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Sustainability - The Business Perspective

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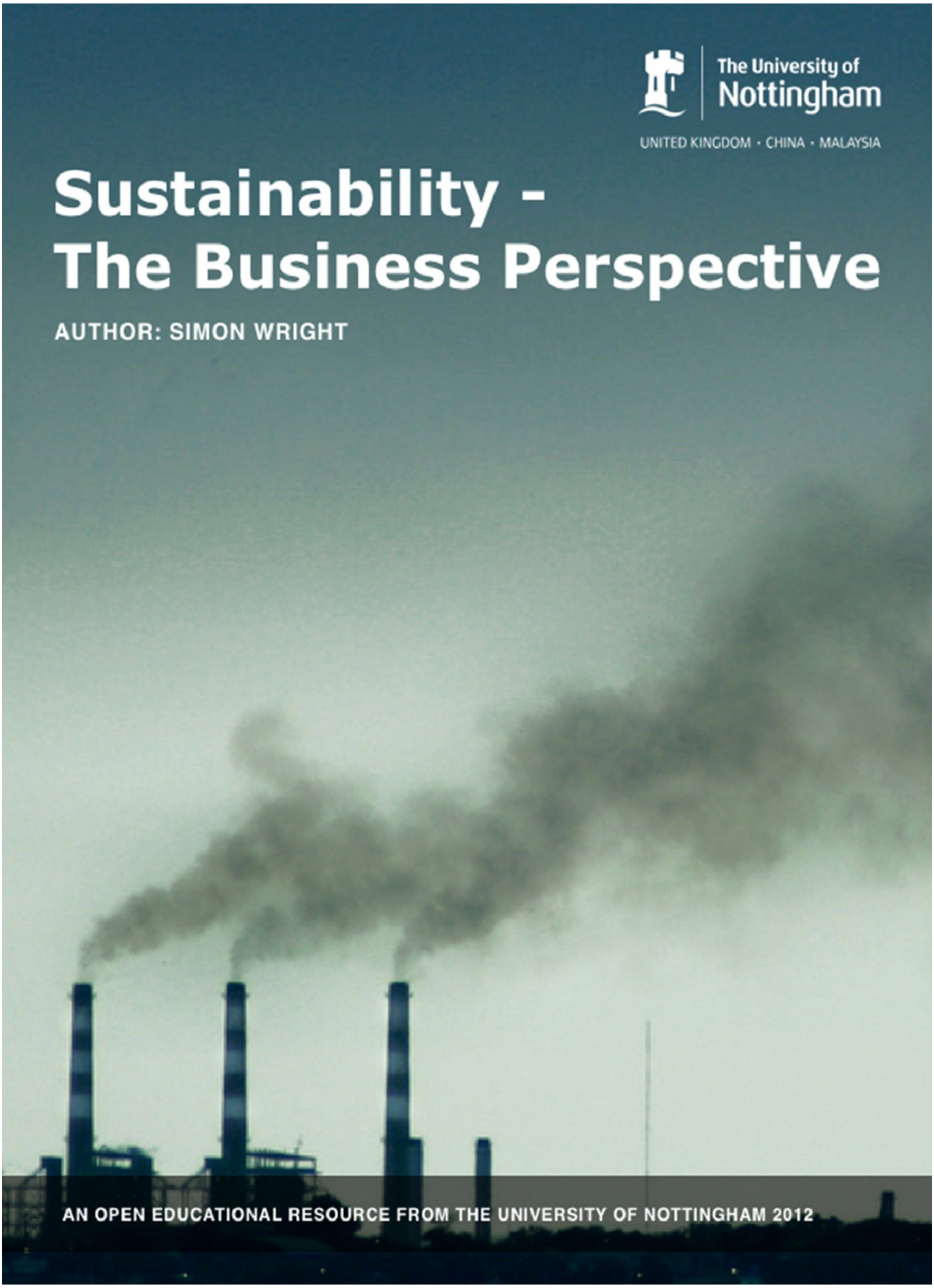

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Sustainability: The Business Perspective

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Chapter 1: Introduction

There is growing recognition across business that the reductionist 'mind set' founded on unlimited economic growth impervious to the social and environmental impacts of commercial activities will not resolve the converging environmental, social and economic crises now faced by the global community. Ever greater numbers of Boards and CEOs are grappling with a notion of sustainability and attempting to define precisely what it means for their business.

The primary aim of this unit is to capture this transition and define what businesses are doing to adopt a more sustainable approach. Looking at a number of case studies, the unit will attempt to demonstrate how individual businesses are attempting to align their activities to address global sustainability challenges such as climate change and carbon reduction, energy and water scarcity and poverty reduction.

The module is divided into ten sessions. After an initial introduction to sustainability and sustainable development and an investigation into the changing role of business in the 21stcentury, the module attempts to analyse corporate sustainability from the perspective of a variety of stakeholders – customers, suppliers, investors, employees, the natural environment and the broader community and civil society. Session 8 investigates how business measures and communicates sustainability activities to these stakeholders, whilst session 9 looks at number of case studies from across the broad corporate spectrum. The final session reviews the module and provides an activity to assess learning.

The module structure is as follows:

Session 1 –Module overview and an introduction to Sustainability

Session 2 –Sustainability and the Evolving Role of Business

Session 3 –Sustainability in the Marketplace I (Customers & Products)

Session 4 –Sustainability in the Marketplace II (Suppliers & Investors)

Session 5 -Sustainability in the Workplace

Session 6–Sustainability and the Natural Environment

Session 7–Sustainability and Society

Session 8 –Measuring & Communicating Sustainability

Session 9 –Case studies in Sustainability

Session 10 –Module Review and Assessment

It is impossible to cover all aspects of sustainability in this relatively brief module. By integrating a high degree of interactive learning and investigation, it is hoped to broaden the potential of the module and allow students to pursue their own investigation of the topic. The final assessment task is to create a sustainability strategy for a business of your choosing in a poster format for presentation to a faux board.

Making Sense of Sustainability

Business sustainability draws on knowledge from a number of disciplines including geography, engineering and of course management. To aid your learning, you will be asked to maintain a learning diary. This will allow you to explore you own ideas, awareness and perceptions of sustainability. It will also increase your awareness of sustainability and help you understand how sustainability manifests itself in different ways across businesses. It may serve to highlight ways in which you can manage your day-to-day activities in your personal and professional life in a way that promotes and encourages sustainable behaviour. Most importantly, it will generate a tangible asset for you to refer to in the future.

What is Sustainability?

Activity 1

Sustainability is perhaps the word of the moment in corporate parlance. It is used widely by businesses, sometimes indiscriminately. Before starting the module, we want to get an idea of what comes to mind when you hear the 'S' word.

To do this, create a date and title entry in your learning diary called 'What sustainability means to me' and record your thoughts here. Initially list words or concepts that spring to mind when hear the term 'sustainability'. You might like to try writing a formal definition of sustainability. Some of you may even be able to provide examples of projects or initiatives that you have seen aimed at promoting sustainability. Alternatively, you might like to provide an example or two of something you have done at home or at school or university that promotes sustainability. Please do not search on Google for definitions of sustainability. We want to see definitions, ideas and examples in your own words.

Don't be embarrassed if you know nothing about sustainability. If you knew lots, there would be little point in studying this module! It is important to gather different perspectives on sustainability, as much from people who are new to the field as it is from supposed experts.

There is no right or wrong answer. We simply want you to express what your ideas on sustainability before working through the module.

At the end of the module, you will be asked to write another entry describing your notions of sustainability, and you will be able to compare that with the definition you provide here.

You should spend no longer than 20 minutes writing this entry, and it should be fewer than 400 words.

Sustainability and Problems of Definition

Policy-makers and decision-makers working to address environmental and development issues have traditionally used the terms 'sustainability' and 'sustainable development' almost interchangeably. Both terms have at their roots the word 'sustain', which is used in everyday language. It is a word derived from Latin – 'sub' and 'tenere' where 'sub' meant under or towards and 'tenere' to hold or keep.

There are several detailed meanings defined in most dictionaries, depending on context. Most of them imply supporting or keeping going. 'Keeping going' does not of course mean the same as 'keeping' though some notions of sustainability appear to confuse the two. One understanding is that sustaining implies something that persists but it does not imply something that is static or unchanging. It implies something dynamic and can also imply a radical change in people's practices rather than continuing with 'business as usual'.

There are many types of sustainability –ecological, economic, financial, social, political, and institutional, depending on what is being sustained. Moreover, definitions of sustainability vary enormously. Here is a sample of definitions of sustainability:

"Sustainable means using methods, systems and materials that won't deplete resources or harm natural cycles" (Rosenbaum, 1993).

“Sustainability identifies a concept and attitude in development that looks at a site's natural land, water, and energy resources as integral aspects of the development" (Vieira, 1993)

"Sustainability integrates natural systems with human patterns and celebrates continuity, uniqueness and place making" (Early, 1993).

Perhaps the single most accepted definition of sustainability emanated in 1987 from the Brundtland Report. Entitled 'Our Common Future', the report attempted to identify a path for sustainable development embracing both multilateralism and interdependence of nations and placing environmental issues firmly on the political agenda. The report summarised sustainability as follows:

"Meeting present needs without compromising the ability of future generations to meet their needs" (World Commission on Environment and Development, 1987).

The definition of sustainability outlined in the Brundtland report contains two key concepts. Firstly, the concept of needs, in particular the essential needs of poverty-stricken populations across the globe, to which overriding priority should be given. Secondly, the idea of limitations imposed by the state of technology and social organisation on the ability of the environment to meet present and future needs.

Other definitions are provided in a compilation provided by the Humanities Education Centre: http://www.globalfootprints.org/page/id/0/5/

Sustainability can be represented diagrammatically in many ways. Figure 1.1 is one that many people find meaningful, and it implies that there are three pillars of sustainability -economic viability, environmental protection and social equity. Other dimensions besides environmental, economic and social could be represented. For instance, in a more developed form of the figure, 'technical feasibility', 'political legitimacy' and 'institutional capacity' could also be included. However, throughout this module, you will see that these three components of sustainability will be referred to routinely.

Figure 1.1: Sustainable development: where ecological, economic and social aspects overlap.

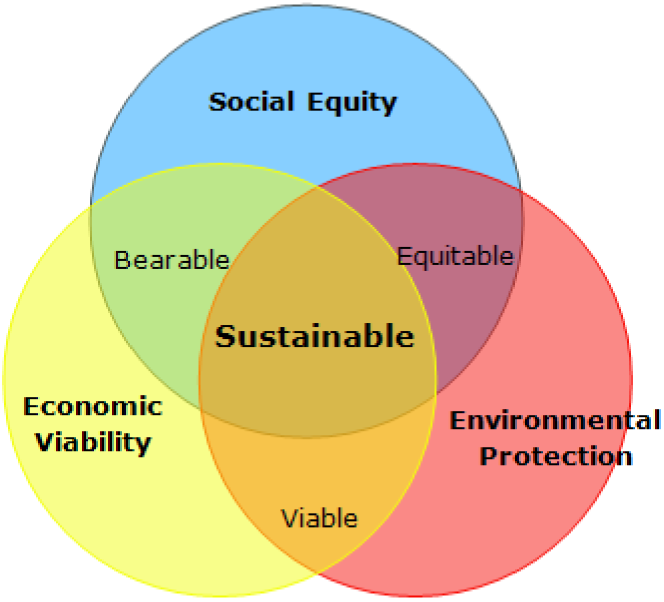

Figure 1.1 adapted from The Open University under a Creative Commons Attribution-NonCommercial-ShareAlike 2.0 Licence.
http://openlearn.open.ac.uk/mod/oucontent/view.php?id=405678&section=4

It should slowly become evident that defining sustainability is not straightforward. The International Institute for Sustainable Development (IISD) has released several videos that include decision-makers' definitions of sustainability. Please view each of these videos:

Vicky Sharpe, IISD board member, and CEO and president of Sustainable Development Technology Canada (SDTC): http://www.iisd.org/publications/pub.aspx?pno=1102

Milton Wong, IISD board member and chairman of HSBC Asset Management (Canada) Limited: http://www.iisd.org/publications/pub.aspx?pno=1100

Stephanie Cairns, IISD board member, and principal of Wrangellia Consulting: http://www.iisd.org/publications/pub.aspx?pno=1104

Sir Mark Moody-Stuart, IISD board member, and chairman, Anglo American: http://www.iisd.org/publications/pub.aspx?pno=1103

Daniel Gagnier, IISD board chair and chief of staff, Office of the Premier of Quebec: http://www.iisd.org/publications/pub.aspx?pno=1099

Complicating further the issue of definition is the tendency for businesses to define sustainability in terms that mean something to that business. Frequently these definitions will refer to efficiency and reduction of resources, carbon management, ethical sourcing and treatment of staff, all concepts that will be explored later in the module.

It soon becomes apparent that large corporations tend to define sustainability in a manner that makes sense to them but in many aspects differs from more established definitions of sustainability and sustainable development.

Activity 2

Now create a second entry in your diary entitled ‘Definitions of Sustainability’. Using Google or other search engines, try to identify a number of definitions of sustainability. Record those definitions that mean something to you and write down a couple of lines on why you find them interesting or relevant – don’t forget to include full referencing. If possible, think of events or situations that fit with your favourite definitions of sustainability and write them down. Spend no longer than 15 minutes and attempt to summarise in no less than 200 words.

Then reflect on the definitions of sustainability as defined by some of the corporations cited above. How are they similar and how do they differ from traditional definitions of sustainability? Again, spend no longer than 15 minutes and attempt to summarise in no less than 200 words

One of the neatest definitions of sustainability and its relationship to business is provided by the Natural Step, a not-for-profit organisation dedicated to education, advisory work and research in sustainable development. Since 1989, they have worked with thousands of corporations, municipalities, academic institutions and not-for-profit organisations to attempt to demonstrate that moving strategically toward sustainability leads to new opportunities, reduced costs, and dramatically reduced ecological and social impacts.

Activity 3

Take a few moments to watch the Natural Step's video on how they define sustainability available at http://www.youtube.com/watch?v=FFCNCQleCuk. Identify 3-4 initiatives that an organisation or business that you know well could adopt to move towards a concept of sustainability as defined by the Natural Step. Spend no more than 10 minutes on this and note your ideas in bullet point format.

Sustainability and Corporate Responsibility

The definition of sustainability is complicated further in the corporate context rather than clarified. Corporations talk of sustainability in a variety of ways applying to a broad range of topics – financial, social or environmental. Purists would argue that it is often applied inappropriately to encompass notions of durability and resource efficiency. Perhaps even more confusing is the use by many business leaders of the term interchangeably with notions of corporate responsibility (CR) and corporate social responsibility (CSR).

Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business/Responsible Business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders.

The term "corporate social responsibility" came into common use in the late 1960s and early 1970s after many multinational corporations formed the term stakeholder, meaning those on whom an organization's activities have an impact. It was used to describe corporate owners beyond shareholders as a result of an influential book by R. Edward Freeman, Strategic management: a stakeholder approach in 1984.[2]Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

CSR is titled to aid an organization's mission as well as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000is the recognized international standard for CSR. Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities.

Activity 4

Take 30 minutes to read about sustainability and CSR in Crowther and Aras (2010) available as a free e-book from bookboon.com. Download the book and read pages 7-13 inclusive and 38-49 inclusive. Making a new entry in your learning diary, answer the ‘Self-Test Questions’ on page 50.

Remember, this is just one perspective on sustainability. As we have learned, sustainability remains a challenging concept to define and means different things to different people.

Sustainability – A Brief History

History suggests that there have always been people who have been concerned about the future welfare of humankind. This concern has been based upon extrapolations of current activities and awareness that past civilisations have collapsed when challenges have not been faced. Depending upon your disposition you may regard those who are concerned about sustainable development as wise people giving timely warnings; examples of pessimists let loose; or down-right dangerous doom-mongers.

All these epithets have been attributed to people who have issued such warnings. There are many theories as to why for instance the Ancient Egyptian, Sumerian, Mayan and Polynesian civilisations collapsed - you may be familiar with some of them from TV documentaries or books? Among them are theories that the pattern of human demands in those societies damaged their environmental support systems. When combined with other external environmental changes and various social, cultural, political and economic circumstances, this meant that those societies could not adapt to the combination of changes in time and so could not continue their ways of life (Clayton and Radcliffe, 1996; Ponting, 1991). Such interpretations of these events acknowledge multiple causes and systemic effects.

One of the better known historical figures who predicted difficulties for the future was Malthus (1798). He noted that whereas food production seemed to increase linearly with time, populations grew exponentially. It does not take long for the exponential growth to exceed the linear growth by a large factor, and thus predict large-scale starvation. Other well-known classical economists, such as Ricardo and Mill (around 1800), predicted that the scarcity of resources would eventually lead to the cessation of economic growth – thereby earning economics the title 'the dismal science'. Observations of the (then) present that had implications for the future (our 'now') were also made. For instance in 1947 Mahatma Gandhi was quoted as saying 'the earth has enough for everyone's need but not for their greed'. Rachel Carson's book Silent Spring in 1965 made connections between use of pesticides in agricultural development and diminishing numbers of birds with predictions that this trend would continue unless farming practices were changed.

In 1972 a small book, Limits to Growth was published by an American group who used systems dynamics to develop a model of the global economy. Their analysis purported to show that even making optimistic assumptions about resource availability and curtailing population growth, the world economy would collapse within 50 to 100 years.

These historical examples of prediction are useful in that they make it clear that, whilst concerns about the future may be well founded, the future is unknowable and often turns out to be profoundly different from the fantasies of both pessimists and optimists. Many of the disasters forecast in the past have been avoided by technological developments. Take for example the Victorian forecaster who calculated that if the growth in horse traffic continued at the (then) current rate, by 1950 London would be covered in three feet of horse manure each year! Motor cars replaced horse traffic, so the problem of dung was avoided.

Though it is perhaps arguable whether this was more or less of a problem than the present congestion and pollution due to motor traffic! The limited resources referred to in the Limits to Growth model have been expanded many times by advances in technology making it possible to extract oil from hostile environments and precious metals from low grade ores, albeit not without various knock-on effects for communities and their environments. The optimists point to these historical precedents and assume that technology and the ingenuity and abilities of people will always enable us to escape from the dilemmas currently forecast. Indeed from one perspective the forecasts of future disasters are made precisely to encourage people to avoid them – they are self-defeating forecasts.

But is this optimism justified? Are there any reasons why current forecasts of future problems should be taken more seriously than those made in the past? There are several factors that seem to us to make the current position different in principle from the past.

This principle difference is that the scale of human activity on earth is now approaching the same scale as the natural cycles that occur around the globe. The use of fossil fuels over the last one hundred years has changed the composition of the atmosphere. Human engagement with other parts of ecosystems is causing hundreds of species to become extinct each year and the effects of human activity are evident well beyond the immediate locations in which we live. Many of the resources that were used to drive industrial development in the 19th century are now exhausted or uneconomic at present to remove, in the areas where they were initially extracted such as tin in Cornwall (UK) and oil in Texas (USA). Water extraction rates exceed the annual flow of some rivers. However they do not run dry because wastewater is returned to them. Vickers (1965) noted that the River Thames could once have been considered as an independent physical system, part of the given environment and primarily a way in which water from a stable catchment area found its way to the sea. He reflected on the effects on the river of people's activities (for example flood control, distribution of water, pumping and use for transportation and sewage disposal) and predicted that the Thames would virtually disappear within what he described as a human socio-technical system. He felt it would become dependent on new physical constructions, new institutions, and a new attitude to the use of water and the regulation of the whole water cycle. His observations still seem very appropriate in the context of sustainable development more than thirty years later, as indicated by the following quote from Klaus Topfer, UN Under-Secretary General and Executive Director of the United Nations Environment Programme in 1998.

"At the beginning of the 18th century, there were less than a billion people in the world sharing less than a million cubic kilometres of freshwater. In 1900, there were about 2 billion people sharing the same amount. Now there are more than 6 billion people and the freshwater supply has remained constant."

Another difference is that with the increased scale of human activities comes an increase in associated effects and disparities between rich and poor. For instance a vicious circle relationship has been identified by many between poverty and environmental degradation. Others have stressed the 'effluence of affluence' claiming that the underlying cause of environmental degradation is wealth as opposed to poverty (Holmberg, 1991).

Increases in energy and resource consumption in many parts of the world have also been increasingly inequitable. This has led to differentials in capacity to trade due to differences in power and bargaining positions in world markets. Concern about the future has led to other activities besides prediction, particularly on the international stage. There was increasing recognition among governments, business and industry, non-governmental organisations and international agencies that action by one or a few countries alone would be ineffective unless matched by others.

In 1987, as a result of recommendations from the Stockholm conference and Brandt Commission, the World Commission on Environment and Development (WCED; also known as the Brundtland Commission, named after Gro Harlem Brundtland, the then Prime Minister of Norway who chaired the Commission), produced its report 'Our Common Future' in 1987 (World Commission on Environment and Development (WCED), 1987). The Brundtland definition of sustainable development became particularly well known.

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

What this definition succinctly emphasises is that the core issue is one that involves trading some present consumption or development or satisfaction with some aspect of the welfare or development or satisfaction of future generations. This concern has deep emotional roots in human beings, especially in people who have, or expect to have, children of their own. Parents forego many types of current satisfaction in order to provide for the future of their children – and this drive has clear biological and evolutionary advantages. Issues that threaten the sacrifices made by parents generally raise very strong emotional reactions – reflecting the high commitment and value placed on this concern for the future.

The following short lecture (around 25 minutes long) discusses how the science of sustainability centres on the study of biophysical limits and the extent to which human activities are transgressing those constraints. It also provides an additional historical context of sustainability.

http://ocw.njit.edu/nce/eps/eps-622-cohen/index.php

In 1992 a major event was to shape the future of sustainability and its place on the global development agenda. The Earth Summit – the United Nations Conference on Environment and Development –held in Rio de Janeiro was the largest gathering of heads of government that the world had ever seen. 178

government delegations attended, there were also around 50,000 non-governmental representatives and over 5,000 press and thousands of civil servants (Lindner, 1997). From the Earth Summit conventions emerged on climate change and biodiversity; a set of guidelines of forest principles; a declaration on Environment and Development and 'Agenda 21', an extensive international agenda for action for sustainable development for the 21st century. Agenda 21 was endorsed by all government delegations present and received a wide range of input and support from NGOs.

After the Earth Summit the UN Commission for Sustainable Development was established to promote the process of sustainability and to address the issues and actions identified in Agenda 21. It includes social, economic, conservation and resource management dimensions. Agenda 21 calls for radical changes in the way many live their lives in order to address global issues, ranging from protecting atmospheric, oceanic and freshwater resources to conserving biodiversity, transfer of environmentally sound technology, managing forests, wastes and biotechnology to combating poverty and protecting human health. Stakeholders in Agenda 21 processes, which take place at a range of different levels – from global to local, include nine overlapping 'major groups' who identified themselves or were identified by others. These major groups included women, children and youth, indigenous people, NGOs, local authorities, workers and trade unions, business and industry, scientific and technological community and farmers.

There were many more events at international, regional, national and local levels that followed the Earth Summit. In 2002 a further summit – the World Summit on Sustainable Development (WSSD) – took place in Johannesburg, South Africa. Whereas the Brundtland era focused on 'North-South' interactions and the realisation that we didn't know enough about the inter-relationships between ecological, social and economic dimensions, WSSD focused more on political and social dimensions of sustainable development and issues of participation, governance and the creation of networks of stakeholders and partnerships.

Perhaps one of the most significant changes between 1992 and 2002 was increased evidence of globalisation, particularly in economic terms such as trade, finance and growth of multinational companies. Besides conferences and events there are other aspects of this global view of issues associated with development.

There are other fundamental reasons why issues associated with sustainability arouse deep feelings within people. It is not accidental that many of the examples of issues are associated with global or international levels of decision making and action. It was one thing for the coal fires in London to create smog (a mixture of fog and smoke) that caused significant numbers of inhabitants to die of respiratory diseases. It is quite another for the global use of fossil fuels to change the global climate so that sea levels rise and threaten large parts of the world's population with flooding. Most of the interest in sustainability is not parochial – it is not the inhabitants of Cornwall protecting the interests of the future inhabitants of Cornwall. It is a concern for the future inhabitants of the globe as a whole.

Some of the latest thinking on what sustainability actually is, comes from the Stockholm Resilience Centre (http://www.stockholmresilience.org/), and in particular, from Johan Rockstrom. Rockstrom is a leader of a new approach to sustainability, dubbed “planetary boundaries”. Working with a team of 29 leading scientists across disciplines, Rockstrom and the Stockholm Resilience Centre identified nine key Earth processes or systems and marked the upper limit beyond which each system could instigate a major system crash.

Climate change is one of the components but so are other anthropogenic threats such as ocean acidification, loss of biodiversity and chemical pollution. If Earth is a self-regulating system, it is clear that human activity is capable of disrupting it. Rockstrom notes how human growth has strained the Earth's resources but our advances also give us the science to recognise this and change behaviour. These concepts are discussed in the following 18 minute presentation, which you should watch now:

http://www.ted.com/talks/lang/en/johan_rockstrom_let_the_environment_guide_our_development.html

Summary

As has become apparent from the previous discussion, while the word ‘Sustainability’ may be used interchangeably with a range of other concepts such as ‘sustainable development’, ‘corporate responsibility’ and ‘resource efficiency’, there is no formal, internationally-agreed definition of the term that is applied universally. Throughout this module, we will use the term sustainability but bear in mind that some web links and videos will use the terms ‘sustainable development’, ‘corporate responsibility’ and ‘sustainability’ interchangeably.

This session has highlighted that sustainability is not easily defined. Various definitions exist. In the commercial context, many businesses have tended to define sustainability in terms of what it means for them. Frequently this relates less to sustainable development and more to issues of energy and carbon reduction, resource and supply chain efficiency, local procurement and staff retention.

However, insights into what sustainability actually means can be gained by taking a historical perspective. This indicates that concepts such as peoples’ needs, and limits of the environment to meet these needs, are central to sustainability. While human society has resulted in some of these limits and planetary boundaries being exceeded, we do possess the ability to manage the environment in a sustainable way, through economic, scientific and social development.

Throughout the remainder of this module, we will explore a number of examples and case studies that illustrate how businesses have attempted to address the issue of sustainability. We will consider the topic from the perspectives of a variety of stakeholders in business – customers, staff, suppliers and investors. We will analyse a number of case studies of corporate sustainability and investigate how businesses measure and communicate sustainability to their stakeholders.

Additional Reading and References for section 1

The following article, which was published in the journal Sustainability, in 2010, provides an excellent overview of the issue of defining sustainability and it gives further details on the historical context of the term: http://www.mdpi.com/2071-1050/2/11/3436/

(Kuhlman and Farrington, 2010).

Clayton AMH and Radcliffe NJ. (1996) Sustainability – a Systems Approach, London: Earthscan

Early D. (1993) What Is Sustainable Design, Berkley: Society of Urban Ecology.

Ponting C. (1991) A Green History of the World, London: Sinclair-Stevenson.

Rosenbaum M. (1993) Sustainable Design Strategies. Solar Today.

Vieira RK. (1993) Designing Sustainable Developments. Solar Today 4: 10-13.

World Commission on Environment and Development (WCED). (1987) Our Common Future. Oxford, 43.

Crowther D. and Aras G. (2010) Corporate Social Responsibility Part 1: Principles, Sustainability & Stakeholders. New York. Ventus.

Chapter 2: Business and the Trust Deficit

Historically the primary role of business has been focused on generating returns for shareholders. Milton Friedman, the Nobel laureate, famously stated that the 'business of business is business,' implying that any deviation from this primary purpose could be viewed as a waste of shareholders' money. Yet in the past 10-15 years, increasing numbers of business leaders have embraced concepts of sustainability and corporate responsibility to strengthen their license to operate within the community. This adoption has been accelerated by the dramatically decreasing levels of trust of businesses by the general public in the wake of high profile corporate scandals and bankruptcies.

This session attempts to identify the key drivers for this change – social, environmental, institutional – and to summarise what this means for businesses in the 21stcentury.

The Trust Deficit and Social Capital

The Edelmann Trust Barometer provides an annual insight into the public's views on their institutions. Whilst the 2011 survey indicated modest increases in levels of trust across all sectors of the economy, levels of trust in business remained low. Banks and the broader finance sector were worthy of particular note, with trust levels down 46% in the US and 30% in the UK. Perhaps the most important, if largely unsurprising, highlight of the report was that 'trust is now an essential line for business'. Interestingly, the report alludes to the changing expectations of business by the general community, with respondents talking about a notion of 'shared value'. Specifically, the report concludes that business must align profit and purpose for social benefit.

Activity 2.1 – Trust Barometer

Go to http://edelmaneditions.com/2011/01/trust-barometer-2011/ and read through the Edelmann Trust Barometer 2011. Create a section in your diary entitled '2011 Edelmann Trust Barometer' and note the three most significant findings of the report. Explain why they are important to you and summarise their implications for business leaders. Spend no more than 15 minutes on this and write 150 words.

The Concept of 'Social Capital'

Fukuyama (1995) examines the importance of civil society defined through institutions including businesses, churches, universities, and schools and uses the concept of 'social capital' to describe how people work together for common purposes in organisations. Fukuyama argues that shared values lead to trust, which is crucial for society and the economy to function. He quotes from the distinguished economist Kenneth Arrow with approval:

'Now trust has a very important pragmatic value, if nothing else. Trust is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other people's word. Unfortunately this is not a commodity which can be bought very easily. If you have to buy it, you already have some doubts about what you've bought. Trust and similar values, loyalty or truth telling, are examples of what the economists would call 'externalities'. They are goods, they are commodities; they have real, practical economic value; they increase the efficiency of the system, enable you to produce more goods of whatever values you hold in high esteem. But they are not commodities for which trade on the open market is technically possible or even meaningful.'

(Arrow, 1974: 23)

According to Fukuyama, widespread distrust puts a kind of tax on economic activity. Fukuyama argues that trust is crucial to civil society which underpins the economic system. He examines different types of society based on family and kinship, voluntary associations and the State and links the extent of social capital to economic prosperity.

It can be argued that business depends upon government for infrastructure and that business cannot exist in isolation from the community. Even markets are regulated. Hosmer (1994) builds his arguments concerning ethical business on a number of propositions which hypothesise that companies operating in a competitive global economy depend on a wide range of stakeholders for co-operative activities, and that it is possible to build trust, commitment and effort on the part of all stakeholders by including ethical principles in the strategic decision making of companies where the interests and rights of all stakeholders are recognised. Hosmer claims that equitable acts will, over time, lead to trust; trust leads to commitment and commitment supports success. In other words, for an organisation to be successful in the long run it must be ethical.

Given these links between the organisation and its environment, can, and should, organisations provide an ethical framework for the conduct of business? An ethical framework is not necessarily easy to define, and there is a wide spread of possible ethical stances; thus Woodall and Winstanley (2001) suggest some 20 starting points, ranging from self-interest and freedom to fundamental rights for all to the need to take stakeholder interests into account and giving consideration to the process of decision making. There is a strong argument that the sole purpose of a private sector organisation is to make profits for shareholders and that their self-interest is the only consideration. This view, which emphasises the ends rather than the means of private sector organisations, is being questioned as corporate social responsibility has become much more of an issue and as ethical investments gain credibility as investors seek investments that will 'do good (or at least no harm) and do well'. It is worthy of note that the 1997 Annual General Meeting of Shell was disrupted by shareholders who believed that Shell's activities in Nigeria were questionable and should be subject to ethical scrutiny. Multinationals are now beginning to see that environmental problems are not just the concern of governments but they themselves have a responsibility, and as a response have adopted ethics statements as part of their mission.

Activity 2.2 – Trust in Business

Select from the media an example in recent months of a business that has in some way undermined the trust of its stakeholders. Create a note in your diary entitled 'Trust in Business' together with the name of the business. Summarise what the business did to betray trust, why you think it might have happened, who it impacted and how they might address the issue and avoid repetition. Spend 20 minutes on this and write no more than 200 words.

Business and its Stakeholders

Public and voluntary sector organisations do not have the same shareholder obligations as those in the private sector. However, as the distinction between public and private sector organisations becomes blurred, there are concerns that the ethical role of public service organisations –defined as acting in the public interest through a public service ethos – is being undermined. As public service and non-profit organisations are increasingly expected to achieve targets and become more 'business like', there are worries that short cuts are being taken and dubious practices are emerging, particularly at the boundary between the public and private sectors.

An ethical approach would normally incorporate a range of stakeholders. Accounts of which groups and individuals may be considered to be stakeholders vary, but most would agree with Wood's categorisation of core stakeholders as:

(a) *constituents* on whose behalf the organization exists and operates, e.g., business owners or voluntary association members;

(b) *employees* who conduct the organization's affairs;

(c) *customers* who receive the goods or services the organization produces;

(d) *suppliers* who provide the input materials for the organization's activities; and

(e) *Government* that guarantees an organization's rights and privileges, enforces its responsibilities, and regulates its behaviours through political processes.

In addition, some scholars are now adding the *natural environment* as a core organizational stakeholder.

'Organizations have many other stakeholders, including local communities, competitors, media, financial analysts and markets, financial institutions, voluntary organizations, environmental and consumer protection groups, religious organizations, military groups, political parties or factions, etc.'

(Wood, 1995: 529)

Stakeholders

Ed Freeman, professor of business administration at the Darden School of the University of Virginia conceived of organisational stakeholders in his book Strategic Management: A Stakeholder Approach (1984).

In the traditional view of the firm, the shareholder MH (Majority Holder) view (the only one recognized in business law in most countries), the shareholders or stockholders are the owners of the company, and the firm has a binding fiduciary duty to put their needs first, to increase value for them. In older input-output models of the corporation, the firm converts the inputs of investors, employees, and suppliers into usable (sale-able) outputs which customers buy, thereby returning some capital benefit to the firm. By this model, firms only address the needs and wishes of those four parties: investors, employees, suppliers, and customers. However, stakeholder theory argues that there are other parties involved, including governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees, prospective customers, and the public at large. Sometimes even competitors are counted as stakeholders.

Activity 2.3 – Stakeholders

Go to http://www.youtube.com/watch?v=Ih5IBe1cnQw and watch Ed Freeman talk about stakeholder theory. You need only to watch the first 15 minutes of the video.

Now make an entry in your learning diary entitled Stakeholders of the University of Nottingham. Spend 15 minutes listing all of the stakeholders of the University. Once complete, try to categorise them into primary and secondary stakeholders.

Primary (usually internal) stakeholders are defined as are those that engage in economic transactions with the business (for example, stockholders, customers, suppliers, creditors, and employees). Non-Market (or Secondary) stakeholders are usually external and are those who - although they do not engage in direct economic exchange with the business - are affected by or can affect its actions (for example the general public, communities, activist groups, business support groups, and the media).

Imagine now that the University decides to build a campus in Spain to take advantage of the large numbers of unemployed youth considering tertiary education. How will this affect the University's list of stakeholders? Spend 15 minutes listing any new stakeholders.

Creating Shared Value

Creating Shared Value (CSV) is a concept first introduced in Harvard Business Review article *Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility* and further expanded in the January 2011 follow-up piece entitled Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society.

Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School, and Mark R. Kramer, Kennedy School at Harvard University and co-founder of FSG. The article provides insights and relevant examples of companies that have developed deep linkages between their business strategies and corporate social responsibility. Moreover the concept is remarkable in their last article "Creating Shared Value".

The central premise behind creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. Recognizing and capitalizing on these connections between societal and economic progress has the power to unleash the next wave of global growth and to redefine capitalism.

Companies can create shared value opportunities in three ways:

Reconceiving products and markets- Companies can meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation.

Redefining productivity in the value chain - Companies can improve the quality, quantity, cost, and reliability of inputs and distribution while they simultaneously act as a steward for essential natural resources and drive economic and social development.

Enabling local cluster development - Companies do not operate in isolation from their surroundings. To compete and thrive, for example, they need reliable local suppliers, a functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system.

Many approaches to CSR pit businesses against society, emphasizing the costs and limitations of compliance with externally imposed social and environmental standards. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.

A significant challenge of CSV resides in accounting for ecological values/costs that are generated within the realm of agricultural production. Up to 90% of the ecological footprint in food processing can be attributed to land management activities outside the control of corporations. An eco-commerce model that accounts for ecosystem services at the production unit (farm) level allows "shared value" to emanate from the production unit outward. Centering the shared value at the farm level allows for utilities, biomass processors, food processors, environmental liability insurers, landlords, and governments to participate in the shared value process.[4] This eco-commerce shared value process accounts for and includes positive [environmental] externalities within the economic system.

"We did it from a business standpoint from Day 1. It was never about corporate social responsibility."
Jefferey R. Immelt, G.E.'s Chief Executive

General Electric's redirection of its business plan to "eco-magination" program in 2005 was a result of the societal and governmental push for reduction in electrical and fuel costs and in carbon emissions. With the help of environmental consulting firm, Green Order, G.E. managed to modify its products more eco-friendly and energy saving. Its sales reached $18 billion in 2009 and are predicted to grow twice as fast as overall company revenues over the next five years[6].

Dow Agro-Sciences has developed a line of Omega-9 rich canola and sunflower oils, with zero trans fats and the lowest levels of saturated fats. Since 2005, Omega-9 Oils have eliminated nearly a billion pounds of trans fat and 250 million pounds of saturated fat from North American foods.

Companies can also improve the competitive context in which they operate by investing in their communities. Nestlé, for example, worked closely with the farmers of the Moga Milk District in India, investing in local infrastructure and transferring world-class technology to build a competitive milk supply chain that simultaneously generated social benefits through improved health care, better education, and economic development.

In conclusion, CSV encourages each company to create economic and social value simultaneously by focusing on the social issues that each is uniquely capable of addressing

Activity 2.4 – Creating Shared Value

Go to Youtube and view the interview with Michael Porter on Creating Shared Value at http://www.youtube.com/watch?v=LrsjLA2NGTU.

Now create an entry in your diary. Focusing on a company that you know well, spend 30 minutes and no more than 250 words on summarising what it would mean for your selected business if they were integrate Porter's concept of shared value into their core business process. How would it influence their product and marketing? What about their customers and staff? How might it improve their environmental performance?

Summary

The primary thrust of this unit has been to emphasise the need for all organisations to acknowledge the influence of their environments and, in turn, the impact of organisations on their context. We have argued that the commercial environment is characterised primarily by the growing trend toward globalisation. To a much greater extent than ever before we live in a global village where goods and services will be produced wherever they can be provided at the least cost. Consumers in the West in particular are getting used to the idea of products being available for almost unbelievably low prices.

Business responses to the 'green' environment seem to be at something of a 'tipping point', with successive estimates of the severity of the problem seeming to indicate 'sooner' and 'worse'. There are plenty of examples of enlightened behaviour but the degree of adjustment being achieved seems more akin to reducing the rate of acceleration than actually hitting the brakes.

The ethical environment does seem to be developing, but the transition model that seems to apply to emerging economies would suggest that the export of western 'norms' will lag behind the growing industrialisation for the foreseeable future.

None of the above is meant to sound in any way fatalistic. All three environments are changing, and human activity is the agent of change in every case. Organisations make choices, people make choices. Humanity has grown to the point where it can make major changes to its environment; it now needs to decide what those changes should be.

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Chapter 3: Business, Governance and Ethics

The topic of ‘governance’ is one that has gained popularity, and the term is now used to embrace a range of concepts. This unit establishes some basic principles that will form the basis of your study. You will have the opportunity to consider how well these principles match up with your own observations of corporate organisations and behaviour

On successful completion of this unit, you should be able to:

Provide a range of definitions of corporate governance;

Identify issues usually addressed by corporate governance structures;

Summarise recent scandals and abuses and the regulatory reaction;

Identify the other drivers of corporate governance, such as capital markets, shareholders and rating agencies.

What is Corporate Governance?

The need for corporate governance arises out of the divorce in modern corporations between the rights of shareholders and other suppliers of capital on the one hand, and the operational control, which is in the hands of professional managers, on the other. This can be described as the 'principal–agent' problem. Put simply, the question is: will the managers run the corporation exclusively for the long-term benefit of the shareholders, and what mechanisms can be put in place to ensure this takes place? Most individuals involved in business are basically honest and principled. Gandhi is said to have observed that India's British rulers believed they could set up a system that was so perfect that people would no longer need to be good. Systems of corporate governance are designed to provide a framework for managing companies that embodies best practice rather than relying on individuals' integrity.

The most well-known definition of corporate governance originates from the Cadbury Committee, which was set up in the UK in 1991 to raise standards in corporate governance: 'Corporate governance is the system by which companies are directed and controlled' (Cadbury Committee, 1992). Corporate governance is about relationships and structures. First, it is the relationship between a company's management, its board of directors, its auditors, its shareholders, its creditors and other stakeholders. Corporate governance is based on structures through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Recently, an International Federation of Accountants (IFAC) report gave the following definition for 'enterprise governance':

…the set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization's resources are used responsibly.

(IFAC, 2004)

For IFAC, enterprise governance has two dimensions that need to be in balance: conformance or conformity (i.e. with laws, codes, structures and roles) and performance. They believe that good corporate governance on its own cannot make a company successful. Companies must balance the two. However, without good corporate governance, the long-term success of the company is in serious doubt. In other words, good corporate governance is necessary but not sufficient for business success.

Other, broader definitions would extend the concept of control beyond that exercised by the managers, the board of directors and the shareholders to a larger number of stakeholders, including creditors, employees and business partners, such as suppliers and the local community. The nub of corporate governance remains the relationships between management and shareholders, with the auditors (and their impact on the financial statements) playing a key role. Shareholders want to ensure that the company is run to maximise long-term shareholder wealth, and therefore that managers do this and do not reward themselves to the detriment of shareholders. The auditors need to be protected from undue management influence so that their role as guardian of the accuracy of the financial statements is not put in jeopardy. However, it is now more explicitly accepted that the shareholders have responsibilities towards other stakeholders, and in particular the host communities within which the company operates. Failure to respect these obligations is likely to provoke negative interventions from government or negative market reactions in the long term. If the interests of all the relevant stakeholders are balanced, good corporate governance should maximise the shareholders’ wealth and maintain the company's surrounding relationships.

Typical corporate governance structures usually address issues such as:

Roles of the CEO and chairman

Board of directors – composition, independence, qualifications, training, remuneration and representation of shareholders

Audit committee – selection and role

Rights and treatment of shareholders and stakeholders

External auditors – selection, duties and liability

Disclosure and transparency.

The annual financial reports commonly contain a statement on corporate governance, so it is useful to have an awareness of what this involves. This has important implications for interpreting the financial statements: a company with a weak system of corporate governance will provide greater opportunities for the manipulation of financial statements, with adverse consequences for users.

Activity 3.1 - Principles of Corporate Governance

Go to the OECD website and download its 2004 principles of corporate governance. What are the main principles identified by the OECD? Make an entry in your learning diary entitled Corporate Governance and make a note of these principles. Spend some time reflecting on these guidelines in the light of your own experience. Have you come across examples of the effect of the presence or absence of these principles in businesses that you have dealt with? Spend no more than 20 minutes on this.

The Drivers of Corporate Governance Rules

In this section we are going to review the different needs that drive the creation of corporate governance frameworks. The contingent model of regulation applies to financial reporting: the idea that equilibrium in regulation exists, but is broken by some intrusive event, often a financial scandal. This leads to a search for a revision of the rules, and a new equilibrium is worked out. This is very much a pattern that drives change in corporate governance.

Recent Governance Failures

As we have discussed before, the creation of corporate regulation is often linked to perceived failures of corporations and their management to behave in the way society expect them to. Corporate governance is not an exception to this trend, and, as with accounting, different countries may well experience difficulties at different times. For example, the development of British codes of best practice, which began with the Cadbury Committee, can be related to governance scandals such as Polly Peck and Coloroll in the late 1980s and early 1990s. However, the wave of corporate scandals, mostly in the USA, at the turn of the century has been marked not only by the number of cases but also by the effect they have had on investor confidence and market values worldwide. To stop the rapid erosion of investor confidence, the United States took drastic action in record time with the Sarbanes-Oxley Act in 2002. But first we review the problems behind these corporate failures in order to better understand the regulatory responses.

The combined impact of various US corporate scandals caused the Dow Jones Index to drop from a high for 2002 of 10,632 on 19 March to 7,286 on 9 October, wiping out trillions of dollars in market value. Investor confidence in the fairness of the system and the ability of corporations to act with integrity was ebbing. According to a poll in July 2002, 73 per cent of respondents said that Chief Executive Officers (CEOs) of large corporations could not be trusted (Conference Board, 2003). Amongst the many negative effects of this was a worsening of the pension funding crisis caused by the dramatic drop in the value of pension fund assets. It also increased the cost of capital and caused a virtual cessation in new securities offerings. The International Federation of Accountants (IFAC) claims that while there has been a lot of strategic guidance for business, there has been too little said about the need for good corporate governance. However, even the strategic guidance on well-run corporations given by authors such as Collins and Porras (1994) or Collins (2001) would, if followed, have prevented the worst abuses. These authors emphasise the fact that successful companies were visionary companies, with a long track record of making a positive impact on the world. They did more than focus on profits; they focused on continuous improvement. They took a long-term view and realised that they were members of society with rights and responsibilities.

However, the long-term view is something of a rarity in many companies. A critical factor in many corporate failures was a poorly designed rewards package, including excessive use of share options that distorted executive behaviour towards the short term. The use of stock options, or rewards linked to short-term share price performance, led to aggressive earnings management to achieve target share prices. When trading did not deliver the earnings targets, aggressive or even fraudulent accounting tended to occur. This was very apparent in the cases of Ahold, Enron, WorldCom and Xerox (IFAC, 2003).

One accounting chief on trial told the jury that Adelphia manipulated its earnings figures for every quarter between 1996 and 2002 to make it appear to meet analysts' expectations. ‘We reported numbers we basically made up’ he said (Los Angeles Times, 2004a). IFAC (2004) examined a number of cases of corporate governance failures. Some of the better known cases of financial irregularities are summarised in Table 1.

Table 1: Recent Financial Irregularities

Company	Country	What went wrong
Ahold	NL	earnings overstated
Enron	USA	inflated earnings, hid debt in SPEs
Parmalat	Italy	false transactions recorded
Tyco	USA	Looting by CEO, improper share deals, evidence of tampering and falsifying business records
WorldCom	USA	expenses booked as capital expenditure
Xerox	USA	accelerated revenue recognition

In terms of corporate governance issues, Ahold, Enron and WorldCom all suffered from questionable ethics and behaviour at the top, aggressive earnings management, weak internal controls and risk management and, of course, shortcomings in accounting and reporting.

Enron is an excellent example where those at the top allowed a culture to flourish in which secrecy, rule-breaking and fraudulent behaviour were acceptable. It appears that performance incentives created a climate where employees sought to generate profit at the expense of the company's stated standards of ethics and strategic goals (IFAC, 2003). Enron had all the structures and mechanisms for good corporate governance. In addition, it had a corporate social responsibility task force and a code of conduct on security, human rights, social investment and public engagement. Yet no one followed the code. The board of directors allowed the management openly to violate the code, particularly when it allowed the CFO to serve in the special purpose entities (SPEs); the audit committee allowed suspect accounting practices and made no attempt to examine the SPE transactions; the auditors failed to prevent questionable accounting.

The use of questionable accounting and disclosure practices, their approval by the board and their verification by the auditors arose from a variety of forces, including pressure to meet quarterly earnings projections and maintain stock prices after the expansion of the 1990s; executive compensation practices; outdated and rules-based accounting standards; complex corporate financial arrangements designed to minimise taxes and hide the true state of the companies, and the compromised independence of public accounting firms (UNCTAD, 2003).

Activity 3.2 - Enron and the Failure of Corporate Governance

Go to YouTube and click on http://www.youtube.com/watch?v=OnvkFG1wBCo. Watch at least 30 minutes of 'Enron - The Smartest Guys in the Room.'

The film is a 2005 documentary based on the best-selling 2003 book of the same name by Fortune reporters Bethany McLean and Peter Elkind, a study of one of the largest business scandals in American history. McLean and Elkind are credited as writers of the film alongside the director, Alex Gibney. The film examines the 2001 collapse of the Enron Corporation, which resulted in criminal trials for several of the company's top executives; it also shows the involvement of the Enron traders in the California electricity crisis. The film features interviews with McLean and Elkind, as well as former Enron executives and employees, stock analysts, reporters and the former Governor of California Gray Davis. The film won the Independent Spirit Award for Best Documentary Feature and was nominated for Best Documentary Feature at the 78th Academy Awards in 2006.

Reflecting on the movie, note down in your Learning Log some of the factors that in your opinion contributed to the demise of Enron and what could or should have been done to prevent it. Write no more than 150 words and spend no more than 20 minutes considering the issues raised in the movie.

Most governments have an imperative to try to foster a healthy economy, since this should lead to a better quality of life for all. Inevitably, when the economy suffers as a result of the actions of a relatively small number of people, the government is bound to react. Many initiatives in this area can be seen as a desire to make explicit the obligations that society expects the different actors to fulfil, and provide a framework for penalising their failure to do so. Such initiatives may also serve as an indication of change in social expectations (sometimes referred to as 'social inflation'),where the generally accepted view of what is acceptable behaviour changes. The regulatory changes crystallise a change in the ethical and moral environment.

Capital Markets

In so far as better corporate governance has the objective of enhancing shareholder control, it should follow that companies with better corporate governance will attract investors and will reduce their cost of capital. A global investor opinion survey carried out by McKinsey & Company (2002) gives some evidence that good governance is linked to investment decisions. The survey found that investors state that they still put corporate governance on a par with financial indicators when evaluating investment decisions; more than 70 per cent of investors are prepared to pay a premium for companies exhibiting high governance standards, ranging from 14 per cent to more than 30 per cent depending on the region; and 60 per cent of investors say they would avoid companies with poor governance.

However, not everyone is convinced by the findings of opinion surveys, because they are just that: opinion surveys rather than hard evidence. Even when empirical work is undertaken, the results are often inconsistent. For example, US companies in the Russell 3000 with poor governance outperformed those with good governance in the period 1999–2003 (Gimbel, 2004). But Gompers et al. (2001) found a relationship between corporate governance and stock returns. Ex post investment strategies that bought firms with the strongest shareholder rights and sold firms with the weakest rights would have earned abnormal returns of 8.5 per cent per year during the 1990s.

According to some, it is a question of which actions add to shareholder value and which do not. Environmental strategies do not impress investors, but environmental accomplishments do. Companies that are consumer-friendly consistently outperformed the market according to a study by Pictet and Cie (Butz, 2003). The Institute of Business Ethics (2003) looked at the relationship between ethical commitment and financial performance. They found that doing the right thing boosts shareholder value. The ethically committed group had an average 18 per cent higher profit as a percentage of turnover. However, the mechanisms by which an ethical commitment or good governance was translated over time into financial results were not evident. Capital markets are placing some value on corporate governance, as evidenced by the appearance of governance-related funds such as Relational Investors (USA) and Hermes Funds (UK), which select companies for inclusion in the fund based on good corporate governance. New funds launched in late 2004–5 include Providence Recovery Partners Fund (USA) and the Corporate Governance Fund (Japan) (UNCTAD, 2005).

Shareholder Activism

Shareholder (investor) activism can also force better corporate governance. Historically, individual shareholders, whether institutions or private persons, have had little chance of influencing the board or management given the fragmentation of ownership.

Shareholders can ask questions at the annual general meeting, but they would need a majority of votes in order to pass a motion that was binding on management. Even institutional shareholders do not, in most countries, hold as much as 5 per cent of the ordinary shares of one company. However, it should be noted that in Germany there are cases, such as Daimler and Volkswagen, where single institutions hold much larger proportions. In fact, the majority of shares in multinationals in Europe are held by financial institutions rather than private individuals. In the past such investors have preferred to sell their shares when they disagree with company policy, rather than intervene in the management of the company. However, attitudes have changed over time. Institutional investors have become more aggressive, and individual investors have formed associations that enable them to work together and command more votes in investee companies.

The California Public Employees' Retirement System (CalPERS) is the biggest pension fund in the United States, with $160 billion under management. It started its corporate governance reform programme as early as 1984. It has a website, and its annual Focus List is a hit list of companies that need, in the view of the fund, to improve their performance. CalPERS has a general strategy of public 'naming and shaming' to force change where it is tardy. It is one of the few funds to make its proxy votes public, publishing them on its website in advance of company annual meetings. There is a growing demand that institutional investors disclose how they vote. In 2003, CalPERS demanded the resignation of the chief executive of the New York Stock Exchange, and he was ultimately obliged to resign. CalPERS' trustees (its 13-member board of administration) in 2003 approved proxy voting guidelines that included voting against any director who approved non-audit work by the company's auditors. This resulted in CalPERS voting against all of the directors in the roughly 1800 companies in which it owned shares (Brewster, 2004).

In the UK, the National Association of Pension Funds (NAPF) is an organisation that represents the interests of employer-sponsored pension funds. Its members have investments of more than £600 billion. It has become increasingly active, and publishes position papers and advice to institutional shareholders as to what standards they should expect from multinational companies in which they invest. Some pension funds ask the board of directors of a company in which they are planning to invest to sign a document that sets out minimum governance undertakings. Recently, NAPF joined forces with the Institutional Shareholder Services to reinforce its lobbying for shareholders'rights.

The International Corporate Governance Network (ICGN) is an example of a worldwide multi-stakeholder coalition within the investment community. It was founded in 1995. Its members are institutional investors such as major pension funds like CalPERS, investment clubs and insurers, as well as leading corporate governance and shareholder value professionals, and corporate officials. ICGN members are estimated to hold assets exceeding $10 trillion. The ICGN originates from the corporate governance endeavours of CalPERs, the College Retirement Equities Fund (TIAA-CREF), the Council of Institutional Investors in the USA, the Association of British Insurers, the Cadbury and Hampel Committees on Corporate Governance, NAPF and the Corporate Governance Forum of the Centre for European Policy Studies in Belgium.

ICGN seeks to develop a global consensus on capital market corporate governance and, above all, to lay down best practice for both issuers and investors. It promotes best practice through its studies, toolkits, annual meetings and awards programme. In 2002 it undertook a study on cross-border voting practices and found that 'Global standards of corporate governance have gained widespread acceptance in recent years, but the mechanics of governance have not kept pace' (ICGN, 2002). Share voting is a primary governance mechanism, and this study reveals that accountability is far from assured. ICGN is campaigning for the one share, one vote principle.

Activity 3.3 - An Introduction to Responsible Investment

EIRIS is a leading global provider of independent research into the environmental, social, governance (ESG) and ethical performance of companies. An independent, not-for-profit organisation, EIRIS works to develop the market in ways that benefit investors, asset managers and the wider world.

EIRIS mission is to empower responsible investors with independent assessments of companies and advice on integrating them with investment decisions. EIRIS provides responsible investment services to more than 100 asset owners, asset managers, banks, stock brokers and governments around the world - as well as major index providers.

Make an entry in your learning diary entitled ‘Responsible Investment’ and spend 10 minutes investigating the EIRIS website at http://www.eiris.org/index.html. Now write down three or four things that you have learned from trawling the site or issues that interest you. Spend no more than 20 minutes on this and keep notes brief.

Rating Agencies: Corporate Governance Indices

A number of rating agencies, including credit rating agencies, have developed indices to measure corporate governance performance. Among the more well-known indices are FTSE-Institutional Shareholder Services (ISS) Corporate Governance Index, Standard & Poor's Corporate Governance Scores, Dow Jones Sustainability Index and Business in the Community Corporate Responsibility Index. Rating agencies can act as catalysts for corporate governance by either directly factoring corporate governance into their scoring systems, or complementing their financial scoring systems with corporate governance ones. Of the 30 largest European asset managers, 20 factor governance into their investments. Some commentators believe that this is starting to change the dynamics of the investor side in the corporate governance game (Business Week, 2004). If the analysts do their homework properly, an index can give a thumbnail sketch of a company and how it is improving. The indices make it easier for investors to assess the quality of corporate governance. They highlight the significance of good governance and, through publicising it, put pressure on companies to respond.

The FTSE-ISS index series for the UK, USA, Europe and Japan rank over 2000 companies using the following five areas of comparison:

Board composition and independence

Compensation

Ownership

Audit process

Shareholder rights/takeover defences.

The index is designed to incorporate the corporate governance rating into the financial index by tracking financial performance against the corporate governance variables. Supposedly, it offers a way of assessing the impact on portfolio performance.

Standard & Poor's (S&P's) corporate governance score gives an assessment of a company's policies and practices benchmarked against international codes and guidelines and governance best practices. S&P scores are based on ownership structure and influence, financial stakeholder rights and relations, financial transparency and information disclosure, and board structure and process. Unique to the S&P index is an interactive assessment with the company officials to capture how they work together. S&P evaluates companies only upon their request, and hence the companies pay for the rating. S&P's governance scoring and its credit ratings are different forms of analysis that complement each other.

Components of S&P corporate governance score

Component 1: Ownership structure and influence

Transparency of ownership.

Concentration and influence of ownership.

Component 2: Financial stakeholder rights

Voting and shareholder meeting procedures.

Ownership and financial rights.

Takeover defences.

Component 3: Financial transparency and information disclosure

Quality and content of public disclosure.

Timing of and access to public disclosure.

Independence and integrity of audit process.

Component 4: Board structure and process

Board structure and composition.

Role and effectiveness of board.

Role and independence of outside directors.

Director and executive compensation, evaluation and succession policies.

Source: Standard & Poor's Governance Services (2002)

It is thought that such indices could help determine if well-governed companies outperform their rivals. As we have noted, studies relating corporate governance to company performance have not shown a consistent relationship. Recently, researchers at the Wharton School examined data from four agencies specialising in rating corporate governance, including Governance Metrics International, Investor Responsibility Research Center, Institutional Shareholder Services and The Corporate Library. They analysed the association between the ratings and subsequent company operating performance and stock returns. They found no conclusive evidence that the summary ratings were related to stock returns, but they did find evidence that corporate governance ratings are associated with the level of future operating performance (Larcker et al., 2005).

What corporate governance indices might show best is the degree of risk an investor takes when he invests in a company. Thus, asset managers looking at the ratings in terms of corporate governance 'risk' might avoid the companies at the bottom of the index but would not necessarily use a top ranking as the sole criterion for their investment decisions, particularly if the market is rising. The Asia Corporate Governance Association has found that when markets are rising and investors are willing to take more risks, then even companies with poor CG may tend to outperform their benchmarks. On the other hand, when markets decline and investors are more risk averse, companies with good CG tend to perform better (UNCTAD, 2005). Thus, when looking at these studies one should note if they were done during an up-cycle or down-cycle.

CG indices are in their infancy and each one contains some different and some common variables. The common variables rest on the assumption that there is a single, optimal governance structure and any company that deviates has a 'governance' problem. Corporate failures such as Enron would have scored well in terms of an index that was based on best practice structures and that did not examine the 'quality' of relationships. Sceptics wonder if governance ratings based largely on structural measures provide a useful basis for identifying good governance.

The main benefit of the ratings so far is to serve as a benchmark to show if corporate governance is changing over time. But after several years in operation, optimists believe that the indices could be having an impact on corporate governance. According to Business in the Community, the performances of companies have moved upwards, creating a bunching at the top and diminishing the differences between the companies. Peer pressure creates this race to the top and impacts positively on corporate governance performance (Baker, 2006). Furthermore, the growth of the indices industry in itself is creating a strong demand for better corporate governance disclosure.

Activity 3.4 – Indices & FTSE for Good

Access the FTSE for Good Index fact sheet and familiarise yourself with the content at http://www.ftse.com/Indices/FTSE4Good_Index_Series/Downloads/FTSE4Good_Factsheet.pdf. Now select one of the company stocks that is included in the Index and go to their Sustainability Report. Identify whether the index plays a major or minor role in the communication of the company's sustainability strategy. Further, assess whether in your opinion the company adheres to the criteria in the FTSE fact sheet. Spend 30 minutes on his and write no more than 250 words in your Learning Diary under the header 'Session 3 – FTSE for Good'.

The Myners Report, commissioned by the UK Government in 2000, recommended that shareholders should be encouraged to intervene in company matters. This resulted in a consultation paper published by the Department for Work and Pensions 'Encouraging shareholder activism – a consultation document'.

Read the report, then identify and comment on the main government proposals. (Note: the paper can be requested via the Department for Work and Pensions website.)

Discussion

The Myners Report found that institutional investors exhibit 'a lack of active intervention in [companies in which they invest] even when there is a reasonable expectation that this would enhance the value of investments' (p. 3). The review recommended that UK law should be changed to incorporate a duty 'to actively monitor and communicate with the management of investee companies and to exercise shareholder votes where … there is a reasonable expectation that such activities are likely to enhance the value of an investment' (p. 3).

The consultation paper acknowledges that shareholders cannot manage public companies, but says that issues such as the performance of senior management and the appropriateness of their strategy are legitimately the concern of shareholders. However, it is not clear that investors could be expected to have any better notion of the appropriate strategy for a company than its management. If one takes the example of Marks and Spencer, it is clear that shareholders can express concern at falling profits and share prices, but not so obvious that they could find a strategy that would combat the problem.

It would seem that the area where shareholders could be active is very difficult to define. Legislation might serve to put investors on notice that they must be pro-active. The consequences of this might be to encourage investment managers to develop greater insights into management, or it might simply create a means of redress where pensioners, for example, might claim compensation from professional fund managers for failing to maximise returns.

Ethics in Business – A Summary Overview

Sternberg (1995: 125) argues that treating employees ethically is not an optional extra but an essential ingredient in maximising long-term value:

Treating employees ethically simply means treating them with ordinary decency and distributive justice. The ethical business rewards contributions to the business objective, and is honest and fair to its staff; it avoids lying, cheating and stealing, coercion, physical violence and illegality. And crucially, since trust is so dependent upon expectations, the ethical business is extremely careful about the expectations it engenders.

Ethical business, according to this argument, is built on relationships. Ethical activity is concerned with human activity and so is business. From this perspective bad ethics is bad business –customers, suppliers and employees ultimately all leave. However, are there special moral rights accruing to employees in their own right? Sternberg argues not. She suggests that what constitutes ethical conduct in business depends on business's definitive purpose. Business is, for Sternberg, about maximising long-term owner value through selling goods and services. It may do other things, but this is its core activity and using business resources for non-business purposes constitutes theft, according to Sternberg. She argues (1995: 96) that:

An organisation which pursued moral goodness simply because it was good, would simply be not acting as a business.

Sternberg argues that moral principles are appropriate in so far as business presupposes a context where lying, cheating, stealing and so on are absent. Honesty and fairness, refraining from coercion and physical violence and respecting the law are its guiding principles, termed 'ordinary decency'. Sternberg goes on to argue the virtues of distributive justice such that he or she who contributes most to owner value should be rewarded accordingly. This is not as straightforward as is assumed, since who owns performance is often unclear. Sternberg treats individuals basically as productive units in terms of what they contribute to long-term owner value. In other words, Sternberg's view of the ethical organisation is determined by the ends of the organisation. For her, ethics has a place as long as it contributes to long-term value. She does accept that individuals should only be measured on things that are within their control and not determined by external events (1995: 154):

Fairness demands that people should only be held accountable for those things that are under their control.

In contrast to Sternberg's approach, Miller (1996) takes the view that ethics is concerned with means rather than ends, with 'how' as much as 'what'.

In the HR context, Miller describes a number of 'deliverables' to employees and these are 'indivisible'. He also argues that for these employment conditions to be met the organisation must pursue a 'good' strategy. Intuitively, this does seem to make sense and is congruent with theories of motivation.

We do tend to compare ourselves with others who have similar jobs, backgrounds, education and so on. We also use the core elements of distributive justice, explicitly and implicitly, even where there are no absolute standards for making judgements. In discussing rewards, for example, we may use criteria of merit, effort, contribution and so on to judge ourselves against others. Miller argues that we can identify unethical employment practices from these perspectives.

Miller concludes by arguing that there must be a fit between the organisation's strategy and its HR strategy for it to be ethical. Individual and organisational goals need to be harmonised. This requires a two-way relationship between the individual and the organisation, expressed through a combination of rights, duties, obligations and loyalty. Rights at work might include:

The right to be treated fairly and honestly

The right to be treated as an individual, with roles recognised and adequate training provided

The right to be given feedback on performance at work and the opportunity to improve skills

The right to be paid a fair and equitable rate in relation to skills, the labour market and the financial position of the firm

No restrictions on rights as a citizen

The right to have health and safety protected

The right to a personal life outside work

The right to take part in activities which are of benefit to society

The rights to work, and to free association and to strike.

Some of these rights may be enshrined in law (health and safety), while others may have the status of aspirations (the right to adequate training). At the same time organisations may have certain duties towards their employees which correspond to rights outlined above and may include the duty to inform and consult workers, to accept criticism without holding a grudge, and so on.

However, the relationship cannot be all one way. In return for certain rights we would expect employees to fulfil certain duties, which might include:

ty of loyalty

The duty to give ‘a fair day's work for a fair day's pay’

The duty to strike only as a measure of last resort

A duty to contribute to the best of their ability to the organisation's goals

A duty to work flexibly, using their skills to the full

A duty to accept personal responsibility for developing skills to increase their effectiveness.

Duties, rights and obligations are not givens. No doubt you will agree with some of those listed above but not others. Also, individuals will have other loyalties which may come into conflict with those to the organisation. For example, professionals may perceive their duty to be to their patient, client or student rather than to the organisation. They may also believe that they have professional duties to colleagues and to the profession as a whole rather than to the specific organisation that they happen to be working for. Conflicts of loyalties can cause real dilemmas.

The issue of employees' commitment to perform for the organisation is a key one, and it has a number of components:

1. The extent to which the individual has internalised the values of the organisation which, in turn, will depend on how congruent individual values are with organisational values.

2. The extent to which organisational objectives reflect individual objectives

3. The extent of individuals' involvement and psychological immersion in their work

4. The extent to which individuals value the organisation as a place to spend their time.

We have outlined above two opposing views of ethics and strategic SHRM. The first view, associated with Sternberg, sees ethics as a means to an end. The second view, discussed by Miller, sees ethics and strategy as inseparable and based on the relationships between key stakeholders. This view accords with the concept of strategic fit: the ethical organisation consists of a mutual interrelationship between purposes and the implementation of those purposes. Means and ends are inextricably interwoven and exist in a dynamic tension.

Conclusion

In this section we have looked at the different ways in which expectations about corporate governance have grown. We have briefly reviewed the role of corporate scandals as a generator of regulatory responses, and in particular the significant problems that surfaced in 2002–3. We have also noted that research shows that evidence of a positive correlation between good investment returns and good corporate governance policies is not conclusive.

We have looked at the growth of shareholder activism in recent years, and in particular the interventionist approach taken by some major pension funds to exert influence on multinational companies. The growing interest in governance has resulted in the creation of a new industry providing governance indices, which serve to highlight improvements in governance for investors and other stakeholders.

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Chapter 4: Documentary – ‘The Corporation’

The previous chapter looked at the issue of trust and business and how a lack of trust has shaped the response of both businesses and stakeholders alike. This session explores the theme further through the medium of documentary.

Activity 4.1 – The Corporation

This activity requires you to watch a Canadian documentary written in 2003 by Joel Bakan entitled The Corporation. The documentary shows the development of the contemporary business corporation, from a legal entity that originated as a government-chartered institution meant to affect specific public functions, to the rise of the modern commercial institution entitled to most of the legal rights of a person.

One key theme is its assessment as a "personality", as a result of an 1886 case in the United States Supreme Court in which a statement by Chief Justice Morrison R. Waite led to corporations as "persons" having the same rights as human beings, based on the Fourteenth Amendment to the United States Constitution. The film's assessment is effected via the diagnostic criteria in the DSM-IV; Robert Hare, a University of British Columbia psychology professor and a consultant to the FBI, compares the profile of the contemporary profitable business corporation to that of a clinically-diagnosed psychopath. The documentary concentrates mostly upon North American corporations, especially those of the United States.

The film is in vignettes examining and criticizing corporate business practices. It attempts to compare the way corporations are systematically compelled to behave with the DSM-IV's symptoms of psychopathy, e.g. callous disregard for the feelings of other people, the incapacity to maintain human relationships, reckless disregard for the safety of others, deceitfulness (continual lying to deceive for profit), the incapacity to experience guilt, and the failure to conform to social norms and respect the law.

Topics addressed include the Business Plot, where in 1933, General Smedley Butler exposed an alleged corporate plot against then U.S. President Franklin Roosevelt; the tragedy of the commons; Dwight D. Eisenhower's warning people to beware of the rising military-industrial complex; economic externalities; suppression of an investigative news story about Bovine Growth Hormone on a Fox News Channel affiliate television station; the invention of the soft drink Fanta by the Coca-Cola Company due to the trade embargo on Nazi Germany; the alleged role of IBM in the Nazi holocaust (see IBM and the Holocaust); the Cochabamba protests of 2000 brought on by the privatization of Bolivia's municipal water supply by the Bechtel Corporation; and in general themes of corporate social responsibility, the notion of limited liability, the corporation as a psychopath, and the corporation as a person.

Go to http://www.youtube.com/playlist?list=PLFA50FBC214A6CE87 and watch the 23 chapters of The Corporation. Each one lasts a few minutes. After each chapter, make an entry in your learning diary under the title 'The Corporation' and record one or two learning points that really resonate with you. Keep them concise, spending only a few moments on each. They are intended to enable you to reflect on the documentary and assist your learning during this module.

This will take you the best part of two hours to complete.

Chapter 5: Drivers for Change & the Business Response

As has been argued in previous sessions, sustainability is rapidly emerging as a key driver and influencer of business behaviour. An article in the Harvard Business Review by Prahalad et al (September 2009) proposed that sustainability has now become a major source of innovation:

You can read the full paper here –

https://www.acteonline.org/uploadedFiles/Why%20Sustainability%20Is%20Now%20the%20Key%20Driver%20of%20Innovation%20Harvard%20Review.pdf
Earlier this year, KPMG produced a report entitled 'Expect the Unexpected - Building Business Value in a Changing World'. The report identifies and analyses a system of ten sustainability mega forces that will impact each and every business over the next 20 years. KPMG estimated that the cost of environmental damage by business is doubling every 14 years to $854bn or 41% of profits. The conclusion of the report was particularly sombre:

"… if we fail to alter our patterns of production and consumption, things will begin to go badly wrong" (KPMG, 2012).

Activity 5.1 – Mega Trends for Business Sustainability

Access and read the Executive Summary of the KPMG report at https://www.kpmg.com/au/en/issuesandinsights/articlespublications/pages/expect-the-unexpected-building-business-value-changing-world.aspx.

In your Learning Diary, list the 10 mega forces identified in the report. For each mega force, identify a company whose operations are likely to be impacted directly. For example, water scarcity may impact breweries. As a secondary exercise, identify 1 or 2 actions that companies can take to mitigate or adapt to the mega force in question

This exercise should take about 30 minutes and serves to highlight the potentially far-reaching impacts of environmental and social factors on business.

The Business Response

The Natural Environment

For most of human history, our influence on the planet has been small (i.e. sustainable). The waste produced by our presence has traditionally been dealt with by a process of dilution; burying things, or perhaps dumping them in the ocean, was a viable proposition because we were few and the land and the oceans were vast. Mankind was a minor perturbation on the planetary ecosystem. But with change as the ever-present factor, we grew in both numbers and influence.

In the last century, the population of the planet has risen from approximately 1.65 billion to somewhere in excess of 6.5 billion. In that time, we have witnessed the arrival of the motor car and the aeroplane, and usage of both is accessible to an increasing number of those people. The human race is now in a position to have a major influence on its environment. Global warming is possibly the most pressing problem, with most arguments now concerning not whether, but by how much, and the question becomes how to deal with the problem. Energy considerations seem to be paramount. How much do we consume? How should it be generated? What will happen if developing economies become as profligate with it as are the more ‘advanced’ nations?

At some very basic level, there are three ways in which businesses can respond to the green imperative. They can adopt environmentally friendly policies as a matter of belief, as a conscious piece of niche marketing or because they are required to do so by regulation.

Popular examples of the first are not hard to find; Ben & Jerry's, The Body Shop, the Co-operative Bank all started as organisations that ‘wore their heart on their sleeve’ – for them their values and beliefs were a major part of what they do, and to do otherwise would be unthinkable. But Ben & Jerry's is now part of Unilever and The Body Shop has recently been acquired by the L'Oréal group; how will the new owners handle their acquisitions?

The idealistic might argue that the smaller organisation will somehow ‘infect’ the larger, to the point where the parent will exhibit the values of the new acquisition. The more cynical may claim that the original values of the smaller will be lost inside the giant multinational. Ultimately brand-management may come to the rescue and the names, and at least some of the values, will be preserved within a sub-brand; for the new parent to do otherwise might sacrifice the customer value so expensively acquired.

Hence the second possible response: niche marketing. As more and more people come to the conclusion that they would like to do (or to be seen to do) something more helpful to the environment, so businesses will emerge to cater to such a demand with some sort of ‘caring capitalism’. Many organisations such as Dow Chemical, Johnson and Johnson and Ecover find value in being seen to make their contribution to the environment. Many others are painfully aware of the consequences of getting it wrong: the shipwreck of the Exxon Valdez in Alaska, Shell's disposal of the Brent Spar Oil platform and the Union Carbide plant disaster at Bhopal.

It might reasonably be argued that both of these ‘voluntary’ approaches to environmental friendliness are perturbations. To really make a difference is almost certainly the province of government (or rather governments, given that transnational agreement is needed in the globalised business environment).

Activity 5.2 - Business and Environmental Responsibilities

Identify a large global company that you know relatively well (e.g. Nike, Coca Cola). Go to the company's website and investigate whether the organisation has a policy regarding its environmental responsibilities? In your diary, make a new entry entitled 'Session 5 – Environmental Responsibilities' and summarise in no more than 150 words the firm's environmental activities. Consider to what extent the firm's behaviour is consistent with its espoused values and beliefs. Also, does the firm do the things you would expect in terms of environmental management or are there any striking gaps?

Spend no more than 30 minutes on this and write approximately 250 words in total including the 150 word summary mentioned above.

Political Will

'We know the solution: sustainable development. The issue is political will.'

Prime Minister Tony Blair, World Summit on Sustainable Development, Johannesburg, 2 September 2002

Two aspects of the business and sustainable development debate became abundantly clear at the Johannesburg World Summit. First, there has been enormous progress in the business world since the widespread ignorance and disinterest that reigned ten years ago. Business leaders have grasped the overwhelming importance of sustainable development and are grappling seriously with the implications for their businesses – although a long tail of also-rans also exists. Second, the boundary between business and government responsibilities has blurred and needs to be redefined. Leading businesses understand their responsibilities, but governments have shirked many of theirs, often citing the benefits of voluntary business action over the 'negative impact' of government intervention. (Cowe and Porritt, 2002)

To a large extent the response of business is still at the margins of what is required. Some may be unwilling to adopt certain behaviours for fear that competitors could gain a competitive advantage by not doing likewise. This then becomes the legitimate province of governments; to attempt to achieve the metaphorical 'level-playing field' or to judiciously 'tilt' the playing field to achieve the desired end.

It has been argued that the business of environmental performance is too important to be relegated to a sidebar in the annual report. By adopting a purely commercial response, couched in terms of the trading of allowed levels of carbon dioxide emissions, an environmentally friendly organisation, it is claimed, can profit by selling its unused allowances on the open market. The actual mechanics of the process are made more complex by the need to consider indirect 'supply chain' effects, in effect making organisations responsible for the emissions of their suppliers and customers as part of a total process.

At the time of writing, the system seems to be experiencing a few teething problems, not least in terms of the market price of the tradable allowances. Nevertheless the authors' major contention seems to be borne out; by bringing explicit consideration of carbon dioxide emissions to the fore, forcing companies to recognise their overall contribution and offering a means to reduce the problem to familiar 'bottom-line' considerations, the whole issue is moved healthily up the agenda for both boardrooms and customers.

Activity 5.3 – 'Rio Summit Ends with warning on Corporate Power'

The most recent Earth Summit was held in Rio in June 2012. It was notable for its lack of agreement on a number of issues, most notably on how the world is to address the major environmental and social challenges. Much criticism was levelled at the corporate sector in hindering the Rio process. Spend 15 minutes researching the outcomes of the summit and reading the post-summit analysis, most notably the outcome document entitled 'The Future We want' available at http://www.slideshare.net/uncsd2012/the-future-we-want-rio20-outcome-document.

Make a new entry in your diary entitled 'Session 5 – The Earth Summit' and summarise the key issues confronting the global community going forward. Make three suggestions on what business could do to move towards a more sustainable future.

Write no more than 250 words and spend no more than 30 minutes on this.

The Ethical Environment

One of the principles of the European Union Emissions Trading System discussed by Schultz and Williamson (2005) is that an organisation accepts responsibility for the performance of their suppliers. In an age where multinational corporations are able to reduce the production costs of their goods and services by 'off-shoring' it to whoever can meet the specification at the lowest cost, what responsibility do they have for the conditions under which production actually occurs?

One of the first cases to reach the general consciousness was the working conditions in various Asian factories used to produce trainers for, amongst others, Nike. Allegations of sweatshop conditions (low wages, 70-hour plus working weeks, working practices dangerous to life and limb and no trade unions) sat uneasily with price tags of £100 or even more. Did the customer care, and if so by how much?

It is doubtful whether anyone would argue for a 37.5 hour working week and UK labour-rates. Not only would this severely distort the local labour market, but the business would simply go elsewhere and the jobs would vanish. Equally, few western consumers would be totally comfortable with the idea of unsafe working conditions such as unguarded machinery. Between these limits however, the debate rages, and most of it reduces to difficult judgment calls. How do you arrive at a 'fair' wage or a 'reasonable' working week? Such decisions must take some account of local norms. What about child labour? Should it be forbidden below the age of sixteen? Fourteen? Twelve? Is Trade Union membership a universal right or should we take care before exporting western custom and practice into a different culture?

Compliance with some sort of agreed minimum standards seems to be a realistic aspiration (although reaching such a consensus is a non-trivial problem), followed by the gradual evolution of precise conditions in accordance with public opinion. To this end, Nike has invoked their Code of Conduct.

Nike Code of Conduct

NIKE designs, manufactures, and markets products for sports and fitness consumers. At every step in that process, we are driven to do not only what is required by law, but what is expected of a leader. We expect our business partners to do the same. NIKE partners with contractors who share our commitment to best practices and continuous improvement in:

Management practices that respect the rights of all employees, including the right to free association and collective bargaining.

Minimising our impact on the environment.

Providing a safe and healthy work place.

Promoting the health and well-being of all employees.

Contractors must recognise the dignity of each employee, and the right to a work place free of harassment, abuse or corporal punishment. Decisions on hiring, salary, benefits, advancement, termination or retirement must be based solely on the employee's ability to do the job. There shall be no discrimination based on race, creed, gender, marital or maternity status, religious or political beliefs, age or sexual orientation.

Wherever NIKE operates around the globe we are guided by this Code of Conduct and we bind our contractors to these principles. Contractors must post this Code in all major workspaces, translated into the language of the employee, and must train employees on their rights and obligations as defined by this Code and applicable local laws.

In terms of such things as the working week and child labour, Nike is quite specific …

Child Labour

The contractor does not employ any person below the age of 18 to produce footwear. The contractor does not employ any person below the age of 16 to produce apparel, accessories or equipment. […] To further ensure these age standards are complied with, the contractor does not use any form of homework for Nike production

Hours of work/overtime :

The contractor complies with legally mandated work hours; uses overtime only when each employee is fully compensated according to local law; informs each employee at the time of hiring if mandatory overtime is a condition of employment; and on a regularly scheduled basis provides one day off in seven, and requires no more than 60 hours of work per week on a regularly scheduled basis, or complies with local limits if they are lower. **Source – Nike.com.**

The difficulties of monitoring such arrangements should not be underestimated. It will cost Nike to implement any realistic monitoring, and the local producer will have an economic incentive to limit costs by cutting corners.

Nevertheless, Nike has responded to criticism and the outcome of a protracted lawsuit by their resumption in 2005 of annual Corporate Social Responsibility (CSR) reports. Offering a new level of transparency, this now lists the names and locations of all the factories that produce Nike-branded products and at least indicates a willingness to be called to order in such matters.

CSR Reporting

We mentioned earlier three reasons for environmentally friendly behaviour, effectively deriving from personally held values, niche marketing or regulatory pressure. To a large extent the same holds true for ethical behaviour.

Some organisations have a long tradition of good citizenship, ranging from the UK social housing of Bourneville or Port Sunlight, through to community involvement schemes from such as Xerox and IBM. Financial sponsorship of good causes, whether that is artistic endeavour or deprived communities, is not uncommon. The motivation behind such activity is sometimes more difficult to divine. Many people will look from the outside and see window dressing designed to deflect accusations of unrestrained capitalism. However, people on the inside often reflect that it gives them the opportunity to 'put something back' (and those companies that donate the time of their employees invariably comment favourably on the personal development it provides).

Niche marketing in this context implies selling a product or service, one of whose primary selling features is an ethical attribute. Such things range from Fairtrade coffee to ethical investment portfolios and represent an attempt at product innovation in directions aimed to increase the benefit the both customer and the people who work in such organisations.

Fairtrade

The FAIRTRADE Mark is an independent consumer label which appears on products as an independent guarantee that disadvantaged producers in the developing world are getting a better deal. For a product to display the FAIRTRADE Mark it must meet international Fairtrade standards. These standards are set by the international certification body Fairtrade Labelling Organisations International (FLO).

Producer organisations that supply Fairtrade products are inspected and certified by FLO. They receive a minimum price that covers the cost of sustainable production and an extra premium that is invested in social or e economic development projects.

Fairtrade Labelling was created in the Netherlands in the late 1980s. The Max Havelaar Foundation launched the first Fairtrade consumer guarantee label in 1988 on coffee sourced from Mexico.

Today FLO co-ordinates Fairtrade Labelling in more than 20 countries including the UK. Source: www.fairtrade.org.uk

Ethical investment is something of a growth industry with recent estimates of as much as £5 billion invested in 2006 (source: http://www.guardian.co.uk/business/ uk-edition Cautiously defined as any investment practice that stipulates ethical behaviour of the target companies, it has emerged as more than just a fringe activity largely due to the major influence of pension funds in investment decisions. Public sector pension funds in particular are increasingly likely to require ethical behaviour from any company in which they invest.

Activity 5.4 –Fair Trade: Premium prices for ethical products?

Go to http://www.youtube.com/watch?v=J60mvcp_Q_E and spend a few minutes watching the Fair Trade campaign video. Reflecting on the video, consider how much of a premium would you be prepared to pay for goods and services that offered some sort of guarantee of the conditions under which they were provided? Spend 10 minutes and ca. 150 words compiling a short paragraph in your learning diary under the header 'Session 5 – Fair trade products'. In your opinion is Fairtrade a positive or regressive development in branding and why?

Whereas financial reporting of public companies is hugely circumscribed by convention and regulation, CSR reports are as yet effectively unregulated. They will understandably reflect the sector of the organisation concerned – after all a chemical plant is unlikely to perceive its role in quite the same way as a merchant bank – but will also reflect the image the organisation wishes to portray.

'Each respondent totally rejects the ideas of standardised reporting as not being suitable to their own industry (or firm). They listen to the points of view of NGOs and social auditors but reserve the right to report on what they feel is most relevant to their situation.' **Knox and Maklan, 2004.**

It would seem likely that, given the plethora of requirements against which a CSR report could be judged, little real progress will be achieved until Governments decide that some form of standardisation is required. Given that any such regulatory initiative is likely to be poorly received as an 'unwarranted intrusion', we might wonder if the lead might have to come from pathfinder organisations. After all, these are the organisations who stand to lose most if their very real efforts are not recognised as distinctive from those of their less well-performing competitors. On this basis, the so-called 'level-playing field' might be in everyone's best interest.

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Chapter 6: Sustainability in the Market place – Consumers, Products, Supply Chains

As has been discussed in past sessions, the way business is being conducted today is changing, and marketing is changing along with it. Businesses exist only because society allows them to. When businesses begin to fail society, society will punish them or revoke their license. The crackdown on companies in the subprime mortgage-lending industry is one example. The collapse of Enron and the jailing of its executives is another. Scandals such as these illustrate how society responds to unethical business practices. However, whereas ethics require that you only do no harm, the concept of social responsibility requires that you must actively seek to improve the lot of others. Today, people are demanding businesses take a proactive stance in terms of social responsibility, and they are being held to ever-higher standards of conduct.

Sustainability is an example of social responsibility and involves engaging in practices that do not diminish the earth's resources. SC Johnson, the company that makes Pledge and Windex, was among the first companies to engage in manufacturing practices that reduced or eliminated pollution. Right now, companies do not have to engage in these practices, but because firms really represent the people behind them (their owners and employees), forward-thinking executives are seeking ways to reduce the impact their companies are having on the planet and on society as a whole in order to safeguard their licence to operate.

The fast-food chain Wendy's provides us with another example. When Wendy's began testing the idea of offering salads in its restaurants, it had a problem. Previously, the restaurant had only packaged food in paper products such as cardboard. Plastic was never used. The company had made a commitment to environmental sustainability and not using plastic was a point of pride for the organization. For help, Wendy's turned to the food-packaging company Pak-Sher. Wendy's Pak-Sher sales representative could have pulled a number of different products from Pak-Sher's shelves that would have worked *marginally* well for Wendy's salads, but he knew more than that was needed. He assembled a team of packaging engineers, and they visited Wendy's test kitchens. Together with the Wendy's product developers, the Pak-Sher engineers created the plastic packaging Wendy's "Garden Sensations" salads are sold in. While the plastic packaging required Wendy's to reevaluate its position on the use of plastics, Pak-Sher engineers also incorporated recycled material to support Wendy's sustainability goals. Pak-Sher changed its offering to meet the sustainability desires of its customer.

The Rise of the Green or Ethical Consumer

Activity 6.1 – Your Own Buying Habits

Consider your typical supermarket shop. What influences and shapes your selection of product? Would you describe yourself as either a positive or negative buyer?

As a secondary exercise, list the products you know that carry some form of ethical or sustainable branding? Do you buy any of these products and if so why?

Spend 15 minutes and no more than 150 words analysing your own approach to purchasing.

Research

GfK NOP, the market research group, has made a five-country study of consumer beliefs about the ethics of large companies. The report was described in a Financial Times article published on February 20, 2007 entitled "Ethical consumption makes mark on branding", and was followed up by an online debate/discussion hosted by FT.com. The countries surveyed were Germany, the USA, Britain, France and Spain. More than half of respondents in Germany and the US believed there is a serious deterioration in standards of corporate practice. Almost half of those surveyed in Britain, France and Spain held similar beliefs.

About a third of respondents told researchers they would pay higher prices for ethical brands though perception of various companies ethical or unethical status varied considerably from country to country.

The most ethically perceived brands were The Co-op (in the UK), Coca Cola (in the US), Danone (in France), Adidas (in Germany) and Nestlé (in Spain). Coca Cola, Danone, Adidas and Nestlé did not appear anywhere in the UK's list of 15 most ethical companies. Nike appeared in the lists of the other four countries but not in the UK's list.

In the UK, the Co-operative Bank has produced an Ethical Consumerism Report (formerly the Ethical Purchasing Index) since 2001. The report measures the market size and growth of a basket of 'ethical' products and services, and valued UK ethical consumerism at GBP36.0 billion (USD54.4 billion) in 2008.

A number of organisations provide research-based evaluations of the behaviour of companies around the world, assessing them along ethical dimensions such as human rights, the environment, animal welfare and politics. Green America is a not-for-profit membership organization founded in 1982 that provides the Green American Seal of Approval and produces a "Responsible Shopper" guide to "alert consumers and investors to problems with companies that they may shop with or invest in." The Ethical Consumer Research Association is a not-for-profit workers' co-operative founded in the UK in 1988 to "provide information on the companies behind the brand names and to promote the ethical use of consumer power" which provides an online searchable database under the name Corporate Critic or Ethiscore. The Ethiscore is a weightable numerical rating designed as a quick guide to the ethical status of companies, or brands in a particular area, and is linked to a more detailed ethical assessment. "alonovo" is an online shopping portal that provides similar weightable ethical ratings termed the "Corporate Social Behaviour Index".

Please view the link below

Green Marketing Stats that Justify Storytelling
http://www.greenbiz.com/blog/2012/08/20/good-deeds-be-rewarded

Please view the link below

Tipping consumers towards sustainability - Linking behaviours with values.
http://www.guardian.co.uk/sustainable-business/consumer-behaviour-intrinsic-values

Activity 6.2 Values

How do marketers appeal to <u>your</u> intrinsic values and does it work? Spend 10 minutes reflecting on how advertising appeals to your intrinsic vales and note down a few examples of where they coincide and you purchase or where they fall flat?

Product

Activity 6.3 – The Story of Stuff

The Story of Stuff is a short polemical animated documentary about the lifecycle of material goods. The documentary is critical of excessive consumerism and promotes sustainability.

Filmmaker Annie Leonard wrote and narrated the film, which was funded by Tides Foundation, Funders Workgroup for Sustainable Production and Consumption, Free Range Studios and other foundations. Free Range Studios also produced the documentary which was first launched online on December 4, 2007.

The documentary is being used in elementary schools, arts programs, and economics classes as well as places of worship and corporate sustainability trainings. By February 2009, it had been seen in 228 countries and territories. According to the Los Angeles Times as of July 2010, the film had been translated into 15 languages and had been viewed by over 12 million people.

Contents

The 20-minute video presents a critical vision of consumerist society, primarily American. It purports to expose "the connections between a huge number of environmental and social issues, and calls us together to create a more sustainable and just world." The video is divided into seven chapters: Introduction, Extraction, Production, Distribution, Consumption, Disposal, and Another Way.

The video divides up the materials economy into a system composed of extraction, production, distribution, consumption, and disposal. To articulate the problems in the system, Leonard adds people, the government, and corporations.

Leonard's thesis, "you cannot run a linear system on a finite planet indefinitely" is supported throughout the video by statistical data. Although the video itself doesn't give attribution to her information, the producers provide an annotated script that includes footnotes with explanations and sources for some of her assertions:

"Of the 100 largest economies on Earth now, 51 are corporations." She cites Anderson & Cavanagh (2000), which bases this claim on the 1999 figures of GDP and corporate sales as reported by Fortune[12] and the World Development Report 2000.

"We [The U.S.] have 5% of the world's population but we're consuming 30% of the world's resources and creating 30% of the world's waste." She cites Seitz (2001), who says, "...in 1990 the United States, with about 5 percent of the world's population, was using about one-quarter of the energy being used by all nations." and a chapter in Global Environmental Issues that puts the US production of waste at around 10 billion tons per year before the turn of the millennium.

"80% of the planet's original forests are gone." She cites the Natural Resources Defense Council website, which says that only about 20% of the world's original wilderness forests remain. and the website for the Rainforest Action Network.

"Forty percent of waterways in the US have become undrinkable." She cites a source which she quotes in a footnote as actually having said, "Today, 40 percent of our nation's rivers are unfishable, unswimmable, or undrinkable".

"In the Amazon alone, we're losing 2000 trees a minute." She cites de Seve (2002), which puts the Amazon deforestation rate in 1995 at 5 million acres (20,000 km2) a year.

"Each of us in the U.S. is targeted with more than 3,000 advertisements a day." This particular figure comes from the American Academy of Pediatrics which itself cites a 1999 Albuquerque Journal article by columnist Ellen Goodman on a figure of 3,000 ads viewed by young Americans on television, the internet, billboards, and magazines. Despite the specific wording of this article ("The average young person views more than 3000 ads per day..."), Annie Leonard specifies that she is referring to ads targeted, not necessarily viewed.

"Each of us in the United States makes 41⁄2 pounds [2.04 kg] of garbage a day." She cites the U.S. Environmental Protection Agency website, which states that 245.7 million tons of municipal solid waste was produced in 2005. Taylor & Morrissey (2004:247) reiterate this figure.

"Dioxin is the most toxic man made substance known to science. And incinerators are the number one source of dioxin." She cites Mocarelli et al.

Leonard also quotes what Victor Lebow said in 1955 regarding economic growth:

"Our enormously productive economy... demands that we make consumption our way of life, that we convert the buying and use of goods into rituals, that we seek our spiritual satisfaction, our ego satisfaction, in consumption... we need things consumed, burned up, replaced and discarded at an ever-accelerating rate."

Reaction

The Story of Stuff has been subject to public discussion, especially after The New York Times published a front page article about the video on May 10, 2009.] The American Family Association says that the video is anti-consumer, and even anti-American because the video implies that Americans are greedy, selfish, cruel to the third world, and "use more than our share." Glenn Beck, host of the Glenn Beck TV program on Fox News, characterized the video as an "anti-capitalist tale that unfortunately has virtually no facts correct." Beck's website used a detailed critique made by Lee Doren of the Competitive Enterprise Institute in his "How the World Works" YouTube channel. FoxNews.com said that "some of the scariest figures" cited "are misleading or just plain wrong."

Even before The New York Times article, The Sustainable Enterprise Fieldbook pointed to The Story of Stuff as a successful portrayal of the problems with the consumption cycle, and Greyson (2008) says it is an engaging attempt to communicate circular economics. Ralph Nader called the film "a model of clarity and motivation." John Passacantando, Executive Director of Greenpeace, called it a "mega-hit on three levels". Kevin Hansen, of PierreTerre Productions, incorrectly predicted that the film would win an Academy Award.

Libertarian and politically conservative critics have characterized the documentary as misleading left-wing propaganda; one Montana school board opposed the screening of the film in a biology classroom in a 4–3 vote. The subsequent public outcry against this decision led to a rewrite of the school board's policy and an award for the teacher who screened the film.

So what do you think?! Go to storyofstuff.com and view the 20 minute original of 'Story of Stuff.' Now go to the latest release 'The Story of Change' at http://storyofstuff.com/movies-all/story-of-change/.

Having viewed both short films, reflect on their content. Create an entry in your Learning Diary entitled 'Session 6 – The Story of Stuff' and summarise in no more than 250 words your views. Highlight those things you agree with and those things you dispute, explaining your reasons for your choice. This should take approximately 45 minutes in total.

Summary

This session has touched upon a few issues related to sustainability in the marketplace, namely customers, products and supply chains. Whilst it has barely scratched the surface, it has attempted to cover some of the key issues in the current sustainability debate.

References for Section 6

[1] Richard Waters and Nikki Tait, "Intel Settles Antitrust AMD Case for $1.2 Billion," *Financial Times*, November 13, 2009, http://www.ft.com/cms/s/0/789729c2-cff4-11de-a36d-00144feabdc0.html (accessed December 13, 2009).

[2] Dexter Roberts, Pete Engardio, Aaron Bernstein, Stanley Holmes, and Xiang Ji, "How to Make Factories Play Fair," *BusinessWeek*, November 27, 2006, http://www.businessweek.com/magazine/content/06_48/b4011006.htm (accessed December 13, 2009).

[3] Mark Arzoumanian, "Wal-Mart Updates *Scorecard* Status," *Official Board Markets* 84, no. 46 (November 15, 2008): 1, 4.

Chapter 7: The Challenges for Corporate Sustainability – Energy, Water, Waste.

The previous session looked at how sustainability influences consumer behaviour, product offerings and large corporate supply chains. Session 7 analyses the key challenges for businesses in managing their sustainability efforts, most notably around energy, water and waste and some of the associated threats and opportunities. Session 8 assesses how businesses are attempting to manage their environmental impacts and their areas of focus for environmental management.

Energy and Energy Efficiency

Access to safe, clean and sustainable energy supplies is one of the greatest challenges facing businesses and the broader community in the twenty-first century. Throughout history, the use of energy has been central to the functioning and development of human societies. During the nineteenth and twentieth centuries, humanity learned how to harness the highly concentrated forms of energy contained within fossil fuels. These provided the power that drove the industrial revolution, bringing unparalleled increases in affluence and productivity to millions of people throughout the world.

As we enter the third millennium, however, there is a growing realisation that the world's energy systems will need to be changed radically if they are to supply our energy needs sustainably on a long-term basis. Many businesses are at the forefront of this challenge and energy management and energy efficiency are at the top of their sustainability agenda.

Energy sources and environmental impact

The world's current energy systems have been built around the many advantages of fossil fuels, and we now depend overwhelmingly upon them. Concerns that supplies will 'run out' in the short-to-medium term seem less likely, thanks to the continued discovery of new reserves and the application of increasingly advanced exploration technologies. Nevertheless it remains the case that fossil fuel reserves are ultimately finite and continue to be the primary source of highly polluting greenhouse gases. In the long term fossil fuels will become depleted and substitutes will have to be found.

Moreover, fossil fuels have been concentrated by natural processes in relatively few countries. Two-thirds of the world's proven oil reserves, for example, are located in the Middle East and North Africa. This concentration of scarce resources has already led to major world crises and conflicts, such as the 1970s 'oil crisis' and the Gulf War in the 1990s. It has the potential to create similar, or even more severe, problems in the future. Substantial rises in the price of oil also can cause world-wide economic disruption and lead to widespread protests, as seen in the USA and Europe in 2000.

The exploitation of fossil fuel resources entails significant health hazards. These can occur in the course of their extraction from the earth, for example in coal mining accidents or fires on oil or gas drilling rigs. They can also occur during distribution, for example in oil spillages from tankers that pollute beaches and kill wildlife; or on combustion, which generates atmospheric pollutants such as sulphur dioxide and oxides of nitrogen that are detrimental to the environment and to health.

Fossil fuel combustion also generates very large quantities of carbon dioxide (CO2), the most important anthropogenic (human-induced) greenhouse gas. The majority of the world's scientists now believe that anthropogenic greenhouse gas emissions are causing the earth's temperature to increase at a rate unprecedented since the ending of the last ice age. This is very likely to cause significant changes in the world's climate system, leading to disruption of agriculture and ecosystems, to sea level rises that could overwhelm some low-lying countries, and to accelerated melting of glaciers and polar ice.

Nuclear power has grown in importance since its inception just after World War II and now supplies some 7 per cent of world primary energy. A major advantage of nuclear power plants, in contrast with fossil fuelled plants, is that they do not emit greenhouse gases. Also, supplies of uranium, the principal nuclear fuel, are sufficient for many decades – and possibly centuries – of supply at current use rates. However the use of nuclear energy creates problems arising from the routine emissions of radioactive substances, difficulties of radioactive waste disposal, and dangers from the proliferation of nuclear weapons material. To these must be added the possibility of major nuclear accidents such as those seen in Chernobyl, Russia in 1987 and Fukishima, Japan in 2009, catastrophic in their effects.

Extracting energy from fossil or nuclear fuels, in the course of providing energy-related services to society, generates significant environmental and social impacts. These impacts are greater than they need be because of the low efficiency of our current systems for delivering energy, converting it into forms appropriate for specific tasks, and utilising it in our homes, machinery, appliances and vehicles. An important way of mitigating the environmental impacts of current fuel use is therefore to improve the efficiency of these systems. Over the past few decades, significant efficiency improvements have indeed been made, but further major improvements are feasible technologically – and are, in many cases, attractive economically, a key factor for businesses.

Of course, not all energy sources are of fossil or nuclear origin. The renewable energy sources, principally solar energy and its derivatives in the form of bioenergy, hydroelectricity, wind and wave power, are increasingly considered likely to play an important role in the sustainable energy systems of the future. The 'renewables' are based on energy flows that are replenished by natural processes, and so do not become depleted with use as do fossil or nuclear fuels– although there may be other constraints on their use. The environmental impacts of renewable energy sources vary, but they are generally much lower than those of conventional fuels. However, the current costs of renewable energy sources are in many cases higher than those of conventional sources, and this has until recently retarded their deployment.

All these considerations suggest that in creating a sustainable energy future for humanity during the coming decades, it will be necessary:

1. To implement greatly improved technologies for harnessing the fossil and nuclear fuels, to ensure that their use, if continued, creates much lower environmental and social impact;

2. To develop and deploy the renewable energy sources on a much wider scale; and

3. To make major improvements in the efficiency of energy conversion, distribution and use.

Present Energy Sources and Sustainability

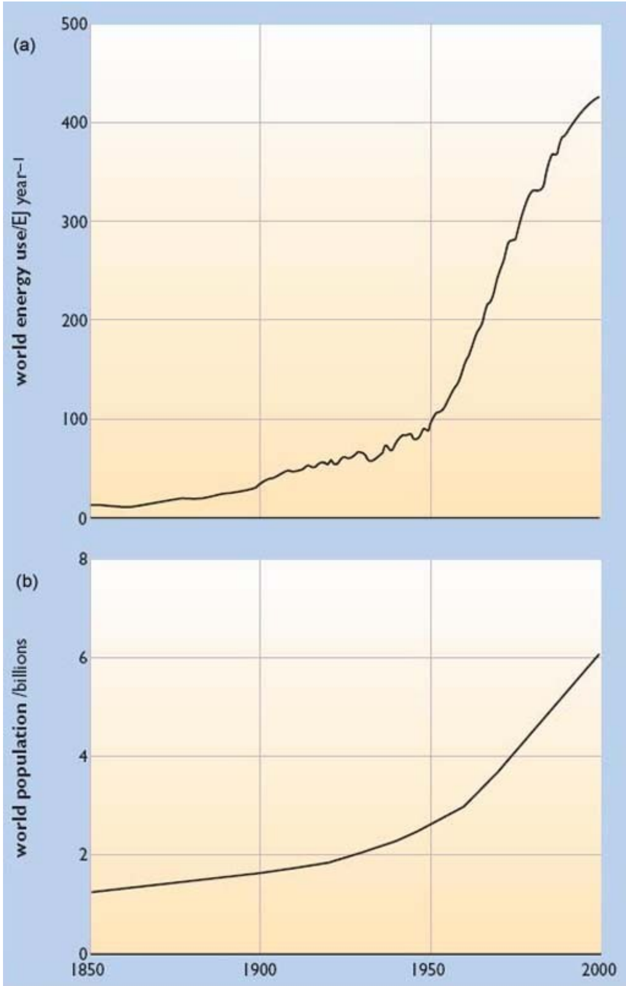
Until quite recently, human energy requirements were modest and our supplies came either from harnessing natural processes such as the growth of plants, which provided wood for heating and food to energise human or animal muscles, or from the power of water and wind, used to drive simple machinery.

During the Industrial Revolution in the nineteenth and twentieth centuries saw a massive increase in global energy use, based mainly on burning cheap and plentiful fossil fuels: first coal, then oil and natural gas. These fossil fuels now supply over 80 per cent of the world's current energy consumption.

World Primary Energy Consumption

The population of the world rose nearly four-fold during the twentieth century, from 1.6 billion in 1900 to approximately 6.1 billion in 2000. However, world primary energy use increased at a much faster rate. Between 1900 and 2000, it rose more than 10-fold (Figure 7.3).

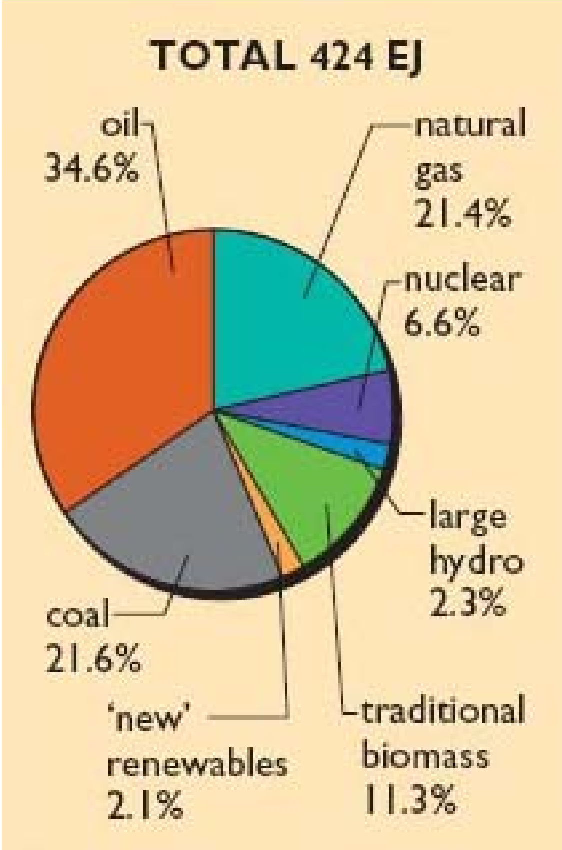
Figure 7.3 (a) Growth in world primary energy use, 1850–2000; (b) Growth in world population, 1850–2000



For most of the nineteenth century the world's principal fuel was firewood (or other forms of traditional ‘bioenergy’), but coal use was rising fast and by the beginning of the twentieth century it had replaced wood as the dominant energy source. During the 1920s, oil in turn began to challenge coal and by the 1970s had overtaken it as the leading contributor to world supplies. By then, natural gas was also making a very substantial contribution, with nuclear energy and hydro power also supplying smaller but significant amounts.

As Figure 7.4 shows, total world primary energy use in 2000 was an estimated 424 million million million joules, i.e. 424 exajoules, equivalent to some 10,100 million tonnes of oil.

Figure 7.4 - Percentage contributions of various energy sources to world primary energy consumption, 2000



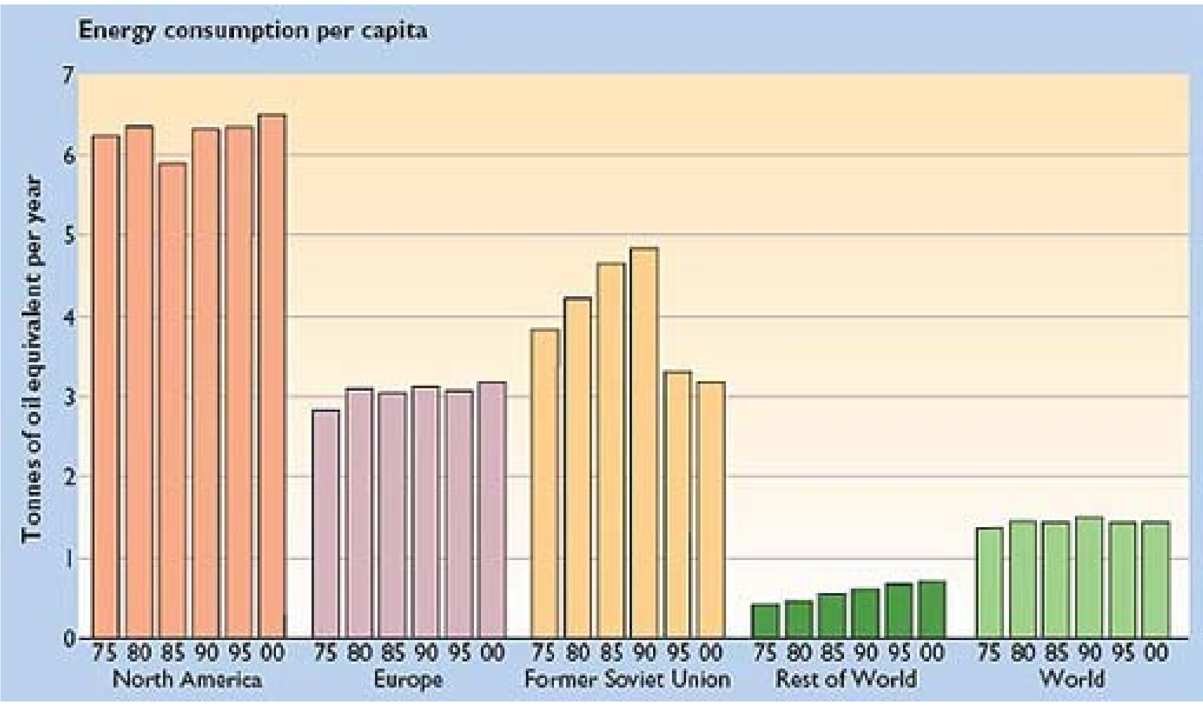
Note that the actual amounts of electricity produced by nuclear and hydro power were almost the same, but due to a statistical convention in the definition of primary energy, the nuclear contribution is multiplied by a factor of 3.

By the year 2000, oil was still the largest single contributor to world supplies, providing about 35 per cent of primary energy, with gas and coal supplying roughly equal shares at around 21–22 per cent, nuclear providing nearly 7 per cent and hydropower 2 per cent. In 2000, traditional biofuels still supplied an estimated 11 per cent, while more modern forms of 'bioenergy' provided around 2 per cent, with other 'new renewables' like wind power contributing a very small (though rapidly growing) fraction of world demand.

On average, world primary energy use per person in 2000 was about 70 thousand million joules (70 gigajoules), including non-commercial bioenergy. This is equivalent to about one and two-thirds tonnes of oil per person per year, or about 5 litres (just over one Imperial gallon) of oil per day. This average conceals major differences between the inhabitants of different regions. As figure 7.5 illustrates, North Americans annually consume the equivalent of about 8 tonnes of oil per head (about 20 litres per day), whereas residents of Europe and the former Soviet Union consume about half that amount, and the inhabitants of the rest of the world use only about one-tenth.

World consumption per person has shown almost no growth over the past 20 years. North American consumption per capita is more than twice that of Europe and the former Soviet Union, and almost 10 times the level in the Rest of the World. Note that these figures include only commercially traded fuels (i.e. they exclude traditional biofuels).

Figure 7.5 Per capita primary energy consumption, in tonnes of oil equivalent per year, for different regions of the world and for the world as a whole, 1975–2000



Fossil fuels are extremely attractive as energy sources. They are highly concentrated, enabling large amounts of energy to be stored in relatively small volumes. They are relatively easy to distribute, especially oil and gas which are fluids.

During the twentieth century, these unique advantages enabled the development of increasingly sophisticated and effective technologies for transforming fossil fuel energy into useful heat, light and motion; these ranged from the oil lamp to the steam engine and the internal combustion engine. Today, at the beginning of the twenty-first century, fossil fuel-based systems reign supreme, supplying the great majority of the world's energy.

However, it seems ever more likely that, at least in the case of oil from conventional sources, world oil production will reach a peak in the first decade of this century. From then on, although vast quantities of conventional oil will still remain, the resource will be on a declining curve (United Nations, 2000; Campbell and Laherrere, 1998). This seems likely to lead to increased instability and potential for conflict as the twenty-first century proceeds.

The massive use by our society of coal, oil and gas has, literally, fuelled enormous increases in material prosperity – at least for the majority in the industrialised countries. But it has also had numerous adverse consequences. As already mentioned, these include air and water pollution, mining accidents, fires and explosions on oil or gas rigs, conflicts over access to fuel resources and, perhaps most profoundly, the global climate change that is likely to be the result of increasing atmospheric carbon dioxide concentrations caused by fossil fuel combustion (see Box 2).

Renewable Energy Sources

Fossil and nuclear fuels are often termed non-renewable energy sources. This is because, although the quantities in which they are available may be extremely large, they are nevertheless finite and so will in principle 'run out' at some time in the future.

By contrast, hydropower and bioenergy (from biofuels grown sustainably) are two examples of renewable energy sources – that is, sources that are continuously replenished by natural processes. Renewable energy sources are essentially flows of energy, whereas the fossil and nuclear fuels are, in essence, stocks of energy.

World-wide, there has been a rapid rise in the development and deployment of renewable energy sources during the past few decades, not only because, unlike fossil or nuclear fuels, there is no danger of their 'running out', but also because their use normally entails no (or few) greenhouse gas emissions and therefore does not contribute to global climate change.

Renewable energy sources range from solar power in its various forms, through bioenergy and hydro to wind, wave, tidal and geothermal energy (7.6).

Figure 7.6 – various forms of renewable energy

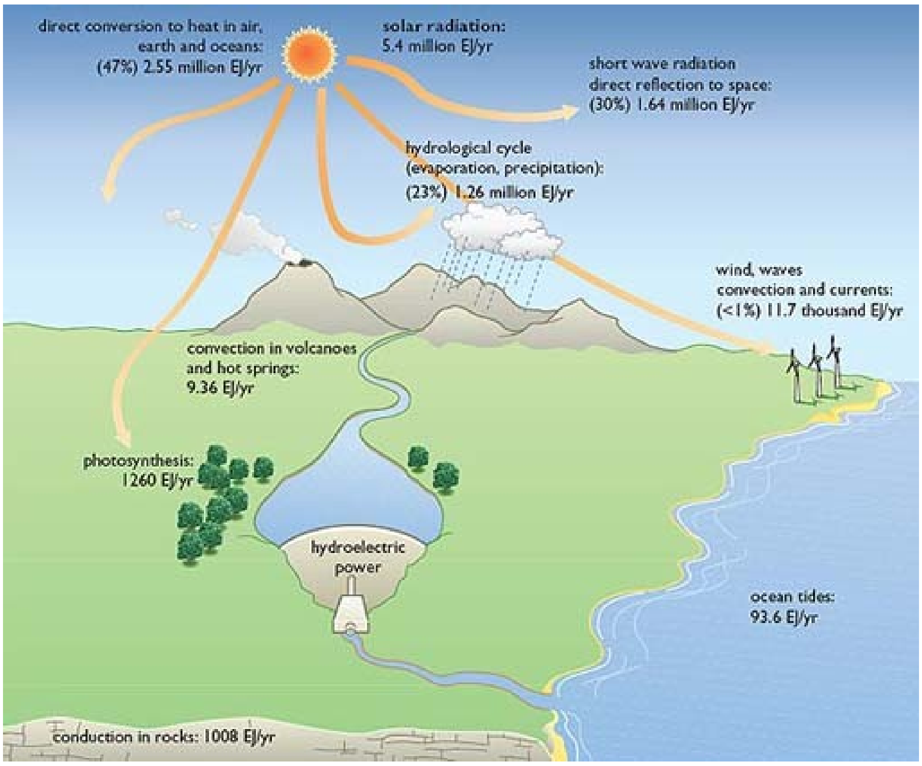


Figure 7.6 shows various forms of renewable energy depend primarily on incoming solar radiation, which totals some 5.4 million Exajoules (EJ) per year. Of this, approximately 30 per cent is reflected back into space. The remaining 70 per cent is in principle available for use on Earth, as shown, and amounts to approximately 3.8 million EJ. This is some 10,000 times the current rate of consumption of fossil and nuclear fuels, which in 2000 amounted to some 360 EJ. Two other, non-solar, renewable energy sources are shown in the figure. These are the motion of the ocean tides, caused principally by the moon's gravitational pull (with a small contribution from the sun's gravity); and geothermal heat from the earth's interior, which manifests itself in convection in volcanoes and hot springs, and in conduction in rocks.

Renewable energy sources are generally sustainable in the sense that they cannot ‘run out’ –although, as noted above, both biomass and geothermal energy need wise management if they are to be used sustainably. For all of the other renewables, almost any realistic rate of exploitation by humans would be unlikely to approach their rate of replenishment by nature, though of course the use of all renewables is subject to various practical constraints.

Renewable energies are also relatively ‘sustainable’ in the additional sense that their environmental and social impacts are generally more benign than those of fossil or nuclear fuels. However, the deployment of renewables in some cases entails significant environmental and social impacts. Renewable energy sources are generally much less concentrated than fossil or nuclear fuels, so large areas of land (or building surfaces) are often required if substantial quantities of energy are to be collected. This can lead to a significant visual impact, as in the case of wind turbines.

Also, the monetary costs of many renewable sources are at present considerably higher than those of conventional fuels. Until this imbalance is reduced, either by reducing the costs of renewables or through increases in the costs of conventional sources, renewables may be unable to succeed in capturing a substantial fraction of the world market.

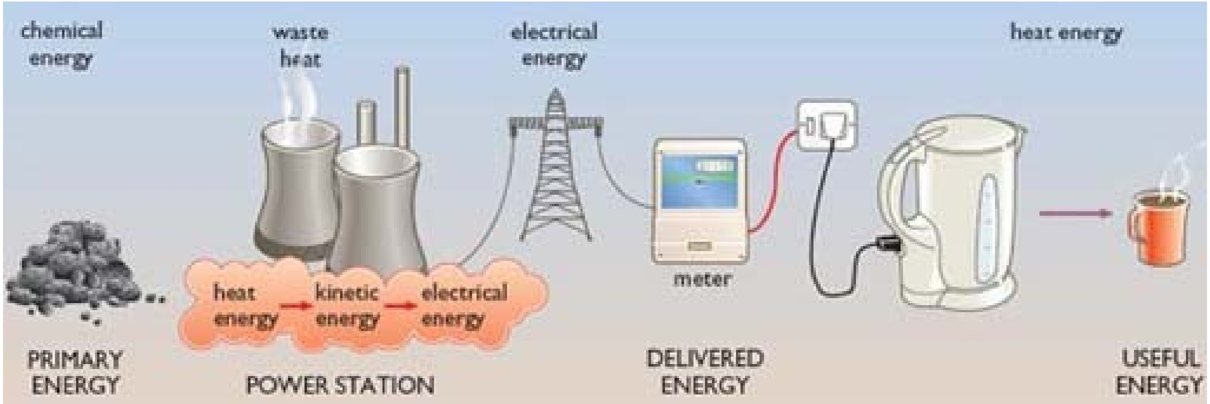
Renewables may seem attractive in many ways, but how large a contribution might they make to world energy needs in the future?

Energy Services and Efficiency Improvement

Except in the form of food, no one needs or wants energy as such. That is to say, no one wants to eat coal or uranium, drink oil, breathe natural gas or be directly connected to an electricity supply. What people want is energy services – those services which energy uniquely can provide. Principally, these are: heat, for warming rooms, for washing and for processing materials; lighting, both interior and exterior; motive power, for a myriad of uses from pumping fluids to lifting elevators to driving vehicles; and power for electronic communications and computing.

The efficiency with which humanity currently uses its energy sources is generally extremely low. At present, only about one-third of the energy content of the fuel the world uses emerges as 'useful' energy, at the end of the long supply chains we have established to connect our coal and uranium mines, our oil and gas wells, with our energy-related needs for warmth, light, motion, communication, etc.

Figure 7.7 An example of one of the energy 'chains' linking primary energy with delivered energy and useful energy, via various energy transformations



The remaining two-thirds usually disappear into the environment in the form of ‘waste’ heat. One of the reasons for our continuing inefficiency in energy use is that energy has been steadily reducing in price, in real terms, over the past 100 years.

Energy's decreasing cost means that our society has only a relatively weak financial incentive to use it more wisely.

Energy efficiency improvements

On the *supply* side of our energy systems, there is a very large potential for improving the efficiency of electricity generation by introducing new technologies that are more efficient than older power plant. Indeed many businesses are looking at 'unplugging' themselves from the grid in an attempt to generate energy in a cheaper, more secure, more environmentally friendly manner. Hospitals, local government and businesses alike are assessing the viability of Combined Heat and Power (CHP) plants sited locally in the form of Co-generation or Tri-Generation plants, using the ‘waste’ heat from power stations is widely used in district heating schemes to heat buildings. In 2000, some 72 per cent of Denmark's electricity was produced in such ‘Combined Heat and Power’ systems.

Improving the sustainability of energy use by applying *demand-side* measures involves two distinct approaches, one technological, the other social.

The technological approach involves installing improved energy conversion (or distribution) technologies that require less input energy to achieve a given level of useful energy output or energy *service*.

The social approach involves re-arranging our lifestyles, individually and collectively, in minor or perhaps major ways, in order to ensure that the energy required to perform a given service is reduced in comparison with other ways of supplying that service.

The Commercial and Institutional Sector (often termed the Services Sector).

The energy requirements of the commercial and institutional sector are very similar to those of the domestic sector: space heating, water heating, cooking, lights and appliances. Air conditioning, however, is more prevalent in this sector than in the domestic sector – at least in countries with temperate climates, like the UK. In this sector, as in the Domestic Sector, most of consumption is within buildings.

The main technological measures that can be taken to conserve energy and use it more efficiently within buildings include:

Improved levels of insulation in walls, roofs and floors, to reduce heat losses through these elements;

Energy-efficient windows, designed to allow less heat to escape whilst still admitting large amounts of sunlight;

Draught-proofing and heat recovery systems to reduce heat lost through ventilation whilst retaining sufficient fresh air within the building;

More efficient boilers that require a smaller fuel input to achieve a given level of space or water heating, together with improved insulation of pipes to reduce heat losses;

Energy-efficient lights that require much smaller amounts of power to provide a given level of illumination;

Energy-efficient appliances, such as refrigerators, cookers, washing machines, dishwashers, TV sets and hi-fi equipment in the domestic sector; or more efficient computers, copiers and other business equipment in the commercial and institutional sector. These consume less energy whilst delivering the same level of service as their inefficient predecessors;

Improved control systems, to ensure that energy-consuming equipment is not switched on when not needed, and that power output levels match the requirements of users.

The Industrial Sector

This sector mainly covers manufacturing industry, service industries being categorised under 'Services'. Much of industrial energy use also occurs within buildings, and consists of requirements for space heating, water heating, cooking, lights and appliances, as in the domestic and commercial and institutional sectors. But in addition, many industries, such as the steel industry, use substantial quantities of high-temperature heat and large amounts of electricity to power various specialised processes. These demands in many cases exceed those of the buildings where the activities are housed and of the people within them.

So apart from improving the energy efficiency of the buildings and appliances in the industrial sector, where the approaches are similar to those in the domestic and services sectors, there are other measures that apply specifically to industry. In particular, these include 'cascading' of energy uses, where 'waste' heat from a high-temperature process is used to provide energy for lower temperature processes; and the use of high-efficiency electric motors, pumps, fans and drive systems, with accurate matching of motors to the tasks they are required to perform, and accurate sizing of pipes and their associated pumps.

Dematerialisation

The measures that can be adopted by industry also include reductions in the material content of products, for example in car bodies or drinks cans, where thinner metals can be used without any reduction in the required strength; or the substitution of less energy-intensive materials, as in the use of plastics instead of steel for car bumpers.

These measures are one form of what has been termed ‘dematerialisation’ – a reduction in the material-intensity (and hence the energy-intensity) of production.

Another form of dematerialisation involves changes that are more social than technological. It occurs when the structure of a country's entire economy shifts towards less energy- and materials-intensive activities. For example, in the UK the steel industry today accounts for a much smaller share of the country's gross domestic product (GDP) than it did 20 years ago. By contrast, the UK services sector now constitutes a much bigger fraction of GDP than two decades ago. Since the service sector usually requires less energy than the steel industry for every pound's worth of production, Britain's overall energy demands have been less than they would otherwise have been. However, if the steel that was formerly manufactured in Britain is now manufactured abroad but still imported to the UK in similar quantities, all that has happened is that the energy input, with its associated CO2 emissions and their implications for global warming, has been transferred to another country.

The Transport Sector

Motor vehicles (cars, vans, buses, trucks, motor cycles) dominate the transport sector in developed countries. But this sector also encompasses many other modes of transport, including rail, air and shipping, and non-motorised transport forms such as cycling and walking.

As can be seen from7.11, the various forms of transport vary enormously in their energy requirements per passenger-kilometre travelled. Cycling and walking, of course, require no fuel input apart from food.

In most developed countries there has been an enormous increase in transportation, measured in passenger-kilometres travelled annually, over the past few decades (Figure7.12). Most of this has involved motorised transport, mainly fuelled by oil, and so energy use has also increased greatly, as have the associated CO2 emissions.

Figure 7.10 Energy efficiency of different modes of transport in the UK (source: Hughes, 1993)

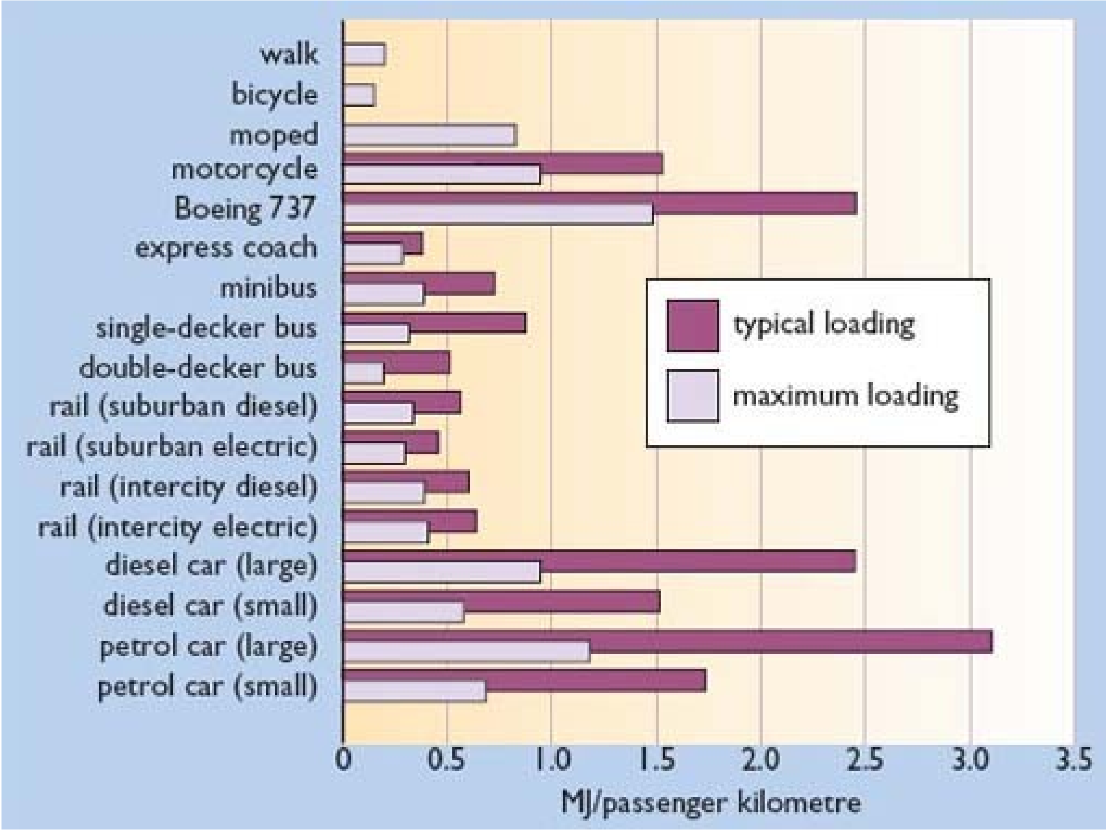
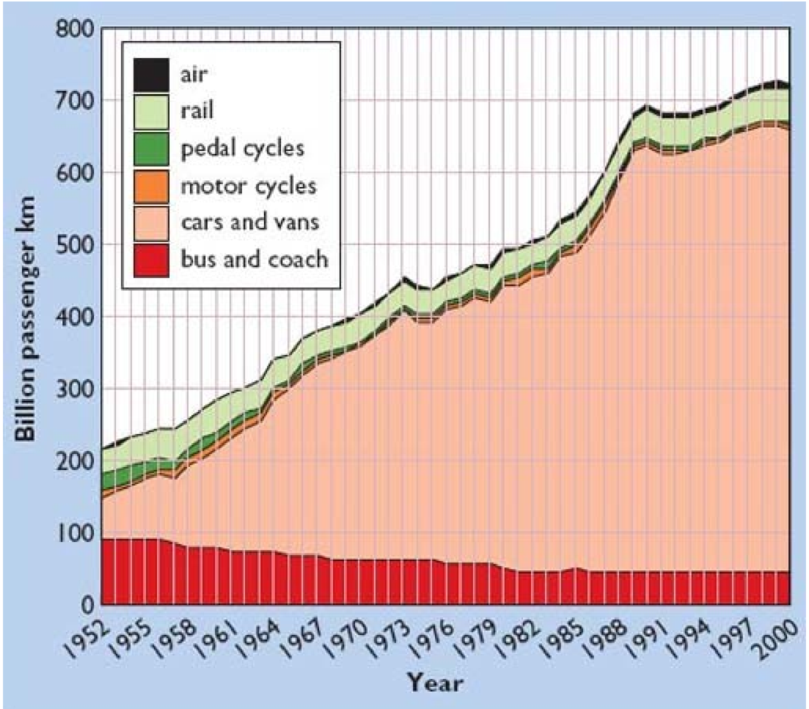


Figure 7.11 Annual passenger-kilometres travelled in the UK, 1952–2000, by transport mode. Note: air travel data refer to internal flights only (source: DTLR, 2001)



Transport Energy Demand Reduction: Technological Measures

In addition to such social measures, there are numerous technological options for improving the energy efficiency of transport energy use. Improving vehicle fuel economy is one obvious measure, and the average fuel economy (in miles per gallon, or litres per 100 km) of vehicles has indeed improved very substantially in most developed countries over the past few decades. However, this improvement has been largely offset (in the UK at least) by an increase in the total number of vehicle-miles travelled, and by increases in the average speeds of vehicles, both of which result in increased fuel consumption.

Nevertheless, manufacturers continue to introduce new models with steadily improving fuel economy, partially spurred by legislation requiring them to do so. New approaches include ‘hybrid’ petrol-electric cars such as the Toyota Prius.

In addition to such incremental improvements, there are also more radical possibilities, such as the ‘Hypercar’, proposed by engineers at the Rocky Mountain Institute in the USA

In addition to such incremental improvements, there are also more radical possibilities, such as the ‘Hypercar’, proposed by engineers at the Rocky Mountain Institute in the USA.

Whilst Hypercars may still be some way off, but major manufacturers such as Daimler-Chrysler and Ford have recognised the need to make dramatic reductions in vehicle CO_2 emissions in the long term, and are investing many hundreds of millions of dollars in the production of fuel-celled vehicles

Energy in a Sustainable Future

Business faces three key approaches to improving the sustainability of human energy use in the future. These are essentially:

(a) ‘Cleaning-up’ fossil and nuclear technologies;

(b) Switching to renewable energy sources;

(c) Using energy more efficiently.

The dramatic changes that have occurred in Britain's energy systems during the past 50 years have, broadly, been paralleled in most ‘developed’ countries over the same period. Given the scale and profundity of the changes over the past half-century, it does not seem unrealistic to suggest that equally profound changes could well occur over the next 50 to 100 years, as we attempt to improve the sustainability of our energy systems, nationally and globally.

The actual outcome over coming decades will depend on the extent to which we change our lifestyles and our technologies in order to conserve energy; how effective we are in generating and using it more efficiently; how rapidly we choose to develop and deploy renewable energy sources; how large a role we choose to give to nuclear power; and whether or not we decide to implement carbon sequestration and other technologies for ‘cleaning-up’ fossil fuels

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Chapter 8: Environmental Management – Differing Approaches to Driving Environmental Change

How many business people know that sustainability is the concept that is meant to protect the world? How many believe in the concept are convinced that it can capture the public imagination? The answer to both questions is 'not enough'!

It is easy to lay the charge that the idea has been much talked about in some closed circles, but has no purchase on the public imagination and is little practised by business. This section takes the three different approaches to global environmental change, offering examples of how their visions have been put into practice. These are intended as no more than sketches but by the end of this unit you will be in a good position to weigh up the claims of the different camps to have found routes to sustainability.

‘Natural’ Capitalism

Business can learn to integrate ecological thinking into the core of its thinking and become the hub of a sustainable society. This is the claim of the business learns position. As environmentalists have spent over 30 years portraying business as the arch-villain of the piece, this is a grand claim. One of the people who have stated it most clearly is Ray Anderson who died last year, former head of the US carpet giant Interface,. Here is the story of his dramatic 'conversion' to a different way of thinking about business and the natural world - you may remember him from Session 4's viewing of 'The Corporation'?

Ray's story: ‘doing well by doing good’

Ray Anderson was in the business of selling vast amounts of carpet around the world. Like many business leaders, he had little regard for the environment, beyond recognising the obligation to ‘comply, comply, comply’ with regulations. The company was a heavy user of petrochemicals and, once the products left the factory gate, the company would not see them again; their last home would be landfill. One day in 1994 Anderson was asked to talk to a group of his executives about the company's environmental vision. He realised they didn't have one, and he chanced on a book called The Ecology of Commerce by Paul Hawken (1995). The book transformed the way he thought about the whole business world:

'While business is part of the problem; it can also be a part of the solution. Business is the largest, wealthiest, most pervasive institution on Earth, and responsible for most of the environmental damage. It must take the lead in directing the Earth away from collapse, and toward sustainability and restoration.

I believe we have come to the threshold of the next industrial revolution. At Interface, we seek to become the first sustainable corporation in the world, and, following that, the first restorative company. It means creating the technologies of the future – kinder, gentler technologies that emulate nature's systems. I believe that's where we will find the right model. Ultimately, I believe we must learn to depend solely on available income the way a forest does, not on our precious stores of natural capital. Linear practices must be replaced by cyclical ones. That's nature's way… We look forward to the day when our factories have no smokestacks and no effluents. If successful, we'll spend the rest of our days harvesting yesteryear's carpets, recycling old petrochemicals into new materials, and converting sunlight into energy. There will be zero scrap going into landfills and zero emissions into the biosphere. Literally, our company will grow by cleaning up the world, not by polluting or degrading it. We'll be doing well by doing good. That's the vision. Is it a dream? Certainly, but it is a dream we share with our 7,500 associates, our vendors, and our customers. Everyone will have to dream this dream to make it a reality, but until then, we are committed to leading the way.'

(Anderson, 2002)

The company has been applying L**ife Cycle Analysis (LCA)** to ‘close the loop’ of its resource impacts through efficiencies and cutting pollution (Figure 10). Perhaps most interesting is the new way it started to think about the business's relationship with customers. It seeks to supply service and value rather than material goods. For example, the company leases floor coverings, replacing only those carpet tiles that wear (and recycling them). The result can be reduced environmental impact, satisfied customers and competitive advantage. But it is still a carpet company, turning a profit, with 7500 employees working in 34 countries.

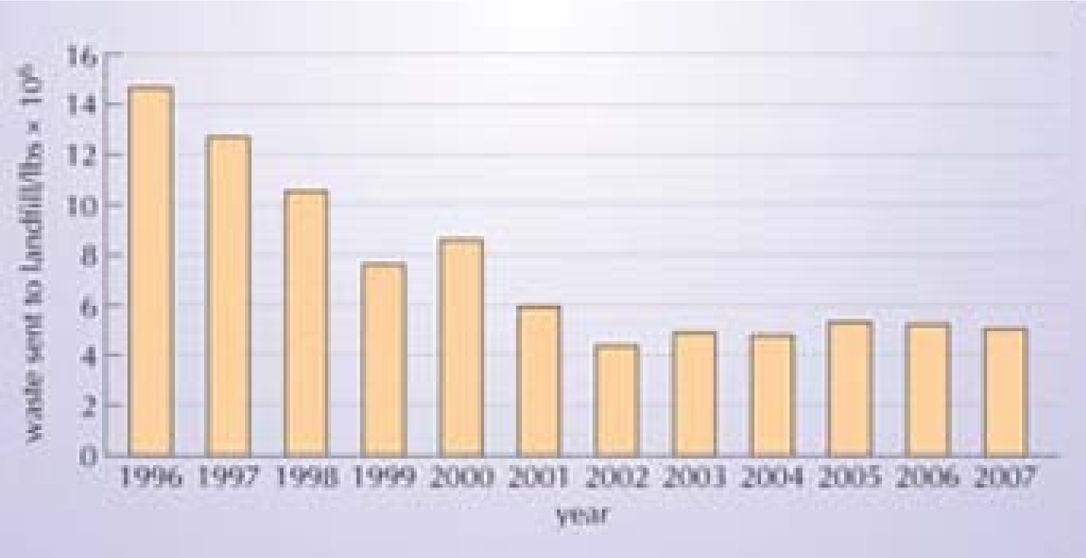
The company makes some grand claims, but its corporate reporting addresses sustainability. Indeed, it claims to have produced the first corporate sustainability report, and followed this up with a dedicated sustainability website (Interface, 2009).

Interface can certainly talk the talk, but it is clear measurable evidence that counts. The evidence in some key aspects of environmental impact shows meaningful progress. Here is some evidence drawn from their sustainability reporting web pages.

Waste-elimination activities

Interface began its journey to sustainability by focusing on the elimination of waste. It measures its waste in a ‘dollar value’ – something that helps attract the interest and commitment of employees (especially the all-important financial directors) and investors alike. By looking hard at trims and scraps, overuse of raw materials, inventory losses and/or labour to re-inspect or correct a defective product, it claims to have cut waste sent to landfills from carpet manufacturing facilities by 66% since 1996 (Figure 8.2).

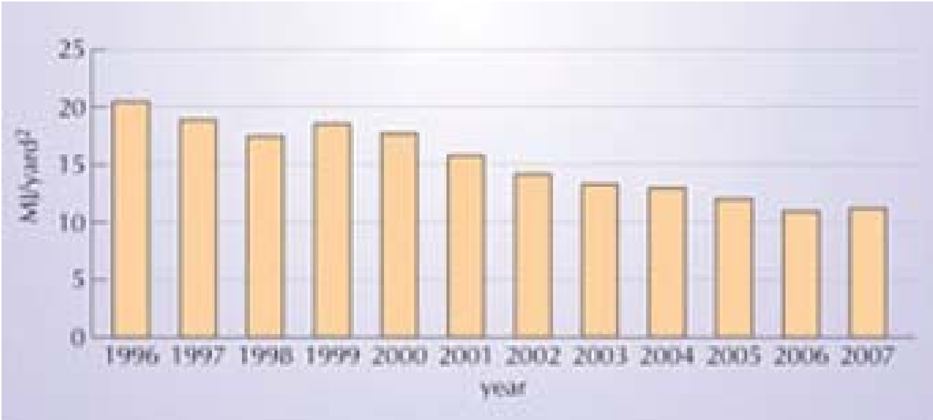
Figure 8.2 - Waste sent to landfill. Interface is US owned, so the figures are in standard American units. (Source: Interfaceglobal.com)



Another of the company's sustainability indicators is the source and quantity of energy it buys. It aims to: (1) decrease the use of non-renewable energy by increasing the efficiency of processes; (2) increase the use of green or renewable energy. The goal is less dependent on fossil fuels and, hence, reduced greenhouse gas emissions. Interface has reduced the total energy used at its carpet factories (per unit of product) by 45% since 1996.

Renewable energy in its plants takes the form of biomass (waste woodchip from a local company) and generating and purchasing green electricity (three Interface sites use photovoltaic arrays and four buy certified green electricity). Its long-term strategy is to increase both efficiency and use of renewable energy (8.3).

Figure 8.3 - Energy use at carpet-manufacturing facilities. MJ = megajoules. (Source: Interfaceglobal.com)



There are similar goals and progress in its approach to its whole manufacturing and marketing systems, including water use, the reuse of recovered materials ('closing the loop') and the replacement of petroleum based products. Its demanding sustainability strategy was seen as high risk in the 1990s, but the company has grown healthily, outperformed many of its rivals, and also been a leader in sustainable business practice. You can track its yearly progress on its website.

Even the brief account of Interface's story sketches out some of the following central messages of the business learns position:

Eco-efficiency = money in the bank

Business can profit from taking the environment into account (generally called eco-efficiency). Poor environmental performance is seen as a reflection of poor business practice in general. Eco-efficiency promotes the economic benefits of energy and materials savings, at the same time being first to market with new technologies or products. Since business sustainability lobbies promoted eco-efficiency in the early 1990s, the creed has gained rapid acceptance, and with good cause. There are numerous eco-efficiency success stories: it has become something of an orthodoxy among global companies. Some commentators point to fourfold increases in efficiency that could easily be achieved by businesses using current and proven technologies (von Weizsäcker and Lovins, 1997). The same authors go further to argue that the true state of environmental problems demands improvement closer to a factor of ten. There are numerous sources of credible eco-modernisation case studies and data. You might start by looking at the work of the World Business Council for Sustainable Development (WBCSD) on the Web.

Business needs sustainability

The second argument is more profound: long-term profitability, and the existence of business itself, is threatened if companies can't transform themselves. This assumes that although the costs of environmental and social impacts can be ignored for a period, in the context of globalisation of environmental, social and political processes, they will come back to haunt businesses, and ultimately threaten their survival. There are several communications and management tools that have been developed to help get business decision makers into an ecological mind-set.

The success of a business is generally measured in reports of financial performance. This information is enormously influential in shaping a company's future, whether it relates to its capacity to expand or the likelihood of merger or takeover. However, financial results are increasingly recognised to be only part of the story: businesses that don't put in place means of measuring and benchmarking (i.e. comparing performance against that of other companies) environmental and social performance are at risk. NGOs might destroy a carefully nurtured brand name in the wake of exposure of an environmental or a social 'crime'. Alternatively, the fast-growing movement for socially responsible investment may begin asking awkward questions, damaging investment potential. Pressure from NGOs, the persistence of corporate accountability scandals and, more positively, some fresh thinking from leading figures within the business world, have resulted in widespread innovations in reporting.

The Web is an excellent source of both individual company reports (variously called environmental, sustainability or corporate social reports) and comparative indices that aim to tell the story of all three dimensions of sustainability – social, environmental and economic. Companies such as Shell and BP, with a track record in the 1990s of damaging public conflicts with NGOs, have been among the leaders of innovation in sustainability reporting, and the Web is often the best way to access the information, and to interact with the companies about it (8.4). Openness, both within and outside companies, has become a central claim of business reporting in these areas.

The Dow Jones Sustainability Indexes give comparative evidence about corporate performance, measured according to easily accessible sustainability criteria such as the nature of corporate governance, measurements of environmental performance and the quality of engagement with external stakeholders. However, many environmentalists argue that business performance on social and environmental issues is starting from such a pitifully low baseline that such information exercises are of little value unless they are contributing to a dramatic rethinking of what core business practice amounts to. They insist that relying on business voluntarism may result in one or two heart-warming stories, but will still leave most locked in the old way of doing things. Groups of independent-minded radicals have not waited for business or government action, but instead sought over the last three decades to blaze their own trail.

Activity 8.1 - Business Reengineering

In your Learning Diary, create a new entry entitled 'Business Reengineering'. Select a large business that you know well. Using the principles adopted by Interface of reducing energy, waste and water consumption, identify how your selected business could reengineer its systems and processes to reduce significantly its environmental impacts. These might include adopting new business models (e.g. leasing rather than selling) or installing new technologies (e.g. solar energy). be creative in your thinking and imagine what this business might look like in 10 to 15 years’ time in a resource-constrained world).

Take approximately 45 minutes to do this and write no more than 250 words.

Signing Everyone up to Sustainability

The proponents of step-by-step progress towards sustainability would include in their plans many of the ideas proposed in the previous section. However, what distinguishes this group is that they stand in the middle of the scale between faith in unfettered business voluntarism and a conviction that radical transformations are required. This 'incrementalism' is reflected in the kinds of pragmatic solutions they propose; their radicalism shows in the way they think about new roles and processes being taken up by all key stakeholders.

Partnerships for sustainable consumption

Moderate NGOs, progressive businesses and government all have a stake in seeing roundtable partnerships come up with practical steps that can bring sustainability closer. One area that has attracted the attention of all these players is consumption. Directing or limiting consumption is politically difficult for even the NGOs to promote. Similarly, ‘voluntary simplicity’ of the sort lived at Findhorn eco-village (1) is not something that mainstream business will support. Hence sustainable consumption is an obvious goal around which these partners can gather. Two prominent examples are the Forest Stewardship Council or FSC (Box 4) and the Marine Stewardship Council or MSC, both examples of attempts to create sustainable supply chains of raw materials that are subject to intense and unsustainable exploitation.

What might the geographical spread of FSC certification say about the governance of forestry? Contrast Europe with Africa.

Looking at 8.5, there appear to be wide differences between European and African percentages of certified forestry. There could be a combination of factors:

European civil society and government are demanding sustainable forestry

practices; management systems in the EU exist in an increasingly tight environmental regulation context;

Governance of African forestry supply chains may make it more difficult to achieve certification;

Some of the initial promoters of the FSC approach may be EU based.

Careful research would be required to know what precisely the reasons are, but the information in Figure 8.5 is a good starting point.

Forest Stewardship Council – a partnership for the future of forests

The Forest Stewardship Council is an international non-profit organisation founded in 1993 to support environmentally appropriate, socially beneficial, and economically viable management of the world's forests. With offices in Mexico and Germany, it is an association of members including environmental and social NGOs, the timber trade and the forestry profession, indigenous people's organisations, community forestry groups, and forest product certification organisations from around the world.

Forest certification is a way of assessing and certifying claims to have put sustainable forestry in place. Operations are assessed against a predetermined set of standards. The FSC's standards aim to establish a global baseline to aid the development of region-specific forest-management standards. Independent certification bodies, accredited by the FSC in the application of these standards, conduct impartial detailed assessments of forest operations at the request of landowners. If the forest operations are found to conform with FSC standards, a certificate is issued, enabling the landowner to bring product to market as ‘certified wood’, and to use the FSC trademark logo.

Chain of custody is the process by which the source of a timber product is verified. To carry the FSC trademark, a timber has to be independently tracked from the forest, through all the steps of the production process, until it reaches the end user. By mid-2002 there were more than 1500 FSC-endorsed Chain of Custody (COC) certificates in the world (Figure 8.6a). In the space of five years, there was a fivefold increase in the area of FSC forest (Figure 8.6b).

The FSC is a compelling and exciting case but it remains the exception rather than the norm. For sustainability steps to be a convincing way forward, there need to be ways of scaling up the occasional success stories and to make them mainstream.

If you put together enlightened business, concerned and often organised civil society, and a communications system which the world has never seen before, you can expect some progress. However, it is widely argued that without government intervention and legislation, this progress will remain marginal and un-sustainability will continue as the norm.

Activity 8.2 - NGO/Business Partnerships

In your Learning Diary, create a new entry entitled 'NGO/Business Partnerships'. Focus on a business/NGO partnership of your choice such as FSC or MSC or feel free to choice something more explicit such as the somewhat contentious collaboration between British American Tobacco and WWF. Summarise the objectives of the partnership, how it works and whether it is successful. Spend no more than 30 minutes on this and write approximately 150 words.

Green from the Grassroots Up

People who demand a radical break with the business-dominated path of economic globalisation believe that the claims of the mainstream business community are at best hopelessly inadequate, and at worst deceitful. However, they know they have to come up with some answers of their own. This section outlines ideas that seek to underpin a transition to green economies owned and run at grassroots level. Sounds ambitious? Box 2 describes Findhorn, a ground-breaking community that started out on a windswept caravan park in Scotland.

You can get a fuller picture of how these components contribute to their definition of sustainability by drawing on the plentiful web resources produced by what used to be called communes, but are now sometimes referred to as ‘intentional communities’.

Of course, Findhorn is a very special place, although there are others like it, and it is not easy to imagine urban Britain turning to this way of life in a big way. But it illustrates a movement of experimentation at local level that is generating some ideas that could be scaled up to help make whole societies more sustainable.

The Findhorn eco-village – a sustainable future?

In the early 1960s an unemployed couple tried to start growing vegetables on a very unpromising sandy plot on a caravan site on the east coast of Scotland. A powerful founding myth of today's Findhorn community is that their garden grew prodigiously and attracted stunned horticulturalists to the scene. In time, a community grew there too, now numbering 400 people, with a further 4000 people visiting annually for retreats and courses (Figure 8.6).

Findhorn has become one of the best known of a global network of eco-villages. An eco-village is a small community of between 50 and 2000 people, based on shared ecological, social and/or spiritual values. Working on the principle of not taking more from the Earth than you give back, eco-villages aim to be sustainable – indefinitely. The eco-village is a response to the complex problem of how to turn human settlements, be they villages, towns or cities, into sustainable communities, and to integrate them into the natural environment. The Eco-village Project at the Findhorn Foundation aims to be a synthesis of the best current thinking on human habitats. Quality of life, cooperation and co-creation with nature are some of the driving principles. They suggest that eco-village principles can be applied to both rural and urban settings, to developed and less-developed countries. These principles are put into action through a commitment to some or all of:

Ecological building

Renewable energy systems

Local organic food production

Sustainable economics based around local businesses

Social and family support within the community.

(Source: Findhorn Foundation, 2002)

Ecological tax reforms

Communities such as Findhorn already behave as if natural resources need careful management: they work hard to reduce fossil fuel use. A central assumption of this way of thinking is that people need to root economies more locally. To see the same impulse spread through the mainstream economy would require that the price of fossil fuels increases to reflect the real costs of burning fossil fuels. This in turn requires a revival of a nation state's capacity to regulate and redirect economies. Arguably one of the main ways of achieving this is through the tax system. Ecological tax reform implies a shift away from taxing things we value, such as work (via income tax), towards taxation of negative environmental effects. In general, these proposals assume progressive reductions in income tax by raising thresholds. In this scenario, everyone pays the full environmental costs of their lifestyles, without penalising the poorest. Although this way of thinking was for a long time the preserve of green campaigners, it has been interesting to see mainstream political parties from across the left-right spectrum toy with this radical approach to radically revising the tax system.

These radical interpretations of what it might mean to try to account for all environmental externalities are argued to be a route to vibrant local economies. Why, given the robust logic that they seem to follow, have they not been more widely adopted by mainstream politicians? You might think that they would welcome an opportunity to cut income tax and promote environmental benefits. But politicians fear that the public are not prepared for such a shift, particularly after a period in which environmental taxation has often been applied in addition to existing taxes, hence encouraging an atmosphere of cynicism around them. The fact also remains that such dramatic shifts in the nature and balance of taxation will inevitably carry unintended consequences. Nobody can say what will happen to inflation, and the introduction of such radical plans in a nation-by-nation manner may, in fact, accelerate environmental damage in countries that do not take the same route. Their success relies on a level of committed global environmental governance that is difficult to envisage.

Complementary currencies

Complementary currencies also demand a rethink of our economy, but have a more imaginative and radical edge. Because of the difficulties with conventional monetary systems, various alternatives are being tried. These are usually restricted to a particular group of people, and so are called ‘local’ or ‘complementary’ currencies. They are generally based in a local community and enable people to exchange goods and services without resorting to ‘traditional’ currency. Some are grassroots initiatives whereas others are set up by local governments for the purposes of community regeneration. There are now examples all over the world. Two of the more common systems are called local exchange trading systems (LETS), and ‘Time Dollars’ (USA) or ‘Time Banks’ (UK). Some use a sort of note, whereas others simply have recorded accounts. The unit of currency in the time-based systems is the Hour, and each LETS has it own currency name (e.g. ‘bons’ in Senegal, ‘Green $’ in Ontario, Canada, and ‘Buzzards’ in Leighton Buzzard, UK).

The biggest difference between local and national currency systems is one of relationship. Because they are restricted to a group of people who have some prior connection, they are more personal and encourage a spirit of trust and community. Bargaining is sometimes backwards: 'That will be 2 hours.' 'No, you put so much into it that I think I should pay for 2.5 hours.' There is usually no interest and no inflation by the nature of the system. Rather than using banks to create money by lending for interest, with LETS or Time Banks, money is created when one person's account is credited and the other's is debited. The system is fully under the control of the people who use it

Local currencies are proposed as the beginnings of a cooperative rather than a competitive economy because they are seen as a form of mutual support within a closed group. Transactions are driven more by need than by the desire to earn money. Although the number of local currency systems is growing rapidly, to date most of them make a useful, but still marginal, contribution to their local economies. In addition to reviving and underpinning a sense of community, these schemes are lauded for promoting a robust local economy. It is argued that this kind of economy has a much smaller environmental imprint than the parallel conventional economy.

The idea underlying complementary currencies – that there is a great well of social capital waiting to be drawn upon to make society more sustainable – is an idea that is becoming quietly influential. 'Social capital' is a term frequently used by those mainstream politicians and civil servants tasked with addressing the widening gap between rich and poor people within societies throughout the world. Indeed, investing in and enhancing social capital is now the starting point in many sustainability projects in less-developed countries. Nevertheless, there is no evidence that such ideas are anything other than marginal in policy making.

Ecological tax reform proposals are a different matter. They have also shown their capacity to cross over from rambling conversations in Green Party meetings and rock festival fringe events to become the subject of mainstream political debate. Scandinavian and German governments have taken steps in this direction, and major institutions within the EU promote aspects of this approach. Whether it is road pricing or tax on waste going to landfill, the principle of polluter pays is now a well-established means of raising revenues and signalling the need for a change in behaviour. However, note that incomplete or poorly integrated policies may undermine the principle in the public's mind. For example, measures to firm up waste policies in the UK (Landfill Tax) were compromised in the short term by a massive growth in fly tipping and the appearance of 'Fridge Mountains'.

It may be a mistake to think of the arguments of those promoting a radical break with globalising capitalism as being a diametrically opposed alternative. Rather, the ideas the radicals have been generating may be a laboratory of raw but inspiring ideas that have worked in a few specific places. Some of these may be adapted and applied by mainstream policy communities in 'the world as it is'. Nevertheless, many have felt the need to work harder to connect radical ideas to real world settings; to engage in some uncomfortable bargains that might deliver at least some progress in the near term.

Political responses to climate change and the environment

In this section, the range of political responses to climate change and environment–economy interactions is organised more generally under three headings: business learns, radical break and sustainability steps (Table 1). It is a little easier to think about what the terms mean if you begin to give them a personality.

Who should we have in mind when we think about these three categories? For business learns, think of the sharp-suited business people working for one of the major oil, computing, car or food companies. These have grown from being national concerns (albeit often with an international reach) to immense organisations that are globally networked, often with revenues larger than those of many less-developed countries. Their political power, although difficult to measure, can influence the thinking of the world's most powerful democratically elected governments.

The caricature of corporate executives tends to suggest that their pursuit of profit and growth ensures that they have no concern for the environment or the world's poor people. This is hotly contested by those who believe business must, in its own self-interest, learn to integrate sustainability thinking. This camp sees growth allied to sound economics (that internalises environmental and social externalities) as the only means of achieving sustainable development. They argue that the spread of corporate social and environmental responsibility (i.e. independently audited reporting in parallel with annual financial results), will transform the workings of global capital and lead to sustainability. These new ways of summarising business progress on sustainability are looked at in the next section. Those making the business case for sustainability doesn't believe the nation state is the best way to organise this transformation (although many accept that a degree of regulation is desirable) but favour voluntarism. In other words, they believe that rational self-interest will see companies choose a sustainable path as the only way to ensure long-term growth (Figure 4). This perspective is generally in favour of taking risks that promise to accelerate development (e.g. nuclear power or genetic-modification technology).

The *radical break* view sees this as empty greenwash. The strongest image of radicals is of the anti-globalisation protestors, who from the late 1990s made media events out of the dry textual gymnastics of trade negotiations by organising major demonstrations. These demonstrations have become a regular feature of international meetings on development and/or the environment. The media's love of conflict, and the protestors' gift for creating compelling media images, underlined the sense that a very different way of looking at the world was being presented. The protestors are only the most visible expression of a line of argument that originated intellectually in the 1960s in the 'new-left' and the so-called **new social movements**, including radical environmentalism and feminism. All of these sought radical alternatives to both state socialism and capitalism. The alternative they propose today is difficult to pin down, but generally involves both a revival of state power, with the aim of taming corporations, and a radical localisation on the scale and pervasiveness of the globalisation that they charge with so many ills. It is assumed that the state will regulate environmental protection and social welfare standards and also, via protectionism, nurture locally based economies. Examples of the radicals' vision include the experiments in local currencies outlined above. A radically precautionary approach is followed with regard to new technologies that carried apparent social or environmental risks, however small.

It is less easy to visualise the *sustainability steps* view, partly reflecting the fact that it is not so easy to categorise in the media or public imagination. This heading can include people who view economic globalisation as a given, but see ways of ameliorating its worst aspects and are realistic about what can be achieved. If we are to place the radicals in an intellectual descent from the new left, those who believe that progress can best be made towards sustainability via incremental steps belong to a different tradition. They link to reformist movements for social democracy; these reformists worked 'within the system' to extend the right to vote for women and working-class men, and later created the welfare state. In other words, they seek change, but are looking to bring it about within the existing system and accept its constraints. These 'sustainability steps' reformers are offering a descriptive account of what the world is like (flows of capital shaping, and being shaped by, social, political and environmental change). However, they also identify means of progressing towards more environmentally and socially sustainable development. There are already hints about how this view of the sustainable economy might work. One of the most charismatic people who could be placed in the 'sustainability steps' category is Jonathan Porritt (Figure 3c). Although he argues for big steps, and soon, he does believe that sustainability within a capitalist system is possible. He summarises his argument thus:

'the biophysical limits to growth … will compel a profound transformation of contemporary capitalism … an evolved, intelligent and elegant form of capitalism that puts the Earth at its very centre … and ensures that all people are its beneficiaries in recognition of our unavoidable interdependence.' (Porritt, 2005, p. 324)

One such hint is the rapid growth in developed country markets for fair trade, organic and sustainability-certified goods (e.g. tea, coffee, wine, timber and seafood); these means of making consumption sustainable are described more fully in the next section. Others include the attempts described in Chapter 6 to come up with a single sustainability indicator. The processes of localisation and globalisation are viewed as inextricably linked. Although this has been seen as producing social and environmental 'bads' at both ends of the scale, it is precisely this interconnection between local and global perspectives that holds the potential to transform the world for the better.

Activity 8.3 - Which path to sustainability?

This activity invites you to assess the usefulness and viability of the three different approaches to achieving sustainability outlined in this section. To do this, ask yourself the following questions and make notes on your answers.

With which of the three approaches do you most identify?

Do the examples given in this section convince you that societies can adapt to environmental change and become sustainable?

Are they exclusive alternatives, or can they be combined?

Are there any alternative paths that seem more viable or realistic?

Again, create a new entry in your Learning Diary and spend ca. 30 minutes reflecting on this session and answering the questions. How much you write is entirely up to you!

Summary

The unfolding awareness of business and society's hazardous impacts on environmental systems really turns up the heat on questions about the future and the role of business in that future. Climate science suggests that those systems on which we all rely are subject to dramatic changes. This simple fact may increasingly serve to motivate a whole range of players to bring about change on the kind of scale that the problems appear to demand. This session points to the need for (and some evidence of):

A ‘new industrial revolution’

A demanding and proactive civil society

Intelligent, consensual approaches to bringing these forces together.

There seems to be enough evidence in the brief case studies to suggest that we are capable of innovation in our social and economic systems. Intelligence about these innovations can move fast around our networks – be it business, NGOs or the media. The work of all of these networks is accelerated by the Web.

However, it no longer makes sense to see these systems as separate from the natural world. The unfolding science of climate change is an incredibly potent and pressing illustration of how human systems are inevitably interdependent with and dependent upon environmental systems. Business and society must urgently find ways of becoming environmentally sustainable. The challenges are enormous, but these powerful new insights about the interdependence of the human and non-human natural world are being generated at a time when new ideas can be circulated and debated on a scale and at a speed that no previous generation could imagine. These new ways of looking at the world, and the new ways of communicating such insights, leave plenty of room for optimism.

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Acknowledgements

Chapter 9: From Theory to Practice – Contemporary Case Studies in Sustainability

The previous eight sessions have attempted to demonstrate why, what and how businesses are focusing on when it comes to corporate sustainability. This session adopts a slightly different format, demonstrating how much of the earlier discussions translate in practice. Three 'real life' case studies are presented, each focusing on slightly different aspects of corporate sustainability. You are asked to read and reflect on each case before answering the questions by creating entries in your Learning Diary. Each case should take approximately 30-45 minutes and you are asked to restrict your entries to no more than 200 words. Worry less about solving the problems, use the cases more as a source of learning about what companies are doing to embrace sustainability.

Sustainability in the IT Sector

As we touched upon in the Session 7, management of the natural environment forms a significant component of the corporate sustainability mix. This case study provides an insight into how one of the world's largest technology services company seeks to manage its environmental impacts.

Activity 9.1 - IBM and Environmental Management

Environmental management had been an important facet at IBM dating back to the 1970s. The case describes the company's efforts in creating and managing sustainable practices.

The IBM (A) and (B) cases are designed to provide an example of a "state of the art" environmental management system, enabling you to explore exactly how such a system is built and maintained, and to speculate as to the skills and processes that might be required to create one from scratch.

IBM Case A

https://mitsloan.mit.edu/MSTIR/sustainability/EnvironmentalManagementIBMA/Documents/09-089.Environmental%20Management%20at%20IBM.A.Henderson.pdf.

IBM Case B

This case describes in detail IBM's 35-year history of energy conservation and the results of some of those efforts.

https://mitsloan.mit.edu/MSTIR/sustainability/EnvironmentalManagementIBMB/Pages/default.aspx

Once you have read the two cases, create an entry in your Learning Diary entitled 'Session 9 - IBM'. Record those aspects of the case that you consider to have had the most significant impact on IBM's 'Green' evolution. Further, try to give some consideration to the questions posed on page 21, in particular the value of carbon labels and other PR initiatives. Also, what more do you think an organisation like IBM should be doing by way of Environmental Management. Try to draw on examples and experiences from other companies that you have evidenced.

Sustainability and Product Development (1)

Activity 9.2 – Fair Trade Coffee – The Mainstream Debate

This case describes the coffee industry, the rise of the Fair Trade movement, and if and how Fair Trade coffee can be scaled up without compromising the economic and social standards that are at the heart of Fair Trade. It serves to highlight the challenge in deciding when a product should be mainstreamed and when it should remain in a niche category, particularly when that niche category is dedicated to socially responsible business practices. Similar issues albeit for different reasons have had to be confronted by ‘Ben & Jerry’s’ and ‘Green & Black’ when acquired by large corporations.

https://mitsloan.mit.edu/MSTIR/sustainability/Fair-Trade-Coffee/Documents/08%20069%20Fair%20Trade%20Coffee%20The%20Mainstream%20Debate%20Locke.pdf.

Write your thoughts in a new diary entry entitled 'Session 9 - Fair Trade'. In your opinion, does Fair Trade work? Should farmers go for volume or margin? How might you improve the program?

Sustainability and Product Development (2)

Activity 9.3 - Nike Considered: Getting Traction on Sustainability

Hannah Jones is Nike's VP of Corporate Responsibility. Jones wants the company to be a leader in creating sustainable footwear, and develops a strategy for working with the product units. Questions remain about whether Nike is on the right track and if the company is doing enough. The case explores the role of a particular tool -- "The Considered Index" -- as a vehicle for making Nike's products more "sustainable."

https://mitsloan.mit.edu/MSTIR/sustainability/NikeConsidered/Documents/08.077.Nike%20Considered.Getting%20Traction%20on%20Sustainability.Locke.Henderson.pdf.

Once you have read the case, create an entry in your Learning Diary entitled 'Session 9 - Nike'. Do you think Nike is on the right track or not? Please justify your answers. Where should Nike go from here with its environmental strategy?

Conclusion

It should be apparent from the cases that the issue of the definition of sustainability discussed in the opening session again rears its head. There is no single definitive approach to sustainability. It is clearly up to each business or organisation to define sustainability in terms of what is important to its internal and external stakeholders. Sustainability can be seen as a tool to manage risks (e.g. IBM), or it can be used to drive product innovation (e.g. Nike and Fair Trade). How it is deployed depends on a number of variables - leadership, culture, values, industry sector. it is hoped that the cases provide a range of examples that demonstrate these perspectives in action.

Chapter 10: Conclusion and Final Assessment

Sustainability and the Global Marketplace

As an appropriate conclusion to this module, please take some time to listen to the following podcast by Professor Jeremy Moon entitled 'Doing the right thing: corporate social responsibility in a global marketplace'.

http://unow.nottingham.ac.uk/resources/resource.aspx?hid=fa98ccf7-826f-815d-cf28-d468cd7e10fc.

Globalisation, mass consumer awareness and public accountability are all factors in persuading companies to adopt ethical policies. As companies become more accountable not only for their own actions but for those within their supply chain, they have to adapt to ensure success within the context of the global society they operate in.

Professor Jeremy Moon (Professor of Corporate Social Responsibility at the University of Nottingham Business School and Director of the International Centre for Corporate Social Responsibility) discusses some of the challenges faced by modern companies in responding to the various pressures driving them to focus on contributing to society as well as on business performance.

He also talks about the big challenges ahead for international business and what role The University of Nottingham Business School can provide in further developing its teaching and research to best prepare graduates for success in the current climate.

This perspective from an expert in the field of CSR and sustainability provides an appropriately thought-provoking conclusion to the module. It will also hopefully generate some ideas for your final assessment task.

Revisiting Sustainability

Activity 10.2 - Revisiting Sustainability

Create a new entry in your Learning Diary entitled 'Sustainability Revisited'. Write no more than 250 words that describe what you now think sustainability is. More importantly, please state whether your understanding and awareness of sustainability has changed since taking this module. If it has, what has changed? Has existing knowledge on sustainability issues been reinforced? Have you learnt new things about sustainability? Or maybe you are now more critical about sustainability issues? And you may even have made small or big behavioural changes as a result of learning about limits on the environment and sustainability? Feel free to refer back to things you mentioned in your first entry to help comparison with how your opinions on sustainability have changed since starting this module. Spend no longer than 30 minutes on this activity.

Corporate Sustainability in Summary

As has been discussed in the previous sessions, Corporate Sustainability is a business approach that creates long-term value for stakeholders (consumers, employees, suppliers, shareholders) by focusing on the 'three pillars' of sustainability - economic, social and environmental. By taking into consideration every dimension of how a business operates in these three spheres, sustainability can be used to formulate strategies to build a company that fosters longevity through transparency and proper employee development.

Corporate sustainability is an evolution on more traditional phrases describing ethical corporate practice. Phrases such as corporate social responsibility (CSR) or corporate citizenship continue to be used but are increasingly superseded by the broader term, corporate sustainability. Unlike the other phrases that focus on "added-on" policies, corporate sustainability describes business practices built around social and environmental considerations.

Within more academic management circles Elkington (1999) developed the concept of the Triple Bottom Line which proposed that business goals were inseparable from the societies and environments within which they operate. Whilst short-term economic gain could be chased, a failure to account for social and environmental impacts would make those business practices unsustainable.

We have analysed a number of case studies and examples of how companies differ in their definition of sustainability. It is apparent that sustainability is about culture and values, a way of changing behaviours, how business is conducted rather than what is actually done.

it is hoped that the module has provided a flavour of how business is adopting sustainability to achieve its economic, social and environmental goals.

Final Assessment

Final Activity

The task for your final assessment is to critique the sustainability strategy of a business or organisation of your choice and to make a ten minute presentation of your findings followed by questions. The audience will be drawn from academic staff at the University.

Your presentation should encompass the following sections:

1. A brief introduction to the business and a summary of the strategy (1-2 slides).

2. Opportunities for change (1-2 slides).

3. Recommendations for action (2-3 slides).

Strategies are best obtained from sustainability reports found on companies' websites. Your job is to spend time researching online and comparing to either other businesses you know or by identifying best practice.

Try to apply the knowledge that you have gleaned over the previous nine sessions in your presentation. You will be assessed on the content of the presentation, your ability to communicate your ideas effectively and your responses to the questions posed at the end of the session.

Keep the presentation simple and concise. Remember you only have ten minutes. Good luck!