter Georges Braque once said "to define a thing is to substitute the definition for the thing itself."[36] That is not inevitable but a risk. Intellectual debate and teaching can be constrained by not seeing beyond the words used. Critical discourse analysis, the deconstruction of the meanings in terms and the power relations they embody and exert, can help us to see through words but this analysis needs to be connected to and integrated with practical experiences of the matters at hand if not to be lost in itself.

When looking at the issues discussed in the name of sustainable enterprise, what is new? At the Eden Project in October, Professor Malcolm McIntosh, from the

Applied Research Centre in Human Security at Coventry University, explained "this conference is about hope and excitement." Stories from successful entrepreneurs like Cate Le Grice Mack, founder of Norwood Rare Breeds Organic Farm enthused the participants. Representatives from larger corporations, like Phil Smith, of CISCO systems, explained how a commitment to sustainability helped energise their staff. The existence of a niche for eco products and of a motivation-based business case for large corporations is not new. Neither is the disbelief from informed delegates when they hear speakers such as James Smith, chairman of Shell UK, saying 'sustainability can't be bolted on. It has to be part of the core business strategy' during his opening address. Shell's core strategy is investing in high technology approaches to access unconventional or difficult to reach fossil fuels. Discussions "revealed a split of opinion between those calling for fundamental change to match the size of the problem and others who backed incremental steps to achieve the same goals."[37] It's a debate that has raged throughout human history, and been a fault line between those working towards more mandatory corporate and capital accountability and those who propose more voluntarily responsibility.

The Eden Project in Cornwall UK: an environmental complex with domes housing plant species from around the world

The event closed with Tim Smit, co-founder of the Eden project, boldly stating that 'within 30 years almost every major company will be a social enterprise.' Whatever the changes in business culture and regulation in the coming decades it is likely we will witness a new buzz term before then. New terminology may sustain a conversation, but not necessarily a change. Whatever people label people in future, lets hope it empowers us all to act.

Silence is Golden

In October, a conference was held at INSEAD outside Paris to discuss the findings of a major EU-funded study on corporate responsibility that had been coordinated by the European Academy of Business in Society (EABIS). It focused on the extent of alignment between stakeholders views and demands for corporate responsibility and companies own views on that and whether more alignment correlated with business performance.[38] The summary report concluded "those that have established processes for managing dialogue with their stakeholders are no more likely to have achieved high levels of alignment than those that take a more ad hoc approach to monitoring and responding to external concerns. Stakeholder engagement is an established touchstone of CSR best practice – but could it really be that it is a waste of everybody's time?" The overarching finding was that positive stakeholder relations are important to business performance and that these cannot be achieved by processes like structured stakeholder dialogues but perhaps by aligning core business with the interests of the most stakeholders. If companies are naturally aware of societal challenges then stakeholders will not complain, and costly add-on initiatives to engage them beyond the normal course of business will not be required. In a free society, stakeholder silence is golden. The findings were not entirely new, but the fact that an EU backed project involving esteemed management institutions and a large data set now back them up will be useful to champions of real change in corporations to create business models that benefit a broader set of stakeholders.

A business school and research institution in France

The report and conference discussed implications of these findings. One insight was that less resources should be paid to formal stakeholder dialogues and more attention to creating organisational cultures and systems that reconnect staff with their communities and personal values, so that they can organically innovate new business models that are inherently more aligned with societal needs. One limitation in both the report and conference appeared during the discussion of how non-business stakeholders could change in light of the research.

The study is limited in its understanding of the stakeholder universe and this impairs its conclusions. A key limitation is in understanding the strategies of non-governmental organisations. For instance, the report recommends that as "companies with high alignment are more often found in countries, industries and competitive niches characterised by rapid change than by those where business models and social norms are more stable," so NGOs should focus their engagement on these companies. That might make sense for market researchers but NGOs often choose to focus on the companies that are most resistant to change, and seek to create contexts that will shift them, deciding who to focus on for broader concerns about what will drive social change. The WWF work on the luxury sector discussed earlier is a case in point. Another example of a mistaken assumption about NGOs is that they will decide to invest their resources in better engaging in internal change dynamics of companies. The report says NGOs "need to substantially upgrade their understanding of corporate processes and their skills in coordinating and cooperating to drive and support internal change." However, NGOs will need to assess whether CSR will deliver a sufficient scale and pace of social change compared to other activities they could be involved in, such as lobbying for regulation, before deciding to investing in such skill development. Some would argue that if business wants these changes then they can pay consultants. NGOs management would also assess whether investing in such skills relates to their own business model in terms of maintaining a distinctive role in society that will attract sufficient media attention to generate public and donor support. Calling on pensioners to donate 10 dollars a week to finance you being skilled at understanding accounting or marketing is not an easy sell.

points of view. What is the social consciousness of EABIS and the research partners? Asking for data from stakeholders and then chatting together about it in the safety of an elite management institution, pontificating on what the implications might be for stakeholders. That would appear to manifest a hierarchical and protective mindset, rather than an open and boundary crossing consciousness, which would involve recognising the equal dignity and autonomy of others, not just their relevance to you and your employers.

On the cover of the Response report was a picture of an iceberg. Stakeholders are the iceberg under the water in this study and have been frozen out of EABIS and many top business schools. To bring them in from the cold will require not only humility but a preparedness for discomfort in grappling with insights from interdisciplinary areas like development studies and civil society studies, which more effectively integrate

The Response project has been important in suggesting CSR should not be a practice, a profession, a department, but that companies can evolve so all staff in all departments consider both financial and societal value.

sociology and political science with the traditional theoretical bases of management studies. EABIS could make a start by commissioning a stakeholder assessment of the implications and limitations of the study, with sociology, political science and development studies specialists in support, and then base a research project on the findings of this assessment. They might also assess what stakeholders could get from EABIS and what they could bring, and consider changes to organisation membership and governance as a result.

A second key limitation of the Response study's understanding of stakeholders is that it does not account for differing states of civil society across Europe. In Eastern Europe the history of civil society is very different from the West and so not finding dissonance in expectations of stakeholders and companies there is a function of a relative lack of a tradition of independent informed critical civil society and media.

These mistakes are inevitable given that stakeholders were treated as sources of data , not objects of study, nor played any role in guiding the objectives of the inquiry. It is ironic that a research project about stakeholder engagement had no real stakeholder engagement in its design, governance or assessment. It is also ironic that one of the conclusions of the report is the importance of managers developing social consciousness (through various relaxation techniques), and thus an ability to appreciate interconnections and different

The Response project has been important in suggesting CSR should not be a practice, a profession, a department, but that companies can evolve so all staff in all departments consider both financial and societal value. We need top-to-bottom sustainable enterprises. Oops, it's that term again.

AFTERWORD

By Professor Michael Powell
Pro Vice Chancellor (Business)
Griffith University

The clear message from this review is that although existing corporate social responsibility efforts are delivering some progress, and are laudable in their own right, they may not deliver the sustainable global economy in time and we must explore ways of enabling faster and deeper change. It is apparent that the situation in which we find ourselves is critical and urgent, and therefore requires an extraordinary response.

By describing the need for a Global Step Change in our economy, the Review is helpful in encouraging us to make this response and be ambitious in our efforts.

In describing a wave of corporate announcements of environmental targets during 2007, the Review also provides hope that more and more companies are realizing the need to gear up their efforts on sustainable business. In parallel, governments increasingly recognize the need for hard targets. There appears to be a growing consensus on the need for action, now.

The role, and appropriate expectations, for business schools in this context are becoming clearer also which is why Griffith Business School adopted a new overarching mission in 2007 as follows: “The mission of Griffith Business School is to excel as a provider of high-quality, cross-disciplinary and internationally relevant business and public sector education and research, emphasizing the relationship between business and society in creating sustainable enterprises and communities.”

To advance this mission, in 2007 we became the first Australian business school to adopt the United Nations Principles for Responsible Management Education, which are described in this Review (see “the responsibility of business schools” on page 39). More and more business schools around the globe recognise the criticality of developing curriculum and undertaking research that demonstrates to all students the centrality of decisions around sustainability, resource use and responsible corporate actions. Indeed, some business schools in the United States are now asking their graduating students to take a pledge to act in line with ethical and sustainable principles, and the major international business school associations such as EFMD and AACSB are now actively encouraging and supporting developments in this area.

There remains, however, a lot that needs to be done. There is a long way to go, and not much time. At Griffith Business School, we are committed to educating business professionals to understand the critical nature of this challenge and are seeking to integrate sustainability and corporate responsibility throughout our curriculum. Therefore, I am delighted to support the Lifeworth Annual Reviews, and recommend them to you.

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NOTES

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