



TIPPING FRAMES

THE LIFEWORTH
REVIEW OF 2006

INCORPORATING THE JOURNAL OF CORPORATE CITIZENSHIP

Table of CONTENTS

I.	Sponsors	3
II.	Foreword by Michael Powell	5
III.	Introduction by Jem Bendell	7
IV.	World Review 2006: First Quarter	
	a. Food fight	15
	b. Fair fight	19
	c. That's just not fair!	22
	d. Incredibly India	24
	e. Fizzy fight	26
V.	World Review 2006: Second Quarter	
	a. Trials and tribulations	29
	b. Pragmatic rights?	32
	c. Not banking on corruption	36
	d. A tightening web?	39
VI.	World Review 2006: Third Quarter	
	a. Who's leading Hu?	43
	b. Death of a green salesman?	47
	c. Reframing finance	49
	d. NGOs aren't God, AEI reports	51
	e. Transparency matters	52
	f. Consuming Truths	53
	g. Taming the messenger	55
VII.	World Review 2006: Fourth Quarter	
	a. Capitalism's Rising Star?	59
	b. Understanding the Boom	61
	c. Competitive Openness?	63
	d. Avoiding Oligarchy?	65
	e. A Race to Where?	67
	f. A Different Path?	68
	g. Modern day slavery	70

Our SPONSORS

The 2006 Lifeworth annual review of corporate responsibility is sponsored by Griffith University, Greenleaf Publishing and the ICCSR.

This free publication combines the quarterly reviews of the premiere academic publication in the field, the Journal of Corporate Citizenship. It provides you with international analysis of the main trends of 2006, insights into the future, as well as some proposals for future work on corporate responsibility.

Lifeworth publishes this resource to promote more informed consideration and practice of corporate responsibility, to encourage systemic change towards sustainable development. The review is editorially independent and the sponsors did not influence its content.

This is the sixth Annual Review. You can access this and previous reviews at www.lifeworth.net. Visit www.lifeworth.com for information on research, strategy, policy, coaching and careers in this field.

Written by Jem Bendell (Adjunct Associate Professor, Griffith Business School, Australia; Founder, Lifeworth, Switzerland) with Shilpa Shah for the first quarter, Jonathan Cohen (Principal, Stakeholder Consulting; Author, Business Watch*) for the second and third quarters, and Lala Rimando (Business Editor, Newsbreak, Philippines) for the fourth quarter.

Contents © Greenleaf Publishing, apart from the introduction © Jem Bendell, 2006. Document and website design by Sam Baja (www.sambaja.net)

You can stay up to date with strategic analysis of corporate responsibility news and views with the Journal of Corporate Citizenship. This academic journal is published every quarter by Greenleaf Publishing in association with Warwick University's Corporate Citizenship and the New Academy of Business. Subscription rates for organizations are UK150/US\$250 for one year (four issues) and for individuals UK75/US\$125.

For more information:

Tel : +44 (0) 114 282 3475

Email : journals@greenleaf-publishing.com

Web : www.greenleaf-publishing.com



Study for an MA, MBA or PhD in Corporate Social Responsibility

Master contemporary issues in CSR, Business Ethics, Sustainability, Accountability and Economic Crime at the world renowned International Centre for Corporate Social Responsibility.

- Be part of a leading centre for CSR research
- Join programmes that are research led and practically orientated
- Experience our innovative approach to CSR education

The ICCSR is based at Nottingham University Business School.

- Top UK School in Beyond Grey Pinstripes current ranking (2005)
- Top 100 School in the Financial Times MBA current ranking (2006)
- Top 100 School in the Economist Intelligence Unit current Ranking (2005)



Scholarships and bursaries are available for all programmes.



FOREWORD

By Michael Powell
Pro Vice Chancellor (Business)
Griffith University

The dominant paradigm for business success is changing to recognise the absolute necessity of social and environmental sustainability in tandem with financial viability. No longer is it enough to focus solely and simply on the bottom line defined in terms of profitability but business success requires management of environmental impacts and emissions as well as ensuring employee wellbeing. Not only are 'Generation Y' employees demanding this but the environment itself is focussing our minds. Climate change, global warming, widespread droughts, and encroaching deserts are just part of the changing landscape within which business has to operate. So too are the rather different values of many of our employees who want to be assured that our businesses are not just exploiting the world we live in, but refreshing and sustaining it.

Business schools which have the responsibility of educating our future business leaders need to address actively the changing context of doing business. It is incumbent upon us to ensure that our students are aware of the issues associated with the paradigm shift that is occurring, know why this is important and how they can make a difference. Griffith Business School in Queensland, Australia, is one business school that has made a commitment to follow this path, acknowledging that it is no longer enough to ensure that business ethics are taught, important though that is, but that we broaden our attention to include consideration of how to manage responsibly the environmental and social impacts of doing business. Students, young business leaders among our alumni and even entrepreneurs see this as an important part of the education we provide and of the research we undertake. The cognitive frames around the business disciplines are changing, and our curriculum, research and community outreach needs to reflect that change. While we believe it is important, our constituencies and stakeholders are increasingly demand-



ing it of us.

As a consequence, Griffith Business School is currently actively engaged in the process of embedding principles of business sustainability and corporate responsibility into its curriculum both undergraduate and graduate. This is not a simple matter as it involves working with academic faculty to change their approach and mindset, educating them in the importance and criticality of this new direction, and assisting them with resources and appropriate teaching materials. Business schools are also about research and the dissemination of research findings so we are also developing research in this area along with partners from industry and commerce. We are also reaching out into the business community with a series of seminars and workshops around the theme of sustainability.

And then it is important that we practice what we preach! So we are looking at all our processes, resource utilization and so

FOREWORD

forth to ensure that our own environmental footprint is minimised, that our resource usage is carefully managed and that our policies ensure that our people are able to balance, or blend, their working and personal lives.

This is an exciting journey for a business school, and we are not alone in taking it. Griffith Business School is a partner in the Globally Responsible Leadership Initiative of the European Foundation for Management Development (EFMD) that is supported by the UN Global Compact. Our partners in this initiative are other business schools and universities, and a number of businesses from across the globe. Together we recognise the importance of educating responsible business leaders for the future. And we believe that the recent reports on global warming and climate change has led to public concern reaching a “tipping point” where educators and industrialists alike have to pay attention to the new paradigm for doing business in our changing world.

TIPPING FRAMES INTRODUCTION

By Jem Bendell

Adjunct Associate Professor,
Griffith Business School, Australia
Founder, Lifeworth, Switzerland

Almost a decade ago, as the Indonesian tropical forests were burning out of control, I wrote that climate change had moved from theory to reality.¹ But whose reality? Since then we've had a decade of business-as-usual, with carbon emissions booming in tandem with economic growth across the global South and steadily climbing in most of the North.

But recently something has changed. Friends now say to me, "so it's true, the climate is changing" and "it's big, everyone's talking about it," and some even say "it's because of us". As the emphasis on climate at the Oscars illustrated, carbon is the new black. Global Warming used to be a nerdy issue of scientific interest and environmental concern. Now it is a personal issue, of political interest and humanitarian concern. What made this happen? What made Climate Change reach a 'tipping point' to become hot gossip, even in countries like India where some might assume other matters are more pressing?

The phrase 'tipping point' refers to that dramatic moment when something unique becomes common. Popularised by Malcolm Gladwell's bestselling book of the same name, it is used to describe the point when the rate at which a process proceeds increases dramatically. Gladwell identifies three characteristics of people who have disproportionate influence over the spread of social phenomena. 'Connectors', have wide and diverse social circles, being the hubs of social networks. 'Mavens' are knowledgeable people, who are particularly aware of innovations and adopt new things and ideas. 'Salesmen' are charismatic people that help market an idea to the masses. The implication is that social change re-

quires involvement of people with a mixture of these characteristics. But to understand how concern for climate change tipped into the mainstream, at least in the West, we need to look at the changing nature of the concept, daily experiences, and the mechanisms of communication. The growing human face of climate change, people's experience of changes to their weather, and the entertainment media's engagement in this, have all been key. The first and last of these are instructive for those of us interested in social change.



Climate Tipping

First, climate change has begun to be understood as a humanitarian emergency. Studies are showing how increasing droughts, floods, forest fires, storms,

erosion and sea rise, are destroying lives and livelihoods.² Another side to the human face of climate change is the economic impact, which has been predicted at potentially 20% of the global economy. "Climate Change is the greatest market failure the world has ever seen", writes economist David Stern. The environment is now too important to be left to conservationists. This marks a change in what cognitive scientists might call the 'cognitive frame' of climate change, whereby the term becomes associated with human, and thus personal and moral, concepts. George Lakoff's best selling book "Don't Think of an Elephant" popularized the theory of cognitive frames. Lakoff uses the term "tax relief" employed by the US Bush Administration, to illustrate how words have various concepts associated with them. "The word "relief" has a concep-

1 Bendell J. (ed.), (1999) Greener Management International, special issue 'Business-NGO Relations and Sustainable Development', Issue 24, Greenleaf Publishing: Sheffield, UK <http://www.greenleaf-publishing.com/greenleaf/journaldetail.kmod?productid=85&keycontentid=8>

2 See <http://www.christianaid.org.uk/climatechange/index.htm>

INTRODUCTION

tual frame associated with it. In order to give someone relief, there has to be an affliction and an afflicted party -- somebody who's harmed by this affliction -- and a reliever, somebody who gives relief to the afflicted party or takes away the harm or pain. That reliever is a hero. And if someone tries to stop the person giving relief from doing so, they're a bad guy... They want to keep the affliction ongoing. So when you use only one word, "relief," all of that information is called up. That is a simple conceptual frame.³ Various other intellectual traditions, such as critical discourse analysis, study the power of language in shaping our sense of what exists and what is possible. 'Discourses' are a series of interlocking cognitive frames that construct our worldview. By making links back to the neuroscience of the brain, and using simple examples, cognitive scientists have been able to popularize the insight that 'language is power' more than sociologists.

Mediated Truths

The second reason why climate change has tipped is the involvement of mass entertainment media. I used to think that mass media was important for communicating with, well, the masses. Not so. The mass media is important for communicating with powerful minorities. The demands on the modern professional in any line of work are such that to be successful we become highly specialized and overly busy. Our occupation becomes our preoccupation. And boy do we have to read, read, read to maintain our specialism. Consequently information doesn't penetrate very deeply if not coming from sources we assume contribute to our specialism, such as a trade magazine, business section, or top academic journal. We might scan the news but it's yet another tiring story, that doesn't reach us at a deeper level. But everyone has to relax at some point. As teachers will tell you, we all learn better when we are relaxed. So, elites can be reached in movie theatres. Another

reason for the power of our cultural life is the way it provides 'social proof' for an issue: if everyone's talking about it, it must be important.⁴ An equally 'Inconvenient Truth' is that Al Gore has probably done more for climate change awareness with his Oscar-winning film that he did during 8 years as Vice President.

Whether working in NGOs, universities or government, it is important to learn how frames tip. Watching how the alternative fuel market boomed in 2006, and continues to do so in 2007, also suggests that frame-tipping is important for financial analysts to understand. One lesson is the importance of frames rather than facts. "Conventional frames are pretty much fixed in the neural structures of our brains" says Lakoff. "In order for a fact to be comprehended, it must fit the relevant frames. If the facts contradict the frames, the frames, being fixed in the brain, will be kept and the facts ignored." He sums this up as "Frames trump facts." Implication: don't just pump out your story and evidence, but change the framing, and look out for where people are doing this. Another lesson is reaching people in their leisure time, and the importance of cultural phenomena in opening people's minds to things they would otherwise consider peripheral. This relates to a third lesson, the importance of crossing worlds, and the points of inter-connection between different realms of work and life. As Gladwell explains, it is through people connecting different social networks that ideas spread rapidly.

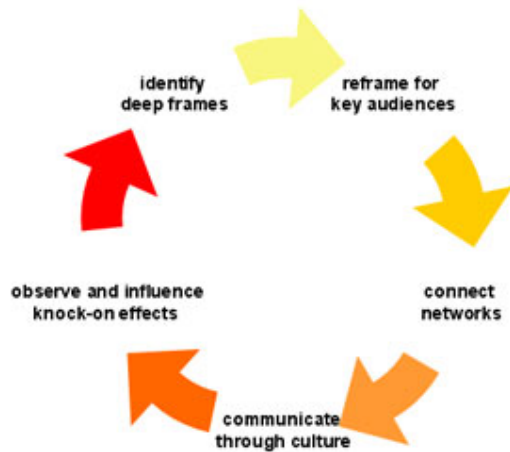
4 Cialdini, R. (1993) *Influence: Science and practice* (3rd edn), New York: HarperCollins

Social proof, also known as informational social influence, is a psychological phenomenon which occurs in ambiguous social situations when people are unable to determine the appropriate mode of behavior. Making the assumption that surrounding people possess more knowledge about the situation, they will deem the behavior of others as appropriate or more informed. http://en.wikipedia.org/wiki/Social_proof

3 Inside The Frame, 2004, AlterNet, <http://www.alternet.org/story/17574/>

INTRODUCTION

Figure 1: Tipping Frames



Some frames are deeper than others, in the sense that a change in them has cascading implications for a range of other assumptions and beliefs. Climate change is 'deep' in this sense, as recognizing it as real and urgent means we are challenged to question our assumptions about current forms of economic development being 'progress'. Hence 'tipping frames' not only describes the process of an altered frame going mainstream, but also those frames that, once altered, lead to other frames in society reaching a tipping point. Those of us who seek to serve systemic transformations for a better world, as described in the Lifeworth Review of last year, need to better understand this process of tipping frames. Figure 1.

A Crucible for Tipping Frames

The range of activities relating to corporate responsibility form a site for frame tipping, for three reasons. They bring different professions and knowledge networks together that would otherwise rarely meet. This includes the three sectors of business, government and civil society. It includes the different fields of public concern, such as environment, health, poverty and human rights, as well as those with a local and an international focus. They are also focused on framing issues, as the diverse actors

seek to find a new shared language involving terms like 'partnering', 'social entrepreneurship' and 'extra-financial issues'. I previously argued that the most significant frame to tip in this field is the concept of what it is to be a professional business person. That used to mean leaving troublesome values at home but now its coming to mean the highest expression of your values at work.⁵ This relates to a broader movement towards what could be called "work-life blending".

Work-Life Blending

There is a cognitive frame around 'work' which means it is separate from 'life'. This has the dual effect of making it difficult to assimilate information from life into one's work, and making us think that to be 'professional' we should leave a lot of our 'life' experience and interests at home. A new trend is changing that. Reports suggest younger business leaders and entrepreneurs are not only wanting more work-life balance but also 'work-life blending', i.e. bringing their whole personality to work.

Various factors are driving this. Technologies are enabling home-working which leads to the blurring of work and life. They are also allowing more entrepreneurial self-employment or side-employment, as the transaction costs of operating alone and connecting with a global market are dramatically reduced. Demands for creativity from knowledge based industries are inspiring more people to work outside innovation-sapping corporate office environments. The search for more meaning in ones work is a factor in this blending, as well as result (Figure 2).

⁵ See: Barricades and Boardrooms (Bendell, 2004) www.globalpolicy.org/ngos/advocacy/protest/general/2004/0607rooms.pdf

INTRODUCTION

Figure 2: Factors in WorkLife Blending



Balance is a state of equipoise; equal distribution of weight or amount. Work-life balance suggests “work” on one side and everything other than work, on the other. As they are separate something can’t be both “work” and “life” at the same time. However, blending is to mix inseparably together. Whereas balance is the counterpoising of separate things, blending is the integration of those things.⁶ Work-life blending is key to tipping the frame of the nature of ‘work’. It has enabled me to write this Review in a more personal and wide-ranging style than the usual academic, UN or corporate outlets I can use. Blogging often involves a work-life blend, including my own (www.jembendell.com).

This blending relates also to the third reason why corporate responsibility events and networks are a site of frame tipping. They bring together people who have an interest in the state of the world, and who therefore have a strong social connection. Such people often meet in their leisure time, as illustrated by the growth of vibrant social-professional networks of people connecting on corporate responsibility around the world. From the one of the earliest social networks on this topic, CSR Chicks, which now has thousands of members, to “CSR Geneva”,

launched in mid 2006 and already with over 200 members who attend breakfasts, dinners and after-work drinks themed on different aspects of corporate responsibility, this area is extremely social. This reinforces the idea of our profession not being separate from our sense of self and allows discussions up, down and across hierarchies. It provides ‘social proof’ to people that they are part of a movement that sees and does business differently.

Changing Frames in 2006

Changes in basic assumptions about the nature and purpose of business and work will have major knock on effects for the behaviour of consumers, staff, investors and regulators. The review discusses various examples of where cognitive frames in business, finance, accounting could be tipping: that certain assumptions about what those fields are, what they involve, and what it means to be professional within them is changing, in ways that have wide implications.

Changes in the discourse around the financial services sector are particularly important. In the section ‘Reframing Finance’ we describe how a plethora of initiatives such as The Marathon Club, Enhanced Analytics Initiative (EAI) and UN Principles for Responsible Investment (UNPRI) are together helping reshape what finance professionals understand as being material and relevant to ones fiduciary duty.

Also important is the emergence of a positive connotation to the environmental challenge of consumption. In the section ‘Consuming Truths’ we describe how finding new pathways for social development that are sufficiently resource-light to be possible for a majority of the world’s population over the long term, rather than the minority of a few generations of middle- to upper-class consumers, is a pro-poor vision. In the sections ‘Who’s Leading Hu’ and ‘A Different Path’ we describe how new visions of sustainable development are arising in China

⁶ http://managetochange.typepad.com/main/2006/09/blending_or_bal.html

INTRODUCTION

and India. With the right leadership, development need not depend on risks such as cheap oil, inequalities such as poor pay and conditions, and the disruption of rural communities' livelihoods. As Rajesh Sehgal, Senior Law & Policy Officer at WWF-India explains, "Indian companies can become leading exporters of and investors in sustainable goods and services, whilst emerging as key actors in promoting a proactive international sustainable development agenda."

Whether this will lead to a tipping point in the way Asian nations generally view and pursue 'development' is currently unknown. A counter process of reframing has been underway for sometime, with the shift to individualism and materialism most clearly illustrated in 2006 by the economic boom in Vietnam, described in the section 'Capitalism's Rising Star'. The environmental and social strains of economic booms across Asia could bring things to a grinding halt, as warned by Mira Kamdar in her book 'Planet India'.⁷ The implications for corporate citizenship are that companies and investors need to assess how they are helping or hindering the right frameworks and incentives for innovation and delivery of the business models needed in a resource-constrained future. Rather than doing business as usual, with some social and environmental improvements, the scale, urgency and depth of the sustainability challenge requires companies to engage with other actors in society to promote governance for sustainability.

In the recent past progressive people in business, government and civil society have been uncomfortable about the ethics of 'social engineering' public values. This is because it seems to go against the spirit of recognizing people's dignity as equal people, which underlies democracy and human rights. That is a huge mistake. We are all socially conditioned. Every year

billions are spent on marketing advertisements, public relations and lobbying. This is done to influence people to spend money. In doing so they feed frames such as desire, status and materialism. It is because we have left compelling mass communications to institutions that pursue narrow self-interests that we have the public attitudes we see today. The challenge is to help make people conscious of the social conditioning processes, to reduce those that are damaging, and to promote those that are beneficial to people within their communities. Consequently some organizations, such as WWF, have been calling on companies to 'talk the walk', by using their communications functions of advertising, public relations, lobbying and investor relations to articulate the type of economy and society we need, and the innovations in public policy we need to get there.

From Environmentalism to Societal Growth

Like many established organisations in the environmental movement WWF is somewhat beset by its history. As George Lakoff, explains, "environmentalists have adopted a set of frames that doesn't reflect the vital importance of the environment to everything on Earth. The term "the environment" suggests that this is an area of life separate from other areas of life like the economy and jobs, or health, or foreign policy. By not linking it to everyday issues, it sounds like a separate category, and a luxury in difficult times. Wilderness: a place for those in Birkenstocks to go hiking." Environment implies what is around us not what we are part of. Words like protection and conservation are the opposite of positive words like freedom and change. What is needed is a positive vision for people and society: "prosperity, security, guilt-free luxury, health, a sense of progress and meaningful hope that the future will be better than the past."⁸ The coming launch of One Planet Living in

7 Planet India: How the Fastest Growing Democracy Is Transforming America and the World (Hardcover) by Mira Kamdar (2007 <http://www.amazon.com/Planet-India-Fastest-Democracy-Transforming/dp/0743296850>)

8 Alex Steffen, Why Framing is Worldchanging, April 1, 2005, <http://www.worldchanging.com/archives/002459.html>

INTRODUCTION

the UK in 2007, is one example of an attempt by a mainstream environmental group to rise to this challenge.⁹

Lakoff's analysis suggests we should examine some of the deepest frames in society. Concepts such as 'economic growth' are powerful in shaping thinking, policy and practice. 'Economic' implies efficient and important, and 'growth' implies good and natural. Much analysis suggests that a certain amount of decoupling of economic growth with resource consumption is possible, but not entirely, and so only a small amount of economic growth will probably be sustainable in the long term. The challenge is to therefore refocus on what we want from economy, as a society. Terms like 'green growth' would not challenge but actually reinforce the dominance of the economic growth frame, as it implies green economic growth. Instead, we should articulate a new vision of 'societal growth' - the increase in wellbeing of all life affected by a society. Some of the deepest ideas in society are shown in Figure 3, with some of the key frame-changes that we need to work on to enable the transition to a more just and sustainable world shown in Figure 4.

Figure 3: Deep Frames



Many people have a 'block' when it comes to the word 'environment', such as some developmentalists from the global South. To them, environment evokes a

9 <http://www.wwf.org.uk/oneplanetliving/>

frame of imperialists protecting wildlife and wilderness at the expense of poor people. It is important to keep ones audiences in mind when considering what frames need to be tipped. Having said that, the deepest frame that needs tipping is our story of existence: why we are here and our relationship to everything around us. Thinkers such as Thomas Berry¹⁰ and Ervin Lazlo¹¹ point to a worldview where we are not separate from 'nature' but a wonderful expression of nature's, and the universe's, ability and intention to evolve through ever greater complexity towards consciousness of itself. By bringing new insight to theology and to the natural sciences, respectively, they point to a future where human purpose can be freed from the dogmas of religious institution.

Figure 4: The Needed Frames



Global Purpose

The power of frames, and the need to work on deep frame change, poses a challenge to those organizations we might assume are working towards the public interest. - namely nonprofits, charities or

10 The Great Work: Our Way into the Future, Thomas Berry, 2000, <http://www.randomhouse.com/catalog/display.pperl?isbn=9780609804995>

11 Science and the Akashic Field: An Integral Theory of Everything (Paperback) by Ervin Laszlo (2005) <http://www.amazon.com/Science-Akashic-Field-Integral-Everything/dp/1594770425>

INTRODUCTION

nongovernmental organizations (NGOs). In most cases their strategies and work programmes are failing to meet the depth, scale and urgency of the challenges we face today. Due to concerns about upsetting existing donors, and misplaced notions of professionalism such as the idea an NGO should stick narrowly to the text of its mission rather than the values from which it derives and gets animation today, and that it should use linear models for relating action to impact to justify its budgeting rather than recognizing how systemic change might require new modes of evaluation, most NGOs only work on tipping frames in minor and marginal ways. As I argued in my report for the UN on NGO accountability, international civil society organizations must not ape old notions of business professionalism, but develop visions of excellence that are appropriate to their work, and come to a greater understanding of their common global purpose, in order to combine their efforts for deeper change.¹²

The new philanthropy from the 30-something dotcom billionaires might shake this charity mentality from mainstream NGOs, if they chose to engage. So if you are out there, Pierre, Jeff, Sergey, Larry, David or Jerry... we are waiting.

Watching developments in corporate responsibility during 2006 suggests that people's deepest assumptions about both business and work could be changing in cities around the world, with major implications for future competitiveness. A more subtle shift than the widely reported growth in entrepreneurialism across Asia, it is nonetheless significant. It is a shift towards moral markets. Although more research is required on the nature of this shift, it seems to be enabled by the blending work and life, business and public purpose, news and entertainment. Although important, it is not the dominant trend in many parts of the world, such as

the rapidly emerging nations. If we want to end poverty and protect the planet we have to make it the decisive trend. Although we can't legislate for personal morals, we can legislate to create market frameworks and incentives that support moral behaviour.

If there is a silver lining to the clouds of climate change, it might be in the way it wakes us up to our moral responsibilities as part of life on Earth.

If you would like to read or share comments on this introduction or issues covered in this Annual Review, visit <http://jembendell.wordpress.com/>

This review is published by the small consultancy Lifeworth. If you could help us keep this free and reach more people next year, please contact us to discuss sponsoring it: <http://www.lifeworth.com/contact.html>

¹² Debating NGO Accountability, 2006, Jem Bendell, UN-NGLS. http://www.un-ngls.org/site/article.php3?id_article=202



lifeworth

Lifeworth is a boutique professional services firm helping people contribute to and benefit from systemic social change. Our goal is to help you be an agent of a more compassionate and sustainable world.

The transformations required are deeply personal and highly systemic. We move beyond a focus on organisations, and consider both the individual within, and the context around, organisations.

Our services include career consulting and life coaching education, research, strategy and policy development. We work with private, public and voluntary sectors.

Given their influence, the business and finance sectors have been a prime focus, and we work with clients and colleagues towards their transformation. Our current advisory work focuses on the luxury industry, sustainable investing, and cross-sectoral partnering & networks.

Visit us at Lifeworth.com





FOOD FIGHT

By Jem Bendell and Shilpa Shah

First Quarter 2006

Food is one of the most basic necessities of life. In 2006 an estimated 800 million people are suffering from under-nourishment and more than 5 million children will die as a result of under-nutrition. The 33rd Annual Session of the UN's Standing Committee on Nutrition convened in Geneva in March to consider the problem of malnutrition. For the first time this network of governments, UN agencies and non-governmental organisations focused on 'overnutrition' as well as under-nutrition. Their concluding statement noted that 'Childhood obesity is becoming a recognized problem even in low income countries. More than a billion adults worldwide are overweight, of which 300 million are obese.'¹ Obesity increases the likelihood of succumbing to non-communicable diseases such as diabetes, heart disease and cancer. These contribute about 47% of the burden of disease around the world.² 300,000 people are reportedly eating themselves to death every year in the United States.³ What is new is how it is a problem in lower-income countries. With one in three men overweight or obese, and one in two women, obesity levels in South Africa are now the same as in



the US.⁴ China already has 90 million obese people, with 200 million predicted within a decade.⁵ **Professor Philip James**, chair of an International Obesity Task Force, says 'childhood and adolescent overweight and obesity already present massive problems ... in many other parts of the developing world, which are already on the fast track to a massive explosion in type 2 diabetes. The economic burden from this will act as a brake on development, which depends on having a healthy and productive population.'⁶

The reasons for this explosion in obesity include physical activity and food intake. Migration into cities is resulting in less-active lifestyles, while growing consumption of processed foods is leading to higher intake of salt, sugar and fat. Today supermarkets share over 50% of global food sales, and processed food sales now account for about three-quarters of the total world food sales.⁷ This market is being consolidated in the hands of fewer companies, with the largest 50 accounting for almost 30% of the global packaged food retail sales.⁸ This is not a phenomenon limited to the industrialised world. In China, for example, food industry sales took off from under 100 billion yuan (€9.2 billion) in 1991 to well over 400 billion yuan (€37 billion) just ten years later.⁹

4 Ania Lichtarowicz, 'S. Africans "as fat as Americans"', BBC, 19 October 2004; news.bbc.co.uk/2/hi/africa/3964693.stm.

5 'Obese Chinese now total 90 mln, to hit 200 mln in a decade', China View, 18 June 2005; news.xinhuanet.com/english/2005-06/18/content_3101580.htm.

6 US Food and Drug Administration, op. cit.

7 USDA/Economic Research Department, *New Directions in Global Food Markets* (2005); www.ers.usda.gov/publications/aib794/aib794b.pdf.

8 Euromonitor, 2004.

9 'First Chr Hansen food colour plant in China opens', DairyReporter.com, 19 January 2005; www.dairyreporter.com/productnews/news.asp?id=57427.

1 www.unsystem.org/scn/Publications/AnnualMeeting/SCN33/33rd_session_participants_statement.htm

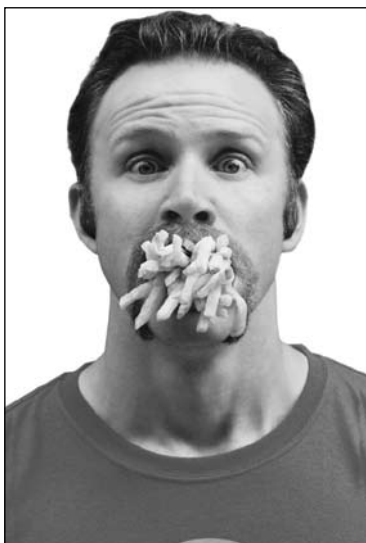
2 International Association for the Study of Obesity, 'Global obesity epidemic putting brakes on economic development', press release, 2004; www.globalnews.idf.org/2004/11/obesity_epidemi.html.

3 US Food and Drug Administration, 'Overweight, obesity threaten US health gains, FDA Consumer magazine, March/April 2002; www.fda.gov/fdac/features/2002/202_fat.html.

FOOD FIGHT

First Quarter 2006

Around the world, corporations increasingly comprise the food chain. From the maxim 'we are what we eat', whether we are fat or thin, healthy or sick, hungry or well nourished, hyperactive or lethargic, corporations are involved in shaping what and who we are more than ever before.



Such power commands attention. Civil society has often questioned the role of corporations in harming our nutrition. Chemical flavours and fast-food fats, mad cows and baby-milk marketing—the issues may differ around the world but a common concern has been the use and abuse of the power that corporations have today and the varying independence of public institutions from that power. In the past three years attention on the role of companies in the obesity pandemic has grown. Companies involved in the production and marketing of products containing high levels of sugar and fat have been criticised for complicity in the pandemic. Legal challenges against fast food and fizzy drink companies led Fortune magazine to ask, 'Is fat the next tobacco?'¹⁰ Popular media also picked up on the issue, highlights including the film *Super Size Me*, in which the documentary maker **Morgan Spurlock** wrecked his body by eating nothing but McDonald's fast food for a month; and celebrity chef Jamie Oliver's TV series on school dinners in the UK. The response from the food industry was mixed. The sugar industry's trade associations lobbied hard at the World Health Assembly to prevent any agreement between governments on adopting new regulations to reduce sugar content.¹¹ Many corporate representatives argued that food

consumption is a question of individual choice and responsibility, and that, as multiple factors lead to obesity, specific food products should not be singled out for regulations on salt, sugar or fat content.

A focus on personal responsibility led to responses such as obesity reports on pupils by their schools.¹² However, the argument that a principle of personal choice and responsibility should determine policy responses was somewhat hollow in relation to children

bombarded by advertising. Both the 'cognitive frames' of both right and left—the 'strict father' and 'nurturing parent' mindsets described by George Lakoff¹³—have a special place for intervening on the behalf of children's well-being. No surprise, then, that since 2005 a major shift in perceptions in North America and Europe seems to have occurred, with the role of the mass media and food companies in influencing children's consumption choices coming into focus. In France the government banned vending machines from schools, and the UK government announced new stringent rules on food sold in schools to be introduced during 2006. The food industry also began to respond in more positive ways. Drinks giants Cadbury Schweppes, Coca-Cola and PepsiCo agreed a deal with the William J.

“Civil society

has often questioned the role of corporations in harming our nutrition.

“

10 Roger Parloff, 'Is fat the next tobacco? For Big Food, the supersizing of America is becoming a big headache', *Fortune*, jcgi.pathfinder.com/fortune/articles/0,15114,409670,00.html.

11 'WHO attacks US sugar lobby', BBC, 22 April 2003; news.bbc.co.uk/1/hi/world/americas/2966187.stm.

12 'US pupils get obesity reports', BBC, 12 August 2003; news.bbc.co.uk/1/hi/education/3143991.stm.

13 George Lakoff, *Don't Think of an Elephant. Know Your Values and Frame the Debate: The Essential Guide for Progressives* (White River Jct, VT: Chelsea Green, 2004).

Clinton Foundation and the American Heart Association (AHA) so that only unsweetened juice, water and low-fat milks will be sold in elementary and middle schools across the US, with diet drinks allowed in high schools.¹⁴ The voluntary action of these companies may be partly explained by a desire to appear as responsible adult-type organisations caring for the well-being of children, and therefore reducing the extent of social concern and regulatory intervention more broadly in terms of the marketing and sale of products to children, the content of products themselves and their consumption by the wider population of adults. However, as schools are nodes, or 'connector points' in society, so it is probable that more families will be discussing obesity and fast food and so the potential for ideas and practices to change is there.

Rather than being defensive, food companies could mobilise their market position in support of nutrition goals. There are now numerous examples of corporations becoming involved in food- and nutrition-related work, including partnerships aimed at delivering food, fortifying food, and advocating healthy eating. The 'Moving the World' partnership between TNT, an express delivery and logistics services firm, and the World Food Programme (WFP) was launched in 2002, with the aim of supporting WFP's fight against world hunger through knowledge transfer, on-the-ground logistical support and advocacy work. TNT's in-kind and financial commitments (more than US\$12 million in 2005) have generated 27 projects in some 60 countries, most recently also in tsunami-affected areas of South-East Asia. Not being a food company itself, TNT has less internal issues to consider in relation to food. Some food companies have, however, also begun addressing these issues, illustrated by their participation in the new 'Healthy Eating and Active Living Global Partnership' (HEAL). This initiative aims at facilitating business action as 'part of the

solution to the massive increase in chronic lifestyle-related diseases around the world linked to obesity, poor diets and a lack of physical activity'.¹⁵ In March they co-published a report profiling companies that are beginning to take health issues more seriously and the business benefits of doing so.¹⁶

Yet progress is sufficient neither for public health nor for managing strategic threats and opportunities facing the food industry, according to a report published in the same month by Ethical Investment Research Services (EIRIS). 'Our research revealed little evidence of obesity-related improvement targets and key performance indicators from the multinational food and beverage firms we analysed', said report author and EIRIS research analyst Heleen Bulckens. 'Food and drink producers are waking up to the business risks associated with obesity, but significant challenges remain.'¹⁷

“ *The argument* ”

that personal choice and responsibility should determine policy responses was somewhat hollow in relation to children bombarded by advertising.

“

Those challenges are systemic. More voluntary action from companies in supporting changes in behaviour, and improving the nutritional content of their products, is needed and welcome. However, complex

15 www.iblf.org/activities/heal.jsp

16 IBLF and WBCSD, *The Business of Health: The Health of Business. Building the Case for Health, Safety and Wellness* (2006); www.iblf.org/resources/general.jsp?id=123744.

17 Anthony Fletcher, 'Food industry not responsive to obesity, claims report', *Food Navigator*, 6 March 2006; www.foodnavigator.com/news/ng.asp?n=66217-kraft-cadbury-coca-cola.

14 'Deal will slim US school drinks', BBC, 3 May 2006; news.bbc.co.uk/1/hi/world/americas/4970044.stm.

FOOD FIGHT

First Quarter 2006

social, economic and cultural factors influence people's nutrition and physical activity. To achieve widespread public health benefits, and related benefits for economic activity, will require an open assessment and trial of a range of public policy tools to influence patterns of food production and consumption. It would be sensible for companies to start planning now for this healthier future.

FAIR FIGHT

First Quarter 2006

By Jem Bendell and Shilpa Shah

Not only are food and drink important for what they contain but also the way they are produced. Controversy over the launch of Nestlé's first product certified as 'Fairtrade' in the UK in October 2005 continued into 2006. The association between the company awarded the 'most blatant case of corporate irresponsibility' award at the Public Eye awards in Davos in January 2005¹⁸ and the green and blue Fairtrade label raised important questions about the future of the fair trade movement.

The responses to the introduction of 'Nescafé Partners' Blend', a Fairtrade brand by one of the world's four largest coffee roasters, were a mixed bag. Some campaigning NGOs were sceptical of the Fairtrade certification of one product out of over 8,500 Nestlé brands, affecting the working conditions of only a small ringfenced proportion of the three million coffee farmers dependent on the Swiss food giant: the World Development Movement, based in London, argued, 'if Nestlé really believes in Fairtrade coffee it will alter its business practices, lobbying strategies and radically overhaul its business to ensure that all coffee farmers get a fair return for their efforts'.¹⁹

It was argued that Nestlé is using the Fairtrade label as a shield to deflect criticism about its contribution to the suppression of world coffee prices (as flagged up by Oxfam in 2002)²⁰ its labour standards and its aggressive manner of marketing baby-milk substitutes in low-income countries.



However, **Harriet Lamb**, Director of the Fair Trade Foundation, which is responsible for awarding the Fairtrade label in the UK, was enthusiastic about the development, declaring 'this is a turning point for us and for the coffee growers'.²¹ Ethical Corporation columnist **Mallen Baker** argued that Nestlé had been 'unfairly roasted'²² by these critics and that a breakthrough of the Fairtrade label into the mainstream should be welcomed by all.



The Fairtrade label is a certification awarded to products whose production and form of trade adheres to standards set by the Fairtrade Labelling Organisation International (FLO-I), an umbrella organisation which supports licensing of products for sale in 19 countries including the US, Japan and a number in Europe. Certification requires that producers integrate a range of environmental, labour rights and community development interests, and that those who purchase from such producers offer more supportive and stable contracts at prices usually above market rates.²² Producers of coffee, tea, sugar, bananas and other products in low-income countries are given a stable, sustainable price for their products and investment into community development programmes. The Fairtrade label also acts as a signal of 'ethical' credentials to consumers on supermarket shelves; both ends of the supply chain are addressed by this movement, which has attracted the support

18 'And the winner is ...', Center for Media and Democracy (1 February 2005); www.prwatch.org/node/3240.

19 World Development Movement, 'Statement by WDM on Nestlé FAIRTRADE Partners' Blend Coffee', press release, 7 October 2005; www.wdm.org.uk/news/presrel/current/nestle.htm.

20 Oxfam, 'Mugged: Poverty in Your Coffee Cup' (2002), www.oxfam.org.uk/what_we_do/issues/trade/mugged_coffee.htm.

21 Fairtrade, 'Press statement on launch of Nescafé partners' Blend', 7 October 2005; www.fairtrade.org.uk/pr071005.htm.

22 Mallen Baker, 'Nestlé: unfairly roasted over Fairtrade', Ethical Corporation, 7 November 2005; www.ethicalcorp.com/content.asp?ContentID=3963.

of business and campaigning NGOs alike.

While Fairtrade products make up only a tiny percentage of their respective markets, recent years have seen a strong growth in their popularity. In Europe, the net retail value of sales of Fairtrade products²³ in over 79,000 outlets, including 50 supermarket chains, grew to €660 million in 2005, achieving an increase of 154% on sales at the turn of the century.²⁴ Over 5 million producers and their families in Latin America, Asia and Africa are said to have benefited from Fairtrade relationships²⁵—the number of certified producers is growing rapidly, increasing by 25% in the year 2005 alone.²⁶ The green and blue Fairtrade logo issued by the FLO-I is now recognised by 50% of the adult population in the UK.²⁷

'Fairtrade Fortnight', an annual awareness-raising event in the UK in March was marred this year by publicity surrounding the Nestlé controversy and also by news that McDonald's, another common target of consumer boycotts, is now publicising the sales of Fairtrade coffee in 650 US east-coast stores.²⁸ The issue is one of trust; informed consumers and activists who have supported the growth of the fair trade movement and the Fairtrade brand feel that the movement is being co-opted by those powerful companies that it seeks to challenge. New Internationalist magazine argued that

'the allure of the mainstream is largely illusory. Tributaries do not change its course; they disappear into it.'²⁹ Whether and how to engage powerful actors in social systems, and to focus on incremental but tangible change or more transformative but often unlikely change, has been a central dilemma for social actors throughout history, and debates around the fair trade movement are one recent illustration.

The more broad your view, the more complicated and challenging this becomes. Over Valentine's Day 2006, those romantics giving their well-informed, 'ethically' minded sweethearts Fairtrade roses from Kenya may well have been rebuked for not considering the environmental damage caused by the cut-flower industry around the Lake Naivasha area. The introduction of Fairtrade certification has seen increases to workers' wages and an expansion of businesses, but local ecosystems and water supplies are being put under severe strain by the increased production and the migration of workers from northern parts of Kenya, attracted by the higher wages.³⁰ In addition, sweethearts may have turned their noses up at the amount of pollution caused by flying flowers in from another continent, given the growing impacts of climate change.

The growth in popularity of 'fairer trade' initiatives, such as Equitrade³¹ chocolate from Madagascar and Just Change tea from India,³² which market themselves as providing better, more stable conditions than the Fairtrade brand for only small and medi-

23 See www.fairtrade.org.uk/suppliers_become_a_licensee.htm#principles.

24 FLO, IFAT, NEWS! and EFTA, 'Fair Trade in Europe 2005: Facts and Figures on Fair Trade in 25 European Countries' (2006); www.ifat.org/downloads/marketing/FairTradeinEurope2005.pdf.

25 FLO, IFAT, NEWS! and EFTA, 'Towards a coherent Fair Trade Policy: Fair Trade demands to European decision makers' (April 2005); www.ifat.org/downloads/advocacy/TowardsaCoherentEUFairTradePolicyApril%202005.pdf.

26 Fairtrade Labelling Organisations International, 'Delivering Opportunities: Annual Report 2004/ 2005'; www.fairtrade.net/sites/news/FLO_AR_2004_05.pdf.

27 www.fairtrade.org.uk/pr270505.htm

28 TransFair USA, 'TransFair USA Joins Oxfam in Welcoming McDonald's Rollout of Fair Trade Certified Coffee', press release; CSRwire, 31 October 2005; www.csrwire.com/article.cgi/4622.html.

29 David Ransom, 'Fair trade for sale', *New Internationalist* 377 (April 2005); www.newint.org/issue377/essay.htm.

30 Jeevan Vasagar, 'How Kenya is caught on the thorns of Britain's love affair with the rose: Rising demand for flowers leads to trade-off between economy and environment', *The Guardian*, 13 February 2006; www.guardian.co.uk/frontpage/story/0,,1708492,00.html.

31 Chocolate Trading Co., 'Equitably-Traded Chocolate: 100% Pure Malagasy'; www.chocolatetradingco.com/special.asp?ID=17.

32 Stan Thekaekara, 'Linking Hands', *The Guardian*, 8 March 2006; society.guardian.co.uk/societyguardian/story/0,,1725463,00.html.

um producers, reflects the growing mistrust many consumers feel towards Fairtrade.

But alternatives to Fairtrade have not all been welcomed in this way. The plethora of copycat ‘fairly traded’ brands and standards supported by big business—such as Kraft’s ‘Sustainable Development’ coffee brand, produced in conjunction with the Rainforest Alliance initiative—springing up on supermarket shelves in the US and Europe have also led to concern over confusion between different ‘ethical’ products. These other brands may not meet the standards set by the FLO-I or uphold elements of empowerment that the Fairtrade brand seeks in relationships with producers, but are competing with Fairtrade products to produce the brightest halo to attract consumers. This echoes the banana disputes between the Rainforest Alliance and Fairtrade movement during the 1990s, which also revolved around the dilemma of whether one step forward, a better banana, was helping or hindering a leap forward towards a sustainable and responsible one.

“*Supporters of*

the fair trade movement and the Fairtrade brand feel that the movement is being co-opted by those powerful companies that they seek to challenge.

“

The question of governmental involvement in regulation of the ‘ethical’ market has arisen, in order to standardise the certification process and reduce conflict between the numerous emerging standards. In France, Fairtrade products are certified with the Max Havelaar label, but a number of private certification processes have also emerged over the past few years. A system of definition and qualification of Fairtrade products is expected to be introduced by

the French government in 2006,³³ aiming to standardise the meaning of ‘Fairtrade’ and reduce consumer confusion. This move has been opposed by Max Havelaar as regulation would mean the lowering of ‘fairness’ standards and would also detract from the awareness-raising and lobbying aspect of Fairtrade.

Similarly, regulation of the increasingly popular market for organic food produce has raised concerns about the lowering of standards of certification. The Soil Association, one of the certification bodies of organic produce in the UK, argued that, as demand for organic produce continues to increase, ‘product integrity is potentially threatened by dilution of standards world-wide’.³⁴ The European Commission announced new EU-wide regulations governing the certification and labelling of organic produce in December 2005, which will ‘allow a certain amount of flexibility’ in production methods.³⁵ Friends of the Earth (UK) have taken issue with the inclusion of a clause that allows products that contain a small percentage of genetically modified organisms to be labelled as organic, arguing that economic concerns are being prioritised ahead of human health and protection of the environment.³⁶

In January the Just Change (India) Producer

33 See Fair Trade Organisation, ‘Almost Famous: Fair Trade Products’, 11 July 2005; Business in Development Network, www.businessindevelopment.nl/article-1012.6845.html.

34 Soil Association, ‘Certification Equivalence’, 5 December 2005; www.soilassociation.org/web/sa/saweb.nsf/848d689047cb466780256a6b00298980/289589ffa17a49ab802570ce005ca208!OpenDocument.

35 European Commission, ‘Organic Food: New Regulation will improve clarity for consumers and farmers’, press release, 21 December 2005; europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1679&format=HTML&aged=0&language=EN&guiLanguage=en.

36 Friends of the Earth, ‘EU Commission allows GM contamination of organic farming’, press release, 22 December 2005; www.foe.co.uk/resource/press_releases/eu_commission_allows_gm_co_22122005.html.

THAT'S JUST NOT FAIR!

By Jem Bendell and Shilpa Shah

First Quarter 2006



Company Ltd was launched in Tamil Nadu, India. The company is the brainchild of Stan and Mari Thekaekara, who have been working with the

Adivasi ('original inhabitants' or tribal people) communities of the Nilgiri Hills in India since the 1980s. It is the latest step for Just Change, an organisation promoting alternative trading mechanisms that will benefit poor communities in both high- and low-income countries. 'We try to achieve this by directly linking poor communities and encouraging them to trade among themselves,' explained **Stan Thekaekara** to JCC.

Thekaekara found that, in spite of the successful leap from labourers to producers, the Adivasis he has worked with found they were catapulted from a local wage economy into a global market economy that is extremely vulnerable, due to the market forces determining the price of their produce. For instance, tea prices at the producer level have dropped to nearly half of what they were four years ago. 'It has become evident over the years that the strategy for poverty reduction based on the traditional approach of gaining control over assets can no longer, on its own, guarantee success,' explains Thekaekara, who is also a trustee of Oxfam GB and Visiting Fellow at Oxford University. 'We believe that lack of power and control in markets contributes significantly to poverty all over the globe.'

The launch of the company is the result of connection made in 1994 when the Thekaekaras spent a month in the UK researching community work. In the UK, Stan

and Mari found large numbers of long-term unemployed people almost completely dependent on social welfare, living in pockets of extreme deprivation. In spite of government investments into these areas, the condition of these communities did not improve significantly. The New Economics Foundation (NEF) argued that the situation in these deprived areas of Britain is somewhat similar to those of the Adivasis in India, to the extent that, despite public investments, much of the money leaks out of the local economy into large national and global economies.³⁷

The Thekaekaras also noticed that poor Britons like their tea, and pay a relatively high price. As the tribal groups in India grow tea, so they thought of making a direct link to the benefit of both poor communities, by establishing a co-operative of producers and consumers. Trading began with the help of the Matson Neighbourhood Project (MNP) in Gloucester, who were working with the residents of a council estate. The Adivasis of Gudalur send their tea directly to the residents of Matson, who package and sell it both to their own community and to other local customers such as the Council.

This initiative is prototyping a new way of doing business. By sharing the ownership of the value chain, and thereby spreading the risk along that chain, the consumers and producers involved are gaining greater control of their participation in the market economy. Producers can retain ownership over their product all along the market chain and can therefore benefit from the final retail value of the product. Consumers can work directly with producers to establish a price for the product that is based on direct communication and hopefully principles

37 Bernie Ward and Julie Lewis, *Plugging the Leaks* (London: NEF, 2002; www.neweconomics.org/gen/z_sys_publicationdetail.aspx?pid=125).

of equity, rather than fluctuating and speculative markets.

It is a prototype of a new approach to both business and social change. If communities across the globe could link up to trade directly with each other, they could form a social chain which could be a powerful force for economic, social and political change. 'People need to believe in themselves and in their capacity to take control over their own economy,' states the Just Change website.³⁸ Their work recognises the problems and potential of disadvantaged people and communities no matter whether they live in hot or cold, rich or poor countries. As such it hints towards a new approach to international development work, as well as a different form of trade.

Three broad concepts of more responsible trade are emerging. 'Ethical trade' describes the work of large companies, such as those involved in the 'Ethical Trading Initiative', which focuses on improving workplace conditions, but does not yet address power relations and revenue distribution in value chains. 'Fairtrade' includes the same concern for better workplace conditions, but also addresses the buyer-supplier relationship, as described above. As the consumer is asked to pay a premium, there is an element of charity to fair trade. The Just Change initiative does not involve a premium. In fact, the prices paid by poor consumers can be lower than the market price, as savings are made through cutting out the middleman and the payment of surplus to distant shareholders. The principle is solidarity, not charity. As such, this small initiative suggests a new form of solidarity trading could emerge as a new paradigm for people interested in working on trade for social goals. We could call it 'Just Trade'. The power of naming it thus may arise by provoking us to question what we have hitherto assumed is either 'ethical' or 'fair' in the area of trade.

Just Change is the latest example of the forms of innovation possible as information and communication technologies spread further for cheaper. Business-to-business (B2B) and peer-to-peer (P2P) applications may become sideshows to new community-to-community (C2C) collaboration in shaping 'Globalisation 2.0' by flattening power hierarchies on our planet.³⁹ Our global village may be creating itself a virtual village market. If successful, in the years to come the best tea in the West may be found on poor council estates, not high-class cafes.

“
Three broad concepts
 of more responsible trade
 are emerging: Ethical trade,
 Fairtrade, and Just Change.’

“

The emergence of Indian business

38 www.justchangeindia.com/frames.asp?file=concept.htm&head=Concept

39 The concept of 'Globalisation 2.0' is referred to in T. Friedman, *The World Is Flat: A Brief History of the Twenty-first Century* (New York: Farrar, Straus & Giroux, 2005).

INCREDIBLY INDIA

First Quarter 2006

By Jem Bendell and Shilpa Shah

as a confident, powerful competitor on the playing field of global commerce was confirmed by the prominence of Indian companies and culture at the 2006 World Economic Forum in Davos in January. Fareed Zakaria reported in *Newsweek*⁴⁰ that 'no country has captured the imagination of the conference and dominated the conversation as India in 2006'. The omnipresent slogan 'Incredibly India: the Biggest Democracy for Global Investors' attempted to whisk the red carpet from beneath China's feet, as the presence of the Indian business people and Bollywood music and dancers dominated the conferences and social events.

Subsequent state visits to India by US president George Bush, France's Jacques Chirac, Australia's John Howard and Saudi Arabia's King Abdullah to talk business in February and March 2006 confirmed India's 'star' status. British Foreign Secretary **Jack Straw**



affirmed the increase of trade with India as a priority for the UK in 2006 in a key government white paper launched in March.⁴¹ It is being courted by America, for the pivotal role it could play in negating China's likely dominance in future decades.

India's well-educated labour surplus, its booming internal markets and carrots dangled to business such as tax breaks, tariff reliefs and exemptions from certain labour

and environmental regulations in 'special economic zones' across the country work to attract foreign investors, just as promises of exotic spices, glittering colour and noisy adventure entice tourists from all over the world. Tesco,⁴² which controls 30% of the UK grocery market, is one of the latest big names to be looking to expand into the Indian market.

Although home to over a billion people, India's 'corporate welfare' efforts to attract investment have built economic wealth on a narrow base, largely in New Delhi, Mumbai and the IT centre of Bangalore. Looking beyond the boom of foreign interest in 2006, which is underpinned by news of strong economic growth of 7.5% in 2005, the rest of India tells a different tale.

In a country as vast and diverse as this, where 17 major languages, 22,000 dialects and all the world's major religions are represented, it is the welfare and standard of living of the 75% of the population that live in rural areas that are reflected in India's low position of 127 out of 177 countries in the 2005 United Nations Human Development Index.⁴³ Over 300 million people in India live on less than a dollar a day. Water scarcity is considered the most pressing environmental issue followed by air pollution and loss of biodiversity. Fourteen per cent of the population still do not have sustainable access to suitable water source and 20% are undernourished.⁴⁴ Caste and gender continue to play a significant role in determining social status and lifestyle.

40 Fareed Zakaria, 'India Rising', *Newsweek*, 6 March 2006; www.msnbc.msn.com/id/11571348/site/newsweek.

41 'India a global player: Jack Straw', *Times of India*, 30 March 2006; timesofindia.indiatimes.com/article-show/1470074.cms.

42 'Bharti, Tesco plan on grocery chain', *Times of India*, 21 March 2006; economictimes.indiatimes.com/article-show/1457629.cms.

43 'Human Development Index'; hdr.undp.org/reports/global/2005.

44 'Human Development Index. Country Sheets: India'; hdr.undp.org/statistics/data/countries.cfm?c=IND.

The infrastructure for government in India is stretched over 28 states, each with its own governance structure and each typically burdened with a history of corruption cases and a culture of inefficiency. Recent high-profile efforts by the government to address wider social problems include an anti-poverty deal, launched in February 2006, which aims to provide income for 60 million rural households⁴⁵ and a joint programme implemented with assistance from the US to increase efforts to eliminate child labour, announced in March.⁴⁶ However, the annual total the government spends on public health amounts to 200 rupees, or US\$4 per capita. A bustling civil-society sector attempts to fill the gap; for example, SEWA (Self Employed Women's Association),⁴⁷ a trade union-based national organisation originating in Gujarat, continues to roll out health, education and food security programmes assisting some of the poorest rural communities.

As the prominence of Indian business has sky-rocketed, a parallel spotlight has been focused on corporate social responsibility (CSR) issues in the country. The perception of the role of corporations in social concerns is said to be undergoing a shift away from the traditional ideas of philanthropy—inspired by modern interpretations of religious philosophies promoting collective responsibility and the compassion and leadership shown by Mahatma Gandhi, Guru Nanak, Mother Teresa and others, setting up separate 'foundations'⁴⁸ to address particular health or education needs has been a time-honoured premise of Indian business.

45 'India launches anti-poverty deal', BBC, 2 February 2006; news.bbc.co.uk/2/hi/south_asia/4671328.stm.

46 'Three-Fold Increase In Central Allocation For Elimination Of Child Labour', News @ Indlaw.com, 16 March 2006; www.indlawnews.com/1F7F7C8ED30ECDE28D98165C05100005.

47 www.sewa.org

48 E.g. Modicare Foundation, www.modicarefoundation.org; Azim Premji Foundation, www.azimpremjifoundation.org.

But the prominence of activists such as author **Arundhati Roy** and Amit Srivastava of the campaign group India Resource Center has grown in recent years along with an awakening to the negative social and environmental impacts



of the business operations courted by their government's 'corporate welfare' programmes. Even the latest mainstream Bollywood blockbuster Rang De Basanti⁴⁹ delivered an inspirational message encouraging activism against powerful corporate interests and corrupt political collusion, albeit through song and choreographed dance.

The future of corporate responsibility in India must involve a wide variety of participants, from the high-altitude executives in Davos to the low-caste entrepreneurs in Gudalur.

Just as The Hindu newspaper de-

49 www.rangdebasanti.net

FIZZY FIGHT

By Jem Bendell and Shilpa Shah

First Quarter 2006

clared 'corporations collectively can make India a better place for every citizen' in March 2006,⁵⁰ campaigners working to expose the harmful impacts of Coca-Cola's operations on local communities in a number of Indian states had been stepping up efforts in India and abroad. Over the past four years, issues of groundwater depletion and contamination and high pesticide levels in products have bubbled to the surface, leading to the closure of a Coca-Cola plant in Plachimada, Kerala, in March 2004 and making the soft-drinks giant's name synonymous with the notion of corporate irresponsibility in households across the country.

The release of Coca-Cola's first corporate responsibility review in the UK in January and its entry into the United Nations Global Compact initiative were marred by a series of high-profile actions against the world's largest brand name in the first quarter of 2006.

While Coca-Cola's report stated that the company is 'putting corporate responsibility at the heart of our business strategy',⁵¹ Coca-Cola: The Alternative Report,⁵² produced by London-based campaign group War on Want, focused on droughts and contaminated water supplies in Indian states including Rajasthan, Uttar Pradesh and Kerala, alleged to be caused by Coca-Cola plants there.

The company was nominated for a 'Public Eye' award at the World Economic Forum in Davos for environmental irresponsibility⁵³ in January, just as the University

of Michigan added its name to the growing list of US colleges boycotting all Coca-Cola products. In February, court proceedings were brought against the Indian franchise of the company in relation to the suspicious death of the chairman of a village council opposing a new plant in Tamil Nadu.⁵⁴ In March, a long-standing campaign in the UK demanding that the service provider to the National Union of Students boycott all Coca-Cola products in universities came to a head as a motion for a full boycott was proposed at the annual general meeting of the union.⁵⁵

“The key opportunity

for India is the creation of a home-grown, meaningful, systemic form of CSR that addresses local issues. “

And, perhaps more worryingly for Coca-Cola, a popular Indian television yoga guru has declared that their drinks should be used for cleaning toilets, not drinking.⁵⁶ Swami Ramdev, who has brought yoga into the homes of millions of Indians in India and abroad, referred to the high sugar content and the controversy regarding high levels of pesticides found in the soft drinks.

Coca-Cola's counter-arguments that lack of rain is the main cause of groundwa-

50 Prabhudev Konana, 'Towards corporate social responsibility', The Hindu, 9 March 2006; www.thehindu.com/2006/03/09/stories/2006030905431000.htm.

51 Coca-Cola, 'Corporate Responsibility Review'; citizenship.coca-cola.co.uk/corporate_responsibility/cr_review.asp.

52 War on Want, Coca-Cola: The Alternative Report (2006); www.waronwant.org/downloads/cocacola.pdf.

53 www.publiceye.ch/en/p10387.html

54 'India: police investigate death of Coca-Cola bottling plant opponent', Environment News Service, 2 February 2006; www.ens-newswire.com/ens/feb2006/2006-02-02-03.asp.

55 Coca-Cola, 'Latest on Student Engagement', citizenship.coca-cola.co.uk/latest/index.asp; National Union of Students, 'Motion on Coke passed at NUS Conference in March 2006', www.nussl.co.uk/Files/E&E%20-%20CokeMotion.pdf.

56 Siddharth Srivastava, 'Indian swami takes the fizz out of Coke', Asia Times, 28 January 2006; www.atimes.com/atimes/South_Asia/HA28Df03.html.

ter depletion⁵⁷ have been accepted by some government and court officials, but the company's reputation with markets at home and abroad will need to be rebuilt. In terms of corporate scandals in India, Coca-Cola's infamy across the world has become second only to the campaign to hold Union Carbide (now incorporated into Dow Chemicals) accountable for the chemical explosion at a Union Carbide factory in Bhopal in 1984, which killed 20,000 Bhopal residents and affected the health of a further 100,000.⁵⁸

In comparison, the Tata group, a home-grown conglomerate of 93 companies that make everything from cars and steel to software and consulting systems, are often quoted as examples of best practice of CSR in India, due to their self-proclamation that 'an implicit sense of ethical business conduct has been the cornerstone of the Tata way in the corporate governance sphere'.⁵⁹ In 2005, its revenue grew from \$17 billion to \$24 billion.

But, in January 2006, 12 Adivasis in the northern state of Orissa were killed as they protested against being displaced from their land, which had been sold to Tata Steel.⁶⁰

An ex-employee of Coca-Cola India, who worked as a CSR executive, states, 'CSR is a distant dream in India ... CSR is more an "extra activity" that has to be squeezed in to "look good"'.⁶¹ The key opportunity for India now—as with other low-income countries—is not the numbers of companies talking about CSR and blindly

replicating the current 'add-on' Western model focusing on public relations as Coca-Cola has tried to do, but the creation of a home-grown, meaningful, systemic form of CSR that addresses local issues, challenges prejudice and asserts India's position as a leading player in the global economy of the future.

At a London conference about the future of CSR across the world in March 2006, **Jane Nelson**, former advisor



to UN Secretary-General Kofi Annan, warned, 'If India and China don't get it right then it doesn't really matter what we do in the rest of the world'.⁶² While her comment should not mean we ignore the fact that so many in the

West have got it wrong already, it reflects the realisation that these two very different, vast countries housing nearly half of the world's population will shape the contours of the economic and political landscape in coming decades.

Given the scale of the challenges in India, the corporate responsibility agenda in India must be a systemic one. Therefore it must work to strengthen governance in the country, not sidestepping official processes citing their corrupt and over-bureaucratic nature in justification. It must address the impacts of small and medium-sized businesses instead of giving special concessions to foreign multinational interests, while giving India the confidence to stand up to global neoliberal processes that will not work for the benefit of the majority of its people—as attempted in the making of cheaper generic antiretroviral drugs for HIV and Aids sufferers, which was eventually in 2005 overruled by the intellectual property protection agreements propelled by the World Trade Organi-

57 Coca-Cola, 'Corporate Responsibility Review' (2005): Environment Section, page 28; citizenship.coca-cola.co.uk/pdf/cr_environment_section.pdf.

58 www.bhopal.net

59 www.tata.com/0_our_commitment/corporate_governance/index.htm

60 Mark Dummett, 'Battle over Indian steel mills', BBC, 26 February 2006; news.bbc.co.uk/2/hi/south_asia/4686638.stm.

61 Personal communication with Shilpa Shah, 16 March 2006.

62 'China and India will shape the future of CSR', edie.net, 13 March 2006; www.edie.net/news/news_story.asp?id=11178&channel=0.

sation.⁶³

India's unique social patchwork of families, communities, NGOs and small and medium-sized enterprises means that such a CSR model will have to look beyond just the urban areas, to incorporate the concerns of local communities with historical ties to land, village councils (panchyats) and grass-roots civil-society organisations as well as an understanding of how caste, religion and gender inequalities have pervaded through society to replicate power differentials over the decades.

63 Abid Aslam, 'India's clampdown on generic drugs imperils world's poor, say advocates', Common Dreams News Center, 23 March 2005; www.commondreams.org/headlines05/0323-04.htm.

TRIALS & TRIBULATIONS

By Jem Bendell and Jonathan Cohen

Second Quarter 2006

Sometimes complex issues are more easily understood in the negative—what they are not. Non-profit or non-governmental, for example. When considering the phrase ‘corporate social responsibility’ (CSR), the inverse, or corporate social irresponsibility, helps illuminate its meaning. This is particularly true in relation to what the history books may call the 9/11 of CSR: Enron. In May 2006, a jury of eight women and four men in Houston, Texas, did what all of the regulators, investors, analysts, banks, boards, legal advisors and market checks and balances could not—concretely convict Enron’s leaders of historic failures and human losses. Enron’s emblematic emasculation embodied the turn-of-the-century corporation gone bad, and catapulted the field of CSR onto the popular culture radar of North America.

The stark trajectory of Enron stood out as the iconic embodiment and public face of all that CSR seeks to be the antidote to, despite competition from a veritable golden age of recent corporate scandals that have occurred primarily in the US:

- WorldCom (the biggest bankruptcy—\$11 billion accounting fraud)¹
- Global Crossing (the sixth largest bankruptcy in US history)²
- Adelphia (\$2.3 billion in hidden debt)³
- Royal Ahold (\$1.23 billion restatement

and \$1.1 billion settlement)⁴

- AIG (\$2.3 billion restatement)⁵
- HealthSouth (\$1.4 billion in false earnings)⁶
- Fannie Mae (Over \$10 billion in accounting errors)⁷

Will the conviction of Ken Lay (who died in July 2006 around three months before his sentencing to a likely 30 years in jail)—former chairman and founder, on six counts including conspiracy, wire fraud and securities fraud and four counts in a separate bank-fraud trial—as well as Jeffrey Skilling—former CEO, on 18 counts of conspiracy and fraud and one (of 10) counts of insider trading⁸—make a difference? Will the convictions be a deterrent?



Ken Lay and Jeffrey Skilling were not the first corporate executives to be convicted, nor will they be the last. On the face of it, the collapse of Enron has not had much of an impact on executive compensation. However, perhaps a belated recognition

by boards of their fiduciary responsibilities,

1 Jennifer Bayot and Roben Farzad, ‘Former WorldCom Executive Sentenced to 5 Years in Prison’, New York Times, 11 August 2005.

2 Gretchen Hyman, ‘Winnick Exits Global Crossing’, ISP News, 2 January 2003; www.isp-planet.com/news/2003/global_crossing_030102.html.

3 Dean Starkman, ‘Rigases Given Prison Terms: Former Adelphia Executives Sentenced for Conspiracy, Fraud’, Washington Post, 21 June 2005; www.washingtonpost.com/wp-dyn/content/article/2005/06/20/AR2005062000440_pf.html.

4 Gregory Crouch, ‘Ahold to Pay \$1.1 Billion to Settle Fraud Suits’, New York Times, 29 November 2005.

5 en.wikipedia.org/wiki/American_International_Group

6 en.wikipedia.org/wiki/HealthSouth

7 Matthew Borghese, ‘Report on Fannie Mae’s Accounting Problems Ready for Release’, All Headline News, 16 May 2006; www.allheadlinenews.com/articles/7003599932.

8 Carolyn Said, ‘The Enron Verdict: From White Collars to Prison Blues’, San Francisco Chronicle, 26 May 2006; www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2006/05/26/BUGL3J2D3B33.DTL.

and a surge in corporate governance shareholder resolution successes in the 2006 annual meeting proxy season⁹, will start to lessen a CEO's ability to run a company into the ground.

Five years after the introduction of the signature US reaction to loss of trust in the market—the Sarbanes–Oxley legislation to strengthen transparency, accountability and improved corporate governance—it remains unpopular with business in terms of its cost and the quality of auditing. Lingering implications of the reaction to Enron encompass potential mergers between stock exchanges in the US and abroad.

So, given the limits of regulatory and legal moves, does CSR have a role to play in avoiding future Enrons? We should remember that Enron had staff in charge of corporate responsibility. It issued a corporate responsibility report. It lied.

Investors in particular have an interest in spotting future Enrons, and as such could be key enforcers of better corporate governance. The new mainstream of CSR, typified by stakeholder dialogues and sustainability reporting, does not appear to be sufficient to empower these investors, given their reliance on self-declarations about corporate intentions and management systems, and audits from firms with a commercial interest in being regarded by their clients as both reasonable and affordable. Consequently, both responsible investors and the wider public face a credibility riddle of whom to believe when they make judgements on the social performance of companies. Three areas are important in solving this riddle: the type of information self-declared by companies, the type of auditors involved, and information gathered from other sources.

The first area where the information

flow to investors could be improved is the production of more quantitative indicators of social and environmental performance rather than corporate intentions and management systems. Requirements could include guidelines for the production of basic quantitative indicators such as pollution records, average wages paid to different types of employee (including in the supply chain), non-compliance notices issued by law enforcement agencies, pending court cases, court rulings, out-of-court settlements, admonitions or investigations from intergovernmental bodies, recognised trade unions in the workplace, collective bargaining agreements, multi-enterprise codes endorsed, certifications received, political donations, memberships of trade associations, and payments to lobby groups. With such information, companies might be able to be indexed on the basis of their actual impacts on society rather than on the appearance of their management systems. The limited amount of information provided in this way raises questions not only of companies and their auditors, but of the ability of the stakeholders they engage with to move beyond issue identification for the materiality of non-financial reporting to the type of data required about those issues. Some of these performance indicators would be more difficult to compile and audit than others, with statistics on wage levels being much easier than mapping the often opaque and ad hoc nature of lobbying, or assessing its content. The usefulness of these performance indicators will still depend on the professionalism of the auditors. Initiatives such as the International Standard on Assurance Engagements (ISAE) 3000, developed by the International Auditing and Assurance Standards Board (IAASB), and the AA1000 Assurance Standard (AA1000AS), launched by AccountAbility, help ensure better practice, with the latter including attention to the auditors' capacity to deal with the stakeholder-determined issues in extra-financial

9 Brooke A. Masters, 'Shareholders Flex Muscles: Proxy Measures Pushing Corporate Accountability Gain Support', *Washington Post*, 17 June 2006; www.washingtonpost.com/wp-dyn/content/article/2006/06/16/AR2006061601860.html.

reports.¹⁰ However, self-disclosure verified by contracted auditors provides a context within which conflicts of interest can undermine effective disclosure. A comprehensive solution to credible information on company performance must include systems for gathering and processing information and opinion from society, unmediated by the companies involved

The third area for solving the credibility riddle involves generating reliable and relevant data from sources other than the companies themselves. The problem here is how to combine opinions from diverse stakeholders on different public issues into one framework, something that the Swiss investment analyst firm Covalence has been developing since 2001.¹¹ Its director Antoine Mach told JCC that ‘the corporate reputation that matters, and is material to value, is not the one in the minds of management but

“
***Solving the
 credibility***

riddle involves generating reliable and relevant data from sources other than the companies themselves.

“

within the web of stakeholders, with some stakeholders connected to more strands than others’. Covalence maps corporate, media and stakeholder views across 45 criteria of business contributions to human development, based on an international legal framework, to create a trackable ‘ethical quote’ for each company. Another system of investment analysis that includes this broader view is Total Corporate Responsi-

bility (TCR), developed by Frank Dixon and used by Innovest Strategic Value Advisors. It also focuses on some quantitative indicators of performance, as described above. The notable aspect of TCR is its systems approach, which considers how a company affects the societal systems it exists within, through a range of activities such as lobbying and advertising. This approach is important in three ways. First, if we assume that external performance is an indicator of internal performance, then it helps investors avoid corrupt internal practices such as those that became the norm at Enron. Second, it helps investors determine how well prepared companies are for future social and environmental change. Third, it supports companies in promoting changes in market demand and regulatory frameworks that will sustain value creation over the long term, across the whole economy.

The key issue for investors is how to shift investments away from firms with a high likelihood of internal unethical behaviour. TCR seeks to drive system change by rewarding firms that are more proactive than peers in seeking to promote, rather than block, change at a systemic level. Firms working for system changes that hold all companies more responsible receive higher TCR ratings, with a hoped-for rise in stock price as a result in an effort to create a race to the top of the market.¹²

10 We use the term ‘extra-financial’ rather than ‘non-financial’ to refer to social, environmental and governance issues as this better reflects the potential financial materiality of these issues, despite not being included in normal financial accounts and reports.

11 www.covalence.ch

12 Frank Dixon, ‘Strategic Thinking’, GreenBiz, January 2005; www.greenbiz.com/news/columns_third.cfm?NewsID=27578.

PRAGMATIC RIGHTS

Second Quarter 2006



By Jem Bendell and Jonathan Cohen

The weaknesses of CSR governance that led to the collapse of Enron and the advent of Sarbanes–Oxley legislation in the US has implications for the challenges of CSR governance at the global level. The primary global dialogue and reference point for business and human rights concerns the Special Representative of the UN Secretary-General on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises (SRSG). The Interim



Report issued in February 2006 by the SRSG, Harvard University Professor of International Affairs and former UN Assistant Secretary-General **John Ruggie**, provoked a flurry of reactions and stakeholder engagement.

The SRSG offered hope for blazing new ground in standards concerning business and human rights, and more specifically clarification of terms such as ‘business spheres of activity and influence’ by stating that its final report will go beyond restating what has taken place to date and contain ‘normative judgments’.¹³ In addition to strengthening the body of standards, a full overview of existing standards and tools and support for the most effective would move the field ahead in its application on the ground. An addition to this mix, a new Human Rights Guide for Business, was launched in June 2006 by the Business Leaders Initiative on Human Rights, the United Nations Global Compact Office and the Office of the United Nations High Commissioner for Human

13 John Ruggie, ‘Interim Report of the Special Representative of the Secretary-General on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises’, UN Doc. E/CN.4/2006/97 (2006); www1.umn.edu/humanrts/business/RuggieReport2006.html.

Rights.¹⁴

Amnesty International (AI) called on the SRSG to address the responsibilities of companies to protect human rights when they are in host states that are unwilling or unable to do so. Interestingly, both AI and the International Chamber of Commerce (ICC) called for clarification of the terms ‘complicity’ and ‘sphere of influence’ as used in the business and human rights context.¹⁵

The ICC’s response to the SRSG’s mandate commented that ‘the state is the duty-bearer in protecting and promoting human rights’ and, in its favoured monolithic monotone of the omnipotent voice of all enterprise, that ‘Business does not believe there is a need for a new international framework’.¹⁶

The SRSG’s Interim Report noted that ‘it may be desirable in some circumstances for corporations to become direct bearers of international human rights obligations, especially where host governments cannot or will not enforce their obligations and where the classical international human rights regime, therefore, cannot possibly be expected to function as intended’.¹⁷

A letter issued by over 100 NGOs in May in response to the Interim Report called

14 Global Compact, ‘New Human Rights Guide for Business’, 6 June 2006; www.unglobalcompact.org/News-AndEvents/news_archives/2006_06_06.html.

15 Amnesty International US, ‘UN Norms for Business: Taking Corporate Responsibility for Human Rights to the Next Level!’, 16 September 2005; www.amnestyusa.org/business/un_norms.html; Letter to John Ruggie from Guy Sebban, Secretary-General, ICC, and Antonio Peñalosa, Secretary-General, IOE, 14 October 2005; www.iccwbo.org/uploadedFiles/ICC/policy/business_in_society/pages/ICC-IOE_Letter_John_Ruggie.pdf.

16 Ibid.

17 Ruggie, op. cit.

on the SRSG to take into account the UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights, or simply the UN Norms for short.¹⁸ The SRSG, however, had criticised the UN Norms in the Interim Report in unusually stark language. Criticisms levelled include ‘exaggerated legal claims’, by taking ‘existing state-based human rights instruments and simply asserting that many of their provisions now are binding on corporations as well. But that assertion itself has little authoritative basis in international law—hard, soft, or otherwise.’ Ruggie went on to say that ‘All existing instruments specifically aimed at holding corporations to international human rights standards ... are of a voluntary nature. Relevant instruments that do have international legal force ... impose obligations on states, not companies.’ This critique does not even encompass the most volatile elements of the UN Norms—to monitor corporations and provide for payment of reparations to victims. Further, the SRSG cites ‘the flaws of the Norms’ as ‘a distraction from rather than a basis for moving the SRSG’s mandate forward’.¹⁹

Approved on 13 August 2003, by the UN Sub-Commission on the Promotion and Protection of Human Rights, the UN Norms compiled a laundry list of the key human rights documents related to business under one roof, which served to focus the discussion greatly.²⁰ Subsequently, the UN Commission on Human Rights decided not to move ahead with the document. By virtue of this decision and the sheer lack of governmental support, the SRSG stated that the

UN Norms did not possess legal standing.²¹ A former high-ranking official with knowledge of the process commented that the SRSG’s statement ‘was the embalming oil of something that was already dead in the coffin’.

A lead in drafting the UN Norms, Professor David Weissbrodt, argues that the SRSG’s critique of the Norms was ‘inspired if not copied word-for-word from the advocacy of the International Chamber of Commerce (ICC) and the International Organization of Employers (IOE)’ and ‘relies on the tendentious and highly biased views of lawyers employed by’ those organisations and ‘ignores the considerable positive commentary that the Norms have generated’. He criticises the SRSG for exaggerating the potential power of the Norms, reminding us that they ‘do not constitute a treaty and therefore cannot bind either states or corporations in the same way that treaties are binding if they are ratified’. Weissbrodt explains that ‘the Norms principally reflect, restate, and refer to existing international standards, but apply them not only to governments but directly to businesses. The Norms are consistent with the progressive development of international law in applying standards not only to states, but also to individuals, armed opposition groups, and other non-state actors.’²² In this sense, the

“
All existing instruments
 specifically aimed at holding corporations to international human rights standards are of a voluntary nature.
 ”

18 Letter to John Ruggie from Amnesty International et al., 18 May 2006; www.amnestyusa.org/business/document.do?id=engior500032006.

19 Ruggie, op. cit.

20 ‘Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights’, UN Doc. E/CN.4/Sub.2/2003/12/Rev.2 (2003); www1.umn.edu/humanrts/links/norms-Aug2003.html.

21 Ruggie, op. cit.

22 D. Weissbrodt, ‘UN Perspectives on “Business and Humanitarian and Human Rights Obligations”’, presentation at panel of the American Society of International Law, 30 March 2006.

PRAGMATIC RIGHTS

Second Quarter 2006

Norms seek to move forward the basic concept and application of international law in line with recent developments on non-state actors, as highlighted by the establishment of the International Criminal Court. Ruggie's approach rejects that development.

Despite this, the UN Norms are still breathing, in two respects: the issues lie at the heart of the SRSG's mandate, and NGOs continue to use the UN Norms as a campaigning and learning tool, while consultants are using it in work with companies.

Human rights impact assessment standards are another area that the SRSG cited as having considerable impact on the ability of companies to meet their human rights obligations at both national and project levels, but which are in need of development. Unfortunately, the broad scope of the SRSG's mandate—an entirely unfunded mandate—means that this task will be left to others to carry out.²³

The SRSG declares in the final paragraph of the Interim Report 'an unflinching commitment to the principle of strengthening the promotion and protection of human rights as it relates to business, coupled with a pragmatic attachment to what works best'.²⁴ As a school of philosophy, pragmatism suggests that beliefs qualify as valid or not, even 'true' or 'false', depending on how helpful they are in accomplishing the believer's goals. Thus it is only through their usefulness that theories and beliefs acquire meaning and validity. Even when the term is used in a more colloquial way, it often reflects this type of world-view.²⁵ Many human rights are widely seen, and legally recognised, as inalienable principles which are therefore absolute, not awarded by human power, not transferable to another power,

and incapable of repudiation.²⁶

The idea, which is held by Amnesty International, that rights should never be relative to circumstance sits uneasily with the concept of pragmatism. 'We are concerned that the approach of "principled pragmatism" to which you refer in your report may lead to underestimating the need for binding legal principles and guidelines as well as the state of applicable international law',



said Amnesty's director **Irene Khan** in a letter to Professor Ruggie in April.²⁷ They pointed out the limited evidence of success from voluntary initiatives and the problem of providing mechanisms

of redress based on voluntary benevolence from powerful actors. It is also worth remembering that, when the Norms were originally launched, Professor Weissbrodt also claimed pragmatism in defence of criticisms from NGOs that they did not go far enough. Perhaps if there is ever to be 'principled pragmatism', it will require incorporating a set of absolute values which counterpose the relativist and opportunistic dimensions to pragmatist philosophy. Otherwise, claims to pragmatism may mask how our views have been shaped by acquiescence to those power relations that sustain our privilege. If it did, then the successful acceptance of our ideas would merely make us the intellectual totalitarians of our time.

A potential area of common thought lies in the desire by business groups such as the ICC, IOE and Business for Social

23 Letter from John Ruggie to Amnesty International et al., 22 May 2006; www.reports-and-materials.org/Ruggie-response-to-joint-NGO-letter-22-May-2006.pdf.

24 Ruggie, op. cit.

25 Hilary Putnam, *Pragmatism: An Open Question* (Oxford, UK: Blackwell Publishers, 1995).

26 Jeremy Waldron (ed.), *Theories of Rights* (Oxford, UK: Oxford University Press, 1984).

27 Letter from Irene Khan, Secretary-General, Amnesty International, to John Ruggie, 27 April 2006; www.amnestyusa.org/escr/document.do?id=ENGIOR500022006.

Responsibility,²⁸ as well as human rights groups, for more stable operating environments with better governance and rule of law. The fact remains that the lack of effective global governance mechanisms, coupled with national governments that have proven woeful in preventing or holding accountable corporate involvement in human rights abuses, has resulted in a void that needs to be filled.

One step in that direction occurred when the new UN Human Rights Council convened its first meeting on 19 June 2006. The new and improved body will take up the SRSG report and serve as a key global institution for dealing with business and human rights. It will now meet throughout the year and has a mechanism to take up urgent crises. All 192 UN member states will now have their human rights record examined, resources permitting. The real test of the new UN Human Rights Council, much like the challenge more broadly for business and human rights standards, will be in its ability to hold accountable 'any Council member who commits gross and systematic violations of human rights' and 'have their rights of membership suspended by a two-thirds majority of the General Assembly'.²⁹

28 Aron Cramer, 'Business for Social Responsibility Commentary: Interim Report of the Special Representative on Business and Human Rights', March 2006; www.bsr.org/meta/BSR_Ruggie-Interim-Report_BSR-Comments_200603.pdf.

29 United Nations, 'New Human Rights Council Convenes First Session in Geneva, 19 June', press release, 15 June 2006; www.un.org/News/Press/docs/2006/hrc2.doc.htm.

NOT BANKING ON CORRUPTION

By Jem Bendell and Jonathan Cohen

Second Quarter 2006



In what may be a hoped-for multilateral race to the top, the World Bank declared a new, comprehensive, 'long-term' anti-corruption strategy in April 2006 to leverage loans and technical assistance to developing countries and through partnerships with stakeholders.³⁰ The Bank has identified corruption as among the greatest obstacles to economic and social development by limiting opportunities, creating inefficiencies and impeding the delivery of services, for example; and World Bank president **Paul Wolfowitz** reportedly sees corruption as his signature issue.³¹ Previously, individual loans were suspended in response to allegations of corruption in countries such as India, Bangladesh and Uzbekistan; however, Wolfowitz has acknowledged such a case-by-case approach 'by itself doesn't deliver effective results for the poor'.³² To do so, 'the Bank will continue to work closely with Civil Society to provide checks and balances and promote accountability in their governments'.³³

The extractive industry presents the greatest challenge to the World Bank in car-

rying out the new long-term anti-corruption strategy. In an effort to determine existing patterns in order to inform the design of governance instruments, the UN SRSG's Interim Report surveyed 65 instances of alleged corporate human rights abuses recently reported by NGOs, which were seen as 'unlikely to be a representative sample of all situations, but of the worst'. Unsurprisingly, the extractive sector—oil, gas, and mining—constituted two-thirds of the sample of reported abuses, and 'account for most allegations of the worst abuses, including complicity in crimes against humanity; large-scale corruption; violations of labor rights; and a broad array of abuses in relation to local communities, especially indigenous people'.³⁴

Moving from what had been 'an ad hoc, low visibility approach towards instances of fraud and corruption in member countries, Bank-financed projects, and among staff', the Bank now seeks to assume 'a clear leadership role among multilateral institutions'.³⁵ In addition to a slew of other organisations, the Bank and its private-sector financing arm, the International Finance Corporation, have supported industry-wide efforts to address the serious challenge of corruption in extractive industry practices, such as the Extractive Industries Transparency Initiative (EITI), which works toward 'improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining'.³⁶

The Bank's most direct impact in this

30 World Bank, 'World Bank Announces Strategy to Combat Corruption', Press Release No. 2006/358/EXC, 11 April 2006; web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20884956~menuPK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html.

31 World Bank, 'Anticorruption'; web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTANTICORRUPTION/0,,menuPK:384461~pagePK:149018~piPK:149093~theSitePK:384455,00.html.

32 Paul Blustein, 'World Bank Strategy Targets Corruption: Plan Aims to Clean Up Bribe-Taking Countries', Washington Post, 12 April 2006; www.washingtonpost.com/wp-dyn/content/article/2006/04/11/AR2006041101403.html.

33 World Bank, 'World Bank Announces Strategy ...'.

34 Ruggie, op. cit.

35 F. Leautier, D. Petkoski and M. Jarvis, 'Development Outreach', Editorial, World Bank Institute, Embargoed Copy, 17 September 2006.

36 www.eitransparency.org/section/abouteiti

area will be in its own loan portfolio. 'The proportion of new projects with accountability/anti-corruption components jumped from 0.4% in the 1995–96 fiscal years to an average of 5% in the 2004–05 fiscal years', and all Bank Country Assistance Strategies are now required to address governance issues, according to the World Bank Institute.³⁷ The Chad–Cameroon Oil Pipeline Project demonstrates the challenges the World Bank and its Department of Institutional Integrity face in fighting corruption in its existing projects. In what was touted as the largest private investment in Africa, the \$3.7 billion dollar Chad–Cameroon oil project, which is

“
The extractive industry

presents the greatest challenge to the World Bank in carrying out the new long-term anticorruption strategy.

”

managed by a consortium of Exxon, Chevron and Petronas, stands as a litmus test for World Bank anti-corruption success to start at home.³⁸

A 'deciding factor' in the World Bank's support for the Chad–Cameroon Oil Pipeline Project was Chad's 1999 Petroleum Revenue Management Law which required the bulk of direct revenue to be used for poverty reduction in agreed-to 'priority sectors', such as health, education and rural development, as well as a Future Generations Fund, to ensure financial savings once oil reserves are exhausted. In December 2005, the National Assembly of Chad amended the Petroleum

Revenue Management Law and broadened the definition of priority sectors to include, among other areas, territorial administration and security, increased from 13.5% to 30% the share of revenue that can be allocated to non-priority sectors that are not subject to oversight and control, eliminated the Future Generations Fund and transferred its \$36 million into the general budget. The World Bank, in turn, viewed the changes as a breach of contract, and on 6 January 2006 suspended new loans and grants to Chad.³⁹

The Chadian government was reported to have used the first \$4.5 million of the signing bonus that it received from the oil companies to purchase arms.⁴⁰ NGOs warned the World Bank against financing the project beforehand and said that its assessment of the situation in Chad, 'notorious for its corruption and human rights abuses', was based on unrealistic assumptions.⁴¹ The World Bank's stakeholder engagement with civil society needs to take into greater account such concerns in future projects.

Subsequently, the World Bank and the Government of Chad 'signed a memorandum of understanding under which Chad committed 70 percent of its budget spending to poverty reduction programs, provided for a stabilization fund' for after the oil runs out, and made a new pledge of support for the independent oil revenue oversight authority.⁴² The Bank won the round and will resume loan disbursements in education, health, community development, HIV/AIDS, agriculture, electricity, water and infrastruc-

39 World Bank, 'Questions and Answers', web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/EXTREGINI/EXTCHADCAMPPIPELINE/0,,contentMDK:20531903~menuPK:1104029~pagePK:64168445~piPK:64168309~theSitePK:843238,00.html.

40 Ibid.

41 CEE Bankwatch Network et al., op. cit.

42 World Bank, 'World Bank, Govt of Chad Sign Memorandum of Understanding on Poverty Reduction', News Release No. 2007/19/EXC, 14 July 2006; web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/CHADXTN/0,,contentMDK:20994138~menuPK:349881~pagePK:141137~piPK:141127~theSitePK:349862,00.html.

37 F. Leautier et al., op. cit.

38 CEE Bankwatch Network, Friends of the Earth International, Center for Environment and Development and Environmental Defense, 'Banks and Exxon Celebrate Chad–Cameroon Pipeline: International Organisations Support Chadian Day of Mourning', press release, 9 October 2003; www.foei.org/media/2003/1009.html.

ture.⁴³ Bank president Wolfowitz touted the MOU as a victory, saying 'The Chadian authorities have committed to ensuring that all oil revenues, not just the royalties, are spent on health and education and other basic needs of the poor'.⁴⁴ The corporate consortium has stayed largely out of view during the ongoing saga; however, it is unlikely that Exxon, Chevron and Petronas will successfully be able to maintain an ostrich stance through the life of the high-priced project.

Another important example of high-level collaboration to combat corruption involving corporations is the formation of a new coalition involving the World Economic Forum, the United Nations Global Compact, the International Chamber of Commerce and Transparency International,⁴⁵ the latter of which established the Business Principles for Countering Bribery.⁴⁶

If access to the internet superhigh-

43 World Bank, 'World Bank, Chad Reach Interim Agreement on Funding, Oil Revenue Management', Press Release No. 2006/383/AFR, 26 April 2006; web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20903775~pagePK:34370~piPK:34424~theSitePK:4607,00.html.

44 World Bank, 'World Bank, Govt of Chad Sign Memorandum ...'.

45 World Economic Forum, 'Key Coalition Formed to Fight Private Sector Corruption on Anti-corruption Day', 9 December 2005; www.weforum.org/en/media/Latest%20Press%20Releases/PRESSRELEASES88.

46 Transparency International, 'Business Principles for Countering Bribery'; www.transparency.org/global_priorities/private_sector/business_principles.

A TIGHTENING WEB?

By Jem Bendell and Jonathan Cohen

Second Quarter 2006

way was the first generation of the digital divide between the global North and South, and access to content via high-speed connection is the second, then impediments to the dissemination of content, whether through government censorship or corporate pay-for-play demands that result in different levels of access, is the third generation (3G) of the divide.

Structure has won a round against function, with the owners and controllers of the internet highway pipeline, whether the Chinese government on a national basis or internet network operators on a business basis, holding sway over the lords of content such as Yahoo, Google or Microsoft.

Critical Congressional hearings in Washington, DC in the first half of 2006 focused a spotlight on corporate complicity in censorship in China. Google fared worse in some parts of the media than its competitors Yahoo and Microsoft because of an apparent violation of brand identity embodied in their slogan 'Don't Be Evil'. Google co-founder Sergey Brin publicly acknowledged in June that the dominant internet company compromised its principles by accommodating Chinese censorship demands.⁴⁷ 'We felt that perhaps we could compromise our principles but provide ultimately more information for the Chinese and be a more effective service and perhaps make more of a difference', Mr Brin told reporters. 'Perhaps, now, the principled approach makes more sense.'⁴⁸ Microsoft responded to the pressure and took small steps in connection with

its testimony before Congress, announcing a new policy concerning responses to governmental requests for removal of content and user access. Critics pointed out that new policy does not stop the company from assisting governments in censoring and removing access to blogs, or in providing information on specific users.⁴⁹ Microsoft and Yahoo had previously said in a joint statement 'they lacked the leverage on their own to influence world governments'.⁵⁰

The implications of such behaviour by large, powerful companies casts a shadow beyond what may typically be considered corporate citizenship. For example, the Wall Street Journal called hypocritical claims by companies that more forceful resistance to human rights violations by China is not possible because the country's market is too big to ignore while at the same time 'protesting China's failure to protect intellectual property'. '[The Chinese government] might censor information that is vital to conducting business there.' What if the government doesn't want to let people know the banking system is weak?' said Arvind Ganesan of Human Rights Watch. 'Today it's political censorship. Tomorrow, it's central-bank reserves.'⁵¹

Another aspect of the 3G digital divide, pay-for-play demands for tiers of access, speaks to a less clear-cut, but more far-reaching, potential impact. The short-term issue may be telecommunication com-

47 'Google "Compromised Principles" in China, Founder Admits', South China Morning Post, 7 June 2006, as reprinted at asiamedia.ucla.edu/article.asp?parentid=47255.

48 Catherine Elsworth, 'We may pull plug on our censored Chinese website, says Google', The Telegraph, 8 June 2006; www.telegraph.co.uk/news/main.jhtml?xml=/news/2006/06/08/wgoogle08.xml&sSheet=/news/2006/06/08/ixnews.html.

49 Amnesty International USA, 'Censorship in China: Public Pressure Increases'; www.amnestyusa.org/business/pressure.html.

50 'Net firms criticised over China', BBC News, 15 February 2006; news.bbc.co.uk/2/hi/technology/4699242.stm.

51 Jesse Eisinger, 'Blocking Data at China's Whim Poses Risky Dynamic for Tech Firms', 3 May 2006; for a summary go to www.business-humanrights.org/Categories/Individualcompanies/Y/Yahoo?&batch_start=31.

panies charging higher prices to companies such as Google and eBay—which generate the most dissemination of data-intensive applications such as movies and video games and internet traffic—to recoup the billions of dollars needed to upgrade their networks to handle the increase in such traffic. The longer-term issue may be whether economic activity and democratic debate are available at the same level for those with access.⁵²

In fact, steps in this direction were

“ *If access to the internet*

superhighway was the first generation of the digital divide, and access to content is the second, then impediments to the dissemination of content, is the third generation (3G) of the divide.

“

taken by AOL to charge large mass emailers for a new ‘Goodmail’ certified email service which bypasses spam filters and offers guaranteed delivery directly into AOL customers’ inboxes.⁵³ A coalition with over 500 members, DearAOL.com, called the new service ‘a threat to the free and open internet’, and described ‘pay-to-send’ email as tollbooths on the currently open internet which demand ‘protection money at the gates of their customers’ computers’ and constitute a tax on email and ‘tiered services and dozens of middleman fees for every simple act of communication’. Coalition members include the AFL–CIO, Consumers Federation of America, Computer Professionals for Social Responsibility, Craig Newmark (Craig’s List), Defenders of Wildlife, Democratic National

Committee, Friends of the Earth, MoveOn, Oxfam America and Working Assets.⁵⁴

The role of technology in enabling participation in democratic discourse, or ‘accessible democracy’, was also raised at Google’s 2006 annual meeting by Amnesty International, which has issued reports citing a dramatic rise in the number of people detained or sentenced—and in cases tortured—for internet-related offences in China.⁵⁵ Adding to the glare of the spotlight, the NGO Reporters Without Borders released a report which labelled Yahoo as the ‘Worst Search Censor in China’.⁵⁶ China has signed the International Covenant on Civil and Political Rights (ICCPR), which states in Article 19 that everyone shall have the right to hold opinions without interference; that everyone shall have the right to freedom of expression; and that this right shall include freedom to seek, receive and impart information and ideas of all kinds, regardless of frontiers, either orally, in writing or in print, in the form of art, or through any other media of his [or her] choice.⁵⁷

Technology corporations have defended their practices in a strikingly similar manner, as embodied by Microsoft: ‘In the case of China, we believe that despite the circumstances, the Internet has already transformed the economic, cultural and political landscape of China.’⁵⁸ This reflects the ‘e-vangelical’ approach of the internet generation, which believes the internet is an inherently positive force in the world. How-

52 Jeffrey Bartash, ‘Internet-freedom backers struggle on’, MarketWatch, 14 June 2006; www.marketwatch.com/News/Story/Story.aspx?guid=%7B628F4552-D5F4-43FD-91DE-7FF28CCA9C49%7D& siteid=google.

53 Electronic Frontier Foundation, ‘AOL Starts Pay-to-Send Email Shakedown’, 9 May 2006; www.eff.org/news/archives/2006_05.php#004653.

54 www.dearaol.com

55 Amnesty International USA, ‘Censorship in China: Overview’, www.amnestyusa.org/business/censorship.html.

56 Reporters Without Borders, ‘Test of Filtering by Sohu and Sina Search Engines Following Upgrade’, 22 June 2006; www.rsf.org/article.php3?id_article=18015.

57 Amnesty International USA, ‘Censorship in China: Business Standards in China’, www.amnestyusa.org/business/standards.html.

58 ‘Response to Business and Human Rights Resource Centre Regarding Amnesty International Item: “Fighting for Human Rights in Cyberspace”’, 16 May 2006; www.reports-and-materials.org/Microsoft-response-re-Amnesty-action-on-China-censorship-16-May-2006.doc.

A TIGHTENING WEB?

Second Quarter 2006

ever, it does not reflect the emphasis on unbridled free markets and freely associating individuals which typified the early dot.commers. While dot.com investors remain supportive of business co-operation with, and facilitation of, government curbs on human rights, the positive promise of the internet may be broken.

THE CORPORATE RESPONSIBILITY MOVEMENT

Five Years of Global Corporate Social Responsibility Analysis from Lifeworth 2001-2005.

By Jem Bendell, and research colleagues

Corporate social responsibility is now an established agenda for large companies, with a new profession emerging that engages in the social and environmental contribution of business. How has this agenda emerged over time? What were the key events and actors? How has this new 'movement' of committed individuals been taking shape around the globe?

Insights into these questions come from a review of the first half of the 'Noughties' decade. Published in 2008 as a hard copy, "The Corporate Responsibility Movement" compiles Lifeworth's Annual Reviews of Corporate Responsibility from 2001 to 2005. Introduced with a brief overview by the lead author of those reviews, Dr Jem Bendell, an Associate Professor of Management with Griffith Business School, and Visiting Fellow of the UN Research Institute for Social Development and the International Centre for Corporate Social Responsibility at the University of Nottingham. It is a useful resource for business libraries, recording some of the key events and issues during this historic period in the development of the corporation.

The Lifeworth Reviews have provided "some of the most insightful commentary on emerging trends in the field... identifying implications for the future of business in society."

Hannah Jones, Vice President of Corporate Responsibility, Nike.

"Transforming capitalism to a system that enables prosperity in harmony with each other and the planet is the greatest challenge of our time... The stories and analysis in this Review will hopefully encourage us all to engage with this task..."

Jules Peck, Director, Quality of Life Group.

"The Review raises the challenge of how CSR can move from being mainly constituted by one-off causes and activities to more systematically addressing social threats and opportunities. Readers can expect to be informed, stimulated and challenged."

Professor Jeremy Moon, Director, International Centre for Corporate Social Responsibility, University of Nottingham.

Over 350 pages, 85 Euros plus P&P.
Available from March 2008
Order from <http://stores.lulu.com/lifeworth>

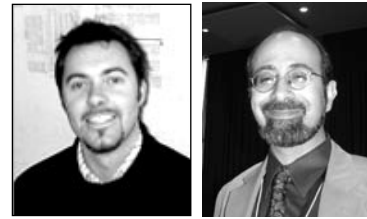
Hard copies of annual reviews from subsequent years are also available, including:

Tipping Frames: Lifeworth Annual of Corporate Responsibility 2006
(Bendell et al, 2007). 65 Euros plus P&P.

The Global Step Change: Lifeworth Annual of Corporate Responsibility 2007
(Bendell et al, 2008). 65 Euros plus P&P.

WHO'S LEADING HU?

Third Quarter 2006



By Jem Bendell and Jonathan Cohen

Will endemic corruption, increasing wealth gaps, and the immense scale of environmental and health degradation from China's industrial revolution, lead to increased social unrest and an even greater media crackdown? Or will the waking economic giant leapfrog mistakes made during the West's industrial revolution? And, in answering this conundrum, will corporate citizenship play a role?¹

Some think so. In August a 'China CSR Map' was launched, 'to promote CSR in China through a centralized platform for the dissemination of information on organizations with CSR activities there'. Although considerable discussion and activities around CSR exist in China, it is often difficult to find concrete information on which organisations are undertaking what activities. In addition to business, it involves academic institutions, service providers, media and online resource providers. To further accessibility, it is bilingual. China CSR Map is a collaboration between Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), SynTao and Transtech.²

Corporate citizenship appears to be relevant to Chinese companies and society for three main reasons: the influence of Western markets; the global aspirations of some Chinese companies; and the so-called development trajectory.

First, there is Western market influence. The social and environmental concerns of Western companies have been influencing construction, manufacturing and human resource practices in China, albeit to a limited and questionable extent. Even Japanese companies and those from other

non-Western countries are now requesting environmental improvements from suppliers in China. Thus, to compete in certain export markets, Chinese companies will need to pay attention to how these markets adopt and practise greater responsibility. Doing so will facilitate China's navigation through the rough seas of global competition.

Recent signs indicate potential strains on future growth, partly fuelled by global trade. China has been posting an average annual gross domestic product (GDP) growth rate of 9.4% for the past 26 years, following Deng Xiaoping's Four Modernisations economic reforms.³ But China's ranking in the World Economic Forum's Global Competitiveness Index (GCI) fell to 54 in 2006 from 48 a year ago. 'The most worrisome development is a marked drop in the quality of the institutional environment,' the report said. The culprit: the 'steep fall'—from 60 to 80—in how the Chinese institutions fared in the 2006 ranking. These institutions, spanning both public and private, had poor results in all the Index's 15 institutional indicators.⁴ GCI measures the set of institutions, policies and factors that set the sustainable current and medium-term levels of economic prosperity.

As if sensing the need for change, on 25 September 2006 Chen Liangyu, a top Chinese Communist Party official in Shanghai, was booted out of the party's top leadership council, the Politburo. Mr Chen was 'the most senior official to be sacked' in a

1 www.lifeworth.com/2005review/q2.1.html

2 www.chinacsrmap.org/E_index.asp

3 UNDP China Human Development Report 2005; www.undp.org.cn/modules.php?op=modload&name=News&file=article&catid=13&topic=40&sid=236&mode=thread&order=0&thold=0.

4 'Switzerland, Finland and Sweden take the lead in the rankings of the World Economic Forum's Global Competitiveness Index, but US drops', World Economic Forum; www.weforum.org/en/media/Latest%20Press%20Releases/GCRpressrelease06.

WHO'S LEADING HU?

Third Quarter 2006

decade, or since incumbent President Hu Jintao became party secretary in 2002. The government launched an investigation that centred on the misuse of at least one-third of the 10 billion yuan (\$1.2 billion) pension fund to make illegal loans and investments in real estate and other infrastructure deals.⁵ Coincidentally, on the day of Mr Chen's downfall, China's auditor-in-chief disclosed that 'an unnamed company defrauded \$140 million from Chinese banks and spent nearly \$40 million on bribes'.⁶

To comply with international norms and to increase their competitiveness on the world stage, Worldwatch, an NGO, suggested this: 'Chinese private enterprises would be wise to integrate CSR from the beginning.'⁷ The global aspirations of some



Chinese companies are a second reason why corporate citizenship is relevant to China. Chinese premiere **Hu Jintao** himself highlighted the goal of having a prominent role in global markets worthy of a great power. The Lenovo purchase of IBM and attempted takeover of

Unocal by the China National Offshore Oil Company (CNOOC) is setting a trend that, according to Jack Zhai, head of global corporate finance at Deutsche Bank in Beijing, 'will continue'.⁸ Besides mere ambitions, Chinese companies are expanding abroad

because of market realities: constant price-cutting at home makes entry to foreign markets vital. Thin margins abroad make up for even thinner margins at home.⁹

But will going global mean going ethical? If Chinese companies seek to become global players or own global brands, they will need to pay more attention to the values and aspirations of producers and consumers in their target countries, especially those in the West. According to AccountAbility CEO **Simon Zadek**: 'Going global means being more responsible. We



may just be on the cusp of an accountability revolution in Chinese business, or at least that part that needs to be credible in international markets, as they seek to move up the chain towards the high-value-added opportunities that come with control of global brands.'¹⁰

But, if Chinese companies target countries where consumer demands for responsibility are not as strong as in the West, there lies the problem. Recent Chinese foreign direct investment and foreign acquisitions have been in Asia¹¹ and Africa. In both continents, the general concept of CSR among local players is still largely equated to philanthropy. These countries, including its neighboring economic power Japan, have embraced the trade opportunities with China whose robust growth and growing prosperity has enabled them to diversify their export markets and become less reliant on exports to the US. The stalling of the world trade talks has even led to a faster proliferation of bilateral and regional free-

5 'Top China leader fired for graft', BBC News; news.bbc.co.uk/2/hi/asia-pacific/5376858.stm.

6 Minxin Pei, 'The Tide of Corruption Threatening China's Prosperity', Financial Times, 27 September 2006; www.carnegieendowment.org/publications/index.cfm?fa=view&id=18734&prog=zch.

7 Zijun Li, 'Lack of Corporate Social Responsibility behind Recent China Accidents', Worldwatch, 12 December 2005; www.worldwatch.org/node/3859.

8 Simon Zadek, 'China's Route to Business Responsibility', openDemocracy, 30 November 2005; www.opendemocracy.net/democracy-china/china_business_3076.jsp.

9 Tom Miller, 'Working Up the Value Chain', Asia Times Online, 23 November 2006; www.atimes.com/atimes/China_Business/HK23Cb01.html.

10 Zadek, op. cit.

11 Daniel H. Rosen, 'China and the Changing Economic Geography of Asia: Trends in Trade and Investment Flows, Examples and Observations on Implications', July 2005; www.aei.org/docLib/20050721_Rosen.pdf.

trade agreements.¹²

This has made NGO campaigners increasingly concerned about Beijing's model of 'international development', as exemplified by the country's relationship with Angola.¹³ In 2004, Angola's government, battered by a long civil war, was negotiating a new loan with the International Monetary Fund (IMF) for its reconstruction. The IMF, aware of Angola's long history of corruption and poor governance since independence from Portuguese colonial rule in 1975, was keen to include measures to cut corruption and tighten the country's economic management. To the IMF official's surprise, the Angola government suddenly broke off negotiations. The Angolans had received a counter-proposal from China's export-credit agency, Exim Bank: a \$2 billion loan that came with minimal rates of interest, a generous payback period, and none of the IMF's 'conditionalities'. The government in Luanda chose China's offer.

Unlike many Western companies, Chinese companies with global ambitions already serve important markets, including its own domestic market of more than a billion Chinese and where margins are squeezed to their limits. Adopting expensive above-compliance strategies on social and environmental issues have made them wary of becoming uncompetitive at home and in other markets they currently serve. Just as some factories have different labour codes for different production lines in the same factory, depending on which brand the production line is for, global Chinese companies might seek to align the CSR credentials of particular products with the markets being served, rather than raise their standards globally. Oddly, this might provide new impetus for ethical labelling within those sec-

tors that have been resistant to it until now. The impact on how companies do their business in China, however, might be limited to the size of the ethical market in the West.

The third reason why corporate responsibility may be relevant to China is because of its development trajectory. If the (questionable) assumption that the West has established a development trajectory that China is following and modelling, then just as the voluntary responsibilities of business towards society and the environment have grown in the West, then the same can be expected in China. Yet this assertion is based on many assumptions about the limited role of government to actually deliver changes in corporate practice through regulation, as well as the ability of a vibrant civil society to push for changes not demanded by government. On both counts, the situation appears quite different. The interventionist approach of the Chinese government could lead to significant rapid developments in regulations and investment for a sustainability transition; yet at the same time the same philosophy does not leave much scope for civil-society activism that could drive voluntary corporate action.

China imposed broad new restrictions on 10 September 2006 on the distribution of foreign news in the country, beefing up state regulations on the news media. Under new rules that were said to take effect immediately, the state-run New China News Agency said it would become the de facto gatekeeper for foreign news reports, photographs and graphics entering China. To

“*Will the waking economic giant leapfrog mistakes made during the West's industrial revolution? What role will corporate citizenship play?*”

“

12 Shobhana Chandra and Matthew Benjamin, 'Global trade no longer hostage to US consumers', *bilaterals.org*, 27 September 2006; www.bilaterals.org/article.php3?id_article=6079.

13 Ben Schiller, 'The China Model', *openDemocracy*, 20 December 2005; www.opendemocracy.net/democracy-china/china_development_3136.jsp.

sensor content that endangers 'national security', the agency announced its new role and rule in its own dispatch. As chronicled by a New York Times article, 'President Hu Jintao has intensified a crackdown on all kinds of news media in recent months, arresting and harassing journalists, tightening regulation of Web sites and online forums, hiring tens of thousands of people to screen and block Web content deemed offensive and firing editors of state-run publications that resist official controls.'¹⁴

Yet it is exactly such discourse and information flow that is essential for corporate responsibility. Western-based companies such as News International and Yahoo! have been criticised for agreeing to restrictive media regulations in order to access the Chinese market. These defy the basics of corporate responsibility, like social auditing, which requires active participation and ownership of standard setting, monitoring, verification and corrective action implementation by independent representatives of the workers themselves. Without change in the social and legal context in China, it will be difficult for companies to responsibly source from China.¹⁵

Still, the words of Chinese business leaders should be taken into account as a guide to indigenous driving forces for CSR versus Western models. Wu Mao, Chief Economist of the Shougang Steel Group, one of the top five steel companies in China, said, 'CSR will not be promoted in China by 'lecturing' or 'teaching'. Rather, foreign companies and NGOs should share their experiences in order to promote CSR in a Chinese way.'¹⁶

Similarly, Chen Ying, Deputy Director of the China Enterprise Confederation (CEC), is on record as saying that corporates and foreign NGOs have demanded too much on too many issues in China. 'Rather than telling China what to do, they should let the Chinese government, companies and social organisations develop their own ideas. CEC plans to provide training to encourage more Chinese enterprises to take up CSR practices and join the Global Compact.'¹⁷

“

***CSR will not
be promoted***

**in China by 'lecturing' or
'teaching'. Rather, foreign
companies and NGOs should
share their experiences in
order to promote CSR in a
Chinese way.'**

”

14 www.nytimes.com/2006/09/11/world/asia/11china.html

15 Lifeworth Annual Review 2005.

16 CSR Asia Weekly, Vol. 1 Week 49 (7 December 2005): p. 7; www.csr-asia.com/upload/csrasiaweeklyvol-1week49.pdf.

17 Ibid.

DEATH OF A GREEN SALESMAN

By Jem Bendell and Jonathan Cohen

Third Quarter 2006

BP and Wal-mart have moved to the opposite ends of the corporate citizenship spectrum. Wal-Mart has attracted NGOs into its orbit, as exemplified by the NGO Environmental Defense relocating its project manager to Bentonville, Arkansas, home of the giant retailer's headquarters. The environmental group has set up shop in the company's 'back yard' to work on green initiatives.¹⁸ Wal-Mart also hired former critic and Sierra Club president Adam Werbach to teach company floor employees how to consume less in their everyday lives, eat healthy food, and buy compact fluorescent light bulbs. Indeed, the so-called 'greening' of Wal-Mart has so profoundly changed the company's reputation that a prominent activist NGO decided not to campaign against Wal-Mart because they no longer make an attractive target.¹⁹

Meanwhile, BP, a heretofore CSR leader, has drawn the scorn of public opinion over a widespread series of awful gaffes. Its record includes the following:

September 2005

The US Occupational Safety and Health Administration fined BP Products North America more than \$21 million following an explosion at its Texas City plant that claimed the lives of 15 workers and injured more than 170 others.²⁰

March 2006

BP's Exploration Alaska subsidiary spilled more than 200,000 gallons of crude oil near

Prudhoe Bay, the largest North Slope spill ever.²¹

April 2006

US Labor Department fined BP \$2.4 million for safety violations at its Ohio refinery.²²

June 2006

The US Commodity Futures Trading Commission brings charges of price fixing.²³

August 2006

BP shuts down the largest oil field in the United States, Prudhoe Bay, and its 400,000 barrels a day of production, due to poor maintenance.²⁴

September 2006

BP executives get excoriated by elected officials and apologise during an appearance before a Congressional Committee hearing under oath, with one taking the 5th Amendment against self-incrimination.²⁵

How much rope does a company with a historically acclaimed record on corporate responsibility receive when they make mistakes? Specifically, how much leeway does BP get for its atrocious recent record because of its groundbreaking role as the first oil company to publicly acknowledge the existence of global warming and the role of fossil fuels as a cause?

18 'Green group moving into Wal-Mart's backyard', 12 July 2006; msnbc.msn.com/id/13828326/ from/ET.

19 Conversation with the author, August 2006.

20 US Department of Labor Occupational Safety and Health Administration, 'OSHA fines BP Products North America more than \$21 million following Texas City explosion', 22 September 2005; www.osha.gov/pls/oshaweb/owadisp.show_document?p_table=NEWS_RELEASES&p_id=11589.

21 Daren Fonda, 'Is BP really that green?', Time, 29 June 2006; www.time.com/time/business/article/0,8599,1209454,00.html.

22 Ibid.

23 Ibid.

24 Steven Mufson, 'Pipeline closure sends oil higher', Washington Post, 8 August 2006; www.washingtonpost.com/wp-dyn/content/article/2006/08/07/AR2006080700131.html.

25 Steven Mufson, 'BP executives rebuked in Hill appearance', Washington Post, 8 September 2006; www.washingtonpost.com/wp-dyn/content/article/2006/09/07/AR2006090700524.html?sub=AR.

DEATH OF A GREEN SALESMAN

Third Quarter 2006

BP has come a long way from the days in the run-up to the 1997 Kyoto Climate Change Conference. This was the first multi-stakeholder event organised by the UN Association of USA NGO programme, together with business, the Clinton–Gore administration, and the United Nations. The US had not taken a leadership role at that point, but BP was out in front, having publicly abandoned the Global Climate Coalition, a group of influential oil companies campaigning against the validity of climate change. During the question-and-answer session that followed the presentations a radical-left NGO representative commented, ‘I never thought I would say this, but BP’s position is more progressive than the US government’s.’ How BP will regain that faith over time will make it a test case of how companies who started well, but faltered, can finish the race victoriously.

REFRAMING FINANCE

By Jem Bendell and Jonathan Cohen

Third Quarter 2006

At the end of August near Zurich, Switzerland, institutional investors, asset managers and listed companies gathered at the Swiss Re Centre for Global Dialogue to share thoughts on how to promote more long-term approaches to financial performance.²⁶ The speeches generally emphasised the challenge that short-termism in financial markets is not helpful for companies wanting to plan for long-term value creation, incorporating attention to value arising from sustainability. However, the dialogue did not progress far in identifying mechanisms for promoting long-term approaches, especially those that might be significant enough to turn the tide of short-termism that has been filled in recent years by the growth of short-selling techniques by hedge funds. The challenge was summed up well by David Russell, speaking to the Financial Times (FT): 'The investment process in the last 20 years has generally gravitated towards shorter term and relative returns. Pension funds have long-term liabilities to manage.' The senior adviser on responsible investment at the Universities Superannuation Scheme did not mince words, adding, 'We can no longer rely on short-term relative investment processes when we have liabilities stretching out for decades.'²⁷

A number of initiatives seek to address this challenge. The Marathon Club is a group of investors looking at ways to encourage investment for the long term.²⁸ In August, it released a summary of investors' responses to its discussion paper on how to promote long-term long-only investing. 'There is wide recognition that a long term approach requires a more comprehensive

and in depth understanding of investment issues by trustees, prompting some respondents to suggest the need to develop appropriate governance structures and define further the scope of trustee education.'²⁹ Trustee awareness was identified as a key lever for change.

The importance of two other initiatives, previewed in the World Review of JCC 19, began to be recognised in 2006. Reporting on environmental, social and governance (ESG) issues grew as a result of the the Enhanced Analytics Initiative (EAI), which commits its members, which include BNP Paribas, USS, Investec and Hermes, to spend 5% of their brokerage fees with firms that focus on extra-financial indicators.

In July, the FT reported on the significance of the new UN Principles for Responsible Investment (UNPRI). These principles are backed by investors responsible for more than \$4 trillion-worth of assets, or about 10% of global capital. UNPRI also commit signatories to integrate ESG, or extra-financial, issues into conventional investment analysis; to become active, responsible owners by promoting good corporate practice in these areas; and to report transparently on what actions have been taken in this area. The initiative promises to generate a global impact for the Global Compact, which is where it's now located within the UN system. **Paul Clements-Hunt** of the United Nations Environment Programme Finance Initiative (UNEP-FI),



26 www.sustainability-zurich.org

27 Mike Scott, 'Investors start to appreciate the value of a long-term view', Financial Times, 9 May 2006.

28 www.marathonclub.co.uk

29 'Marathon club reports on industry response to long term, long only investing consultation paper', press release, 2 August 2006.

which conceived the UNPRI, told the FT that ‘the signatories know they have to show that PRI will change things. It shows the investment community that these issues are mainstream.’³⁰

What is noteworthy about these principles is they recognise that ESG issues have an effect on the long-term performance of companies. ‘For the best part of 25 years, these factors have been a niche part of SRI [socially responsible investing],’ said Marc Fox, a member of the ESG Research team at Goldman Sachs. As ESG issues enter the mainstream of investing, there has been a subtle change in terminology, reflected in the articles and press releases. No longer referred to as ‘non-financial’ issues, ESGs are now described as ‘extra-financial’, to highlight both their materiality and their additionality to the norm. Thus the conceptual frames of finance and investment might be moving towards the whole-systems theory of value and valuation that was described in JCC 19.

the diagnosis of systemic contradictions into proposals for specific changes in rules and norms to incentivise different practices from finance professionals is the central challenge.

“

Short-termism

in financial markets is not helpful for companies wanting to plan for long-term value creation, incorporating attention to value arising from sustainability. A number of initiatives seek to address this challenge.

“

But what of the practical implications? How does one create a truly long-term mandate? Emma Howard Boyd, Head of Socially Responsible Investment at Jupiter Asset Management, put forward a suggestion: ‘You have to look at other ways of incentivising fund managers.’³¹ Translating

30 Scott, op. cit.

31 Ibid.

NGO'S AREN'T GOD, AEI REPORTS

By Jem Bendell and Jonathan Cohen

Third Quarter 2006

Not everyone was happy about the trends toward reframing finance in 2006. Certainly not a scholar at the American Enterprise Institute (AEI), Adam Lerrick, who in August wrote in the FT that 'vigilante non-governmental organisations have become the de facto regulators of the flow of finance to the developing world.'³² His argument is that NGO influence on Western banks is making it more costly for entrepreneurs in emerging markets to access capital. Claims such as 'not a single dollar of multilateral funds is disbursed without NGO blessing' or that there is a 'fiat by self-anointed regulators from rich nations' make governing private finance seem so extreme and far from the truth that the argument could be ignored.

But three key issues arise. First, that financial institutions (FIs) need to demonstrate how their approach to extra-financial issues can be as much about innovating new financing for sustainable development in the Global South as it is about risk management. Hence, the work of initiatives such as New Ventures and Vantage Point are key.³³ Second, that NGOs need to be clear about how their engagement with FIs is a means of enabling economic democracy, and ensure they give voice to and are more accountable to Southern constituencies. Third, that professionals in NGOs and FIs need to develop a moral counter-frame to the one put forward by organisations such as the AEI. Phrases such as 'NGO blessing' and 'self-anointed regulators' play to the framing that George Lakoff describes as 'Strict Father God', whereby people are rewarded through success in a free market governed by electoral representative 'democracy':

working hard for yourself, and doing what you are told.³⁴ Consequently, this framing suggests people should not develop their own ideas about rights and wrongs or seek non-governmental means to pursue them. AEI is saying to us, implicitly, that NGOs are playing God, and because they are only human are clearly getting it wrong. What might an alternative moral frame be? Perhaps that a Spirit, a God or a deeply natural quality is working through us when we take responsibility for the situations of others as well as ourselves. Imagine new ways of pursuing that. A 'Shared Spirit' frame, perhaps?

32 Adam Lerrick, 'Good Intentions at the Expense of the Poor', Financial Times, 1 August 2006.

33 www.new-ventures.org and www.vantagep.org

34 George Lakoff, Don't Think of an Elephant. Know Your Values and Frame the Debate: The Essential Guide for Progressives (White River Junction, VT: Chelsea Green, 2004).

TRANSPARENCY MATTERS

By Jem Bendell and Jonathan Cohen

Third Quarter 2006

August saw the conclusion of the consultation period of the European Commission's Green Paper on the European Transparency Initiative. The consultation engaged stakeholders on aspects of transparency in the European Union, such as lobbying and disclosure of data about the recipients of various EU countries.³⁵ **Siim Kallas**,



vice president of the European Commission, said that self-imposed, voluntary codes do not go far enough, particularly given their impact on legislation.³⁶ Kallas did not spare NGOs from his criticism,

decrying the fact that over €2 billion per year are channelled through them, with little attention paid to how the funds are spent.³⁷ The Alliance for Lobbying Transparency and Ethics Regulation, a coalition of 80 NGOs, has welcomed the transparency initiative. At the same time, some NGOs, such as Friends of the Earth Europe, whose largest donor is the EU, claimed that 'the attention on NGOs is simply a distraction from the much more pressing issue of corporate accountability.'³⁸

If the sincerest form of flattery is imitation, then NGOs should be honoured by business front groups that trade on the NGO credibility of grass-roots organisations (which is why they have been dubbed 'Astroturf organisations', as in fake grass). One example can be found populating editorials in papers such as the New York Daily News,

with headlines such as 'Deep-Fried Hysteria' on 29 September 2006 concerning governmental efforts to reduce obesity. There were also full-page newspaper ads, such as 'Hype', which warned readers that they have 'been force-fed a steady diet of obesity myths by the "food police," trial lawyers, and even our own government.'³⁹ The sponsor, the Center for Consumer Freedom, is a 'nonprofit organization dedicated to protecting consumer choices and promoting common sense'. The group was founded about 12 years ago with tobacco-company and restaurant money to fight smoking curbs in restaurants. The Center and its ads are the brainchild of a Washington lobbyist for the restaurant industry.⁴⁰

Given the growing use of non-profit organisations as vehicles for lobbying and advocacy by vested interests, the issue of how progressive organisations can define themselves and protect their reputations and role grows ever more important.

35 ec.europa.eu/comm/eti/index.htm

36 EurActiv, 7 November 2006; www.euractiv.com.

37 Washington Times, 3 August 2006; www.washingtontimes.com.

38 EurActiv, 27 October 2006; www.euractiv.com.

39 www.nydailynews.com

40 Richard Berman, 'Deep-Fried Hysteria', Center for Consumer Freedom, 29 September 2006; www.consumerfreedom.com/oped_detail.cfm/oped/407.

CONSUMING TRUTHS

By Jem Bendell and Jonathan Cohen

Third Quarter 2006

As 2006 progressed it became clear that the challenge of climate change was once again rising in public consciousness in many parts of the world. The success of the film *An Inconvenient Truth* highlighted wide public curiosity and concern as to what is happening to our weather.⁴¹ The climate challenge is a consumption challenge: to promote human well-being while reducing the overall demand for carbon fuels, either directly or as embodied in the various products and services we use.

The international policy agenda on sustainable consumption (SC) continues to be touted as one of the most important out there, but real action remains lacking. The UNEP/UN DESA process, the so-called Marrakesh process, continues to have high-level meetings on SC—for example, a high-level meeting in Istanbul in August and a roundtable in Mumbai in September. But action and enthusiasm are lacking in these meetings. Governments have not set aside budgets for this, there are no international performance targets, top-level ministers are not routinely involved, and there is no formal mechanism for reporting at the international level. In fact, the Marrakesh process was not itself mandated at the Johannesburg Summit on sustainable development, and is just an aspect of what was mandated—a vaguely conceived ‘Ten Year Framework of Programmes’. At the time of writing, close to the halfway point of the ten-year framework of programmes, the international policy process has yielded not much more than a few ‘task forces’—small government-funded committees, focusing on aspects of the sustainable consumption challenge, but not guaranteed to find anything new. Overall, there is hardly much enthusiasm to act proactively.



In light of this apparent impasse, a new EU-funded project SCORE (Sustainable Consumption Research Exchange), brainchild of Dutch engineer **Arnold Tukker**, was developed.⁴²

Hosted by and in collaboration with the newly minted UNEP Collaborating Centre on Sustainable Consumption and Production (CSCP) in Wuppertal, Germany, SCORE is aiming to provide a needed injection of urgency on the sustainable consumption agenda. A key task will be to help policy-makers, business and the public understand how sustainable consumption need not be a negative cost-raising fun-reducing burden, but can be a positive, opportunities-laden pathway to sustainable development.

Previously the UNEP Consumption Opportunities report sought to frame sustainable consumption in these terms.⁴³ It emphasised that most action on sustainable consumption has focused on impact reduction, involving pollution reduction, conservation of single stocks of resources, and preservation of ecosystems and species. Although important, the UNEP report emphasised that with the growing burden of consumption levels worldwide such impact reduction is not sufficient, and actual demand reduction is required. It pointed out this did not mean a reduction in human utility, but a reduction in the actual resource

41 www.climatecrisis.net

42 www.score-network.org and www.scp-centre.org

43 J. Manoochehri, Consumption Opportunities. Strategies for Change: A Report for Decision-makers (Geneva: UNEP, 2001; www.sustainableconsumption.net/co_op.pdf).

through-flow of economies. Rather than put the emphasis on the consumer, as so many are prone to do, UNEP recognised that 'systemic demand' needs reduction, which means considering industry resource wastage and the lack of service solutions to provide for human needs. Thus it argued for more efficient consumption, involving fewer resources for the same product, increasingly different consumption, involving switching to ways of meeting human need through services not products, and conscious consumption, which implies collective efforts to promote wider consideration of whether our consumption of certain resource-intensive products actually delivers significant well-being anyway.

“
More responsible products-as-usual
 will not be sufficient for future success. The 'dematerialisation' and optimisation of consumption patterns will be key.

“

As awareness of the environmental imperative grows, the challenge will be for businesses to find ways of succeeding within economies that must reduce their resource through-flow. More responsible products-as-usual will not be sufficient for future success. The 'dematerialisation' and optimisation of consumption patterns will be key.

Arnold Tukker of SCORE is among the leading experts who have joined the editorial board of the new Consumption Opportunities Project, which will promote the UNEP sustainable consumption framework described above.⁴⁴ The author of this original Consumption Opportunities framework, John Manooch, told JCC that:

the Marrakesh process has given us a stadium, and the governmental mandates, weak as they are, provide a partial audience. Maybe Consumption Opportunities can clarify what games are actually being played, and what the winning stakes are, and networks like SCORE can provide both coaching and even produce star players. But it remains a question of whether governments and business actually do take up the opportunities on offer, whether they really want to play.

The game may really begin if the consumption challenge can be framed in terms of creating pathways for social development that are sufficiently resource-light to be possible for a majority of the world's population over the long term, rather than the minority of a few generations of middle-to upper-class consumers.

TAMING THE MESSENGER

By Jem Bendell and Jonathan Cohen

Third Quarter 2006

Media's critical role in defining corporate responsibility as one that extends beyond the borders of a Western company's headquarters has long been enshrined since the exposition of sweatshop operations among Asian manufacturers contracted by major brands. Besides garments and sport shoes, the same concept has seeped through other industries, such as diamonds, mining and forest products, among others.

While sweatshop stories have become a dime a dozen, in August the big news was the story of Asia's largest electronics contract manufacturer, Taiwan-based Hong Hai Precision Industry Co., which sued mainland Chinese journalists for allegedly 'damaging its reputation'.⁴⁵ It came with a different twist: the suit took the heat off the manufacturer and its clients, which include global brands Apple, Hewlett-Packard, Dell, Sony and Nokia. Apple's famous iPod was touted as another sweatshop icon.⁴⁶

Bringing journalists to court is a civic right of corporations, but it is also considered as part of corporate manoeuvrings to divert attention or to harass messengers of bad news. In this case, the 'messengers' involved a writer and editor of Shanghai-based newspaper, China Business News, which published in June a story about substandard working conditions and low pay in the factory of Foxconn, a subsidiary of Hong Hai in mainland China. To be sure, Apple sent auditors to the factory and found that, other than occasional breaching of Apple's acceptable Code of Conduct limit of 60 hours and one day off per week, especially dur-

ing peak production periods, the sweatshop claims were unfounded. Hong Hai went on to slap the journalists—not the publication, as is usually the case—with a RMB30 million (approximately £2 million) libel suit that led to the freezing of the journalists' assets. The strategy backfired as progressive Chinese media made this a case of 'press freedom' versus the big bad corporation. Eventually, Hong Hai withdrew the lawsuit.⁴⁷

Elsewhere in Asia, media organisations continue to bear the brunt when there are stories about corporate and political wrongdoings. And, since political economy continues to rule the landscape where the media organisations operate, cases of harassment abound. For example, the Philippines in South-East Asia has been touted as the 'second most dangerous country to be a journalist', next only to Iraq.⁴⁸ About 47 local journalists have been killed since 2001,⁴⁹ most of them based in provinces where thin-skinned political and business leaders still believe retribution against unfriendly press remains under the national radar. After reporting on the military's role in an election fraud, editors of Newsbreak magazine, an independent local publication, were sent a funeral wreath and shadowed on their way home, while their office phones were bugged.⁵⁰ Advertisers also withdrew their support for fear of political retribution to their

45 'Journalists sued over iPod story', China Economic Net, 29 August 2006; en.ce.cn/Business/Enterprise/200608/29/t20060829_8338445.shtml.

46 'iPod City: Inside Apple's iPod factories', Appleinsider, 12 June 2006; www.appleinsider.com/article.php?id=1799.

47 'Taiwan firm drops China iPod libel case', Reuters, 3 September 2006; www.boston.com/business/technology/articles/2006/09/03/taiwan_firm_drops_china_ipod_libel_case.

48 'Amnesty International alarmed over Philippine killings', South China Morning Post, 26 July 2006; www.asiamedia.ucla.edu/article.asp?parentid=49849.

49 Press Release, International Federation of Journalists, 11 December 2006.

50 Raissa Robles, 'Arroyo under new media challenge', South China Morning Post, 18 November 2006; www.asiamedia.ucla.edu/article.asp?parentid=57997.

local business operations.⁵¹

“
*If media
watchdogs
in Asia
were limited*

in their ability to hold their government and, in the same breath, the corporations that operate in these countries, accountable for their actions, how can Asians appreciate the bigger goal of corporate citizenship?”

“

The foreign press, supposedly unaffected by economic and political limitations of their local counterparts, is expected to provide the big and unadulterated picture. But the experience of Far Eastern Economic Review (FEER), an affiliate of Dow Jones focusing on current events in South-East Asia and China, has been instructive. In its July/August issue, it published an interview with Chee Soon Juan, an opposition leader and vocal government critic.⁵² Slighted, top-government officials reinstated a media code that requires foreign media companies to set up local office in Singapore, which could be sued whenever it publishes articles unfavourable to local leaders. For not kowtowing, FEER was banned in Singapore starting September.

The real context of the ban, according to sources of Reuters and Agence France-Press, is the timing of the FEER

story.⁵³ In September, Singapore was set to host the annual meeting of the International Monetary Fund (IMF) and World Bank (WB). Singapore's officials did not want anyone 'making embarrassing noises' as the 16,000 delegates from all over the world flocked to Singapore.⁵⁴ Interestingly, the World Bank has been a staunch believer of an independent media as a factor in economic development.⁵⁵

While Singapore's Ministry of Information stated confidently that Singapore 'will remain a good investment location ... [since it] offers a stable, pro-business environment, and a safe, secure and vibrant place for foreigners to live, work and play', Mark Mobius, fund manager of Templeton's US\$20 billion fund invested in emerging economies, affirmed that investors 'valued a free press in countries where they put their money'.⁵⁶

If these watchdogs in Asia were limited in their ability to hold their government and, in the same breath, the corporations that operate in these countries, accountable for their actions, how can Asians appreciate the bigger goal of corporate citizenship?

This was raised by journalists who attended Newsbreak's seminar on 'Covering Corporate Social Responsibility' held last September in Subic Bay, the Philippines. According to **Lala**



53 Sara Webb, 'Singapore's media controls jar with regional aims', Reuters, 30 August 2006; www.singapore-window.org/sw06/060830R1.HTM; and 'Singapore tightens rules on some foreign media', Yahoo! News, 4 August 2006; sg.news.yahoo.com/060804/1/42kk9.html.

54 Quote from Roby Alampay, executive director of the Bangkok-based watchdog Southeast Asian Press Alliance; sg.news.yahoo.com/060804/1/42kk9.html.

55 World Bank, *Free and Independent Media Empower the Poor and Spur Development* (Washington, DC: World Bank, 2002).

56 Webb, op. cit.

51 Discussions with Newsbreak editors.

52 www.feer.com/articles1/2006/sing_banning/free/index.html

Rimando, business editor of Newsbreak, 'It was a good opportunity to share how media should report on and criticize the companies' design and implementation of their social responsibility programs. But are the companies actually ready to walk their talk and address accountability issues on how they run their core businesses?' Exhibit one: When a tanker carrying bunker fuel owned by Petron Corporation, an oil company owned by the Philippine and Saudi Arabia governments, sank near a marine sanctuary in central Philippines, Petron initially shunned accountability for the economic costs of the oil spill although it readily provided a litany of its good works in various poor communities.⁵⁷ Judging by the September conference of Asian Forum, the biggest gathering of corporate social responsibility advocates in Asia, most Asian companies are still at the level of community philanthropy projects.⁵⁸

These dynamics—press freedom and the practice of corporate responsibility—are crucial not only in how Asians draft their future, but also in how the West asserts its influence in Asia. After all, China, the region's biggest and most influential economy, has been growing its trading and political stake in the region in recent years.⁵⁹ So, while Western countries assert their influence in China, they might as well also consider those to whom China turns as alternative economic partners.

57 'Petron slips', Newsbreak, 25 September 2006; www.newsbreak.com.ph/newsbreak/story.asp?ID=699.

58 CSR Asia Weekly Vol. 2 Week 39; www.csr-asia.com/upload/csrasiaweeklyvol2week39.pdf.

59 'Beijing keen to unlock ASEAN investment doors', Asia Times Online, 2 November 2006; www.atimes.com/atimes/China_Business/HK02Cb01.html.

TARGET CHANGE!

As we become aware of the scale and urgency of social and environmental challenges so more of us are adopting specific targets for corporate performance on key issues.

An emphasis on purpose, performance and the pace of change is what distinguishes progressive executives from the usual discussions, glossy reports and charity involved in much corporate social responsibility (CSR) work today.

For corporations, responsible enterprise starts by targeting change.

Launching soon, ResponsibleEnterprise.com is the place to keep up to date with new corporate targets for change.

You will be able to register the targets adopted by your organization, or one you know about, on this directory.

Get Involved...

* to be included, email details of your social and environmental targets to enquiries at [lifeworth.com](mailto:enquiries@lifeworth.com)

* stay up to date with the latest target announcements by joining Lifeworth's bulletin (visit www.lifeworth.com)

"Responsible enterprise describes innovative commercial activity that actively considers its social and environmental effects; it helps resolve social problems or promote sustainable development but the foremost purpose is commercial." - The Lifeworth Annual Review of Corporate Responsibility 2007.

www.responsibleenterprise.com

CAPITALISM'S RISING STAR



By Jem Bendell and Lala Rimando

Fourth Quarter 2006

The red-hot Chinese economy may remain the darling of global investors, but neighboring Vietnam has been increasingly creeping into the spotlight. Its smaller economy and population may not rival the giant neighbor to its north, but Vietnam's rate of growth and openness to Western standards of doing business are making it an attractive destination for foreign direct investment.

These came to light when Vietnam hosted the annual Asia-Pacific Economic Cooperation (APEC) summit in November. Vietnam staged the event like it was its own coming out party. Long considered one of the less relevant economies in the Southeast Asian block, the late-bloomer country welcomed dignitaries to Hanoi with freshly built or repaved roads, and even some porcelain-tiled streets, all leading to the spanking new US\$250 million National Convention Center.¹

Never mind the costs; the two-year-in-the-making facelift project achieved the desired effect as the analysts and media organizations covering the event churned out cover stories or special features hailing Vietnam as the new hot investment destination. Since then, Vietnam has been increasingly in the global news, a fact not lost in the country. Vietnam Chamber of Commerce and Industry president Dr. Vu Tien Loc noted in December that Vietnam has had the most number of mentions on the world media in 2006, the same year that 10 percent of the Fortune Top 500 companies arrived in Vietnam. "Never has Vietnam been the destination of as many great groups, business communities and international investors as

this year," he said.²

Vietnam's attraction to foreign investors is its incredible economic growth. Since 2000, gross domestic product (GDP) growth averaged seven percent. Its 2005 increase of 8.4 percent positioned it as Asia's second fastest growing economy, eclipsed only by China's 10 percent. Thanks to the booming economy, the reported poverty rate in the past decade has shrunk from 61 percent to only 19 percent, a feat not even China can match.³ And investors have flocked to the bourse, boosting the Ho Chi Minh Stock Index by a whopping 109 percent in 2006, making Vietnam's equity market one of the ten top performing exchanges in the world.⁴ Credit Suisse vice chairman for Asia, Jose Isidro Camacho, summed it up when he told Fortune Magazine, "Vietnam has arrived."⁵

“
*Where exactly
Vietnam*

has arrived at, and where it's going, is the focus of much of this quarters' world review.

“

1 Karl D John, The new Vietnam welcomes the world, Asia Times Online, Nov 16, 2006 http://www.atimes.com/atimes/Southeast_Asia/HK16Ae02.html

2 Extracts from the presentation of Dr. Vu Tien Loc, President of Vietnam Chamber of Commerce and Industry, A Glimpse of Business Environment of Vietnam in 2006, Dec 20, 2006 http://vibforum.vcci.com.vn/news_detail.asp?news_id=8533

3 Clay Chandler, Vietnam is Surging Ahead, Fortune Magazine, Dec 11, 2006 http://money.cnn.com/magazines/fortune/fortune_archive/2006/12/11/8395481/index.htm

4 William Pesek, Booms, Busts and Bombs That Colored Asia's 2006, Bloomberg, Dec 18, 2006 <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aHPTluJX3nMc>

5 Quote from Vietnam Vroooooom..., Fortune, Nov 13, 2006, http://money.cnn.com/magazines/fortune/fortune_archive/2006/12/11/8395481/index.htm

CAPITALISM'S RISING STAR

Fourth Quarter 2006

Where exactly Vietnam has arrived at, and where it's going, is the focus of much of this quarters' world review. In 2006 the country came to be regarded as capitalisms newest Rising Star, and as such it symbolizes the changes and challenges that will paint the backdrop to the future sagas of corporate citizenship. We explore why the country's economy has boomed, some of the positive social as well as economic implications of its opening up to foreign influence, the dangers of unequal forms of privatisation and sky rocketing stock markets, before placing this economic and social change in the context of the country's natural environment, and the future sustainability of its development trajectory.

UNDERSTANDING THE BOOM

By Jem Bendell and Lala Rimando

Fourth Quarter 2006

Foreign investors started taking a second look at Vietnam since its leaders heeded efforts of former US president Bill Clinton, who visited in 2000 to normalize relations with the former enemy. In 2000, Vietnam signed a bilateral trade agreement with the US and launched the stock market. Thereafter, it introduced new laws simplifying requirements for registering companies and creating a level playing field for both local and foreign players.⁶ The timing was perfect. It emerged as the regional destination of choice for Western and Japanese investors aiming to hedge their exposure to China.

As China continues to gobble up about US\$72 billion in foreign direct investments (making it the largest 'developing' country recipient of FDI),⁷ foreign investors lured by Asia's low labour costs have realized that as political winds change in China, they need to spread their business risks. Vietnam has become the first choice for Japanese firms operating in China that want to spread their investment exposure to another country. The Japanese firms doing

“
*Foreign
investors*

lured by Asia's low labour costs have realized that as political winds change in China, they need to spread their business risks.

“

business in Vietnam include such giants as Toyota Motor, Sony, Canon and Honda.

Vietnam's labour is cheaper than its neighbours and even China. Shortages in available factory hands in some regions of China have been driving up costs to the point that a factory worker in the Mainland can earn up to five times the US\$50 per month that Vietnamese workers in foreign-owned factories receive.⁸ In addition, land is cheaper, with the most expensive land for factories fetching about half of what they do in China's priciest areas, and shipping from industrial capital Ho Chi Minh City is cheaper than from Thailand or Indonesia.⁹

Nevertheless there is the potential for economic culture clash. The experience of Dutch bank ABN Amro, which has a branch in Hanoi, was revealing. In November, it entered into a US\$4.5 million settlement to end a dispute over a transaction with a local state-owned bank (and, not incidentally, get four staff members out of jail). In its suit, the state-owned Incombank had blamed the four ABN Amro traders for the losses it incurred when they executed speculative foreign currency trades on behalf of an Incombank employee who was later found to be unauthorized to enter into such deals. Causing losses to a state enterprise is a serious criminal offence in Vietnam,¹⁰ and the arrests of the four traders has sent a chill through other foreign banks operating in the country, raising concerns about the risks of dealing with state financial institutions and

6 Freshfields Bruckhaus Deringer, Briefing on Vietnam new investment law, March 2006 http://www.altassets.com/pdfs/freshfields_vietnam_14675.pdf

7 <http://www.unctad.org/Templates/Webflyer.asp?docID=7456&intItemID=3971&lang=1>

8 Karl D John, Japan smitten by Vietnam, Asia Times Online, June 15, 2006 <http://www.atimes.com/atimes/Japan/HF15Dh01.html>

9 Frederik Balfour, Good Morning, Vietnam, Businessweek, March 13, 2006 (http://www.businessweek.com/magazine/content/06_11/b3975068.htm)

10 Bill Heyton, ABN Amro makes Vietnam settlement, BBC News, Nov 27, 2006, <http://news.bbc.co.uk/2/hi/business/6188646.stm>

UNDERSTANDING THE BOOM

Fourth Quarter 2006

other state agencies. Compounding the risks is the fact that foreign exchange trading – a routine transaction elsewhere – is not yet governed by international-consistent standards in Vietnam.

COMPETITIVE OPENNESS?

By Jem Bendell and Lala Rimando

Fourth Quarter 2006

As far as low-cost and low-value labour is concerned, studies have shown that Vietnam is better at attracting socially conscious investments than China because of the latter's reported frequent violations of labour standards. This is a risk that footwear industry experts have cited in explaining why international footwear companies operating in China would look for alternative production sites.¹¹ Vietnam's apparently stronger labour rights regime – born of its union independence and assertiveness – positions it well in this contest.¹²

With six percent the population of China's, Vietnam is more dependent on the outside world, both politically and economically. Therefore, Vietnamese leaders are more likely to be sensitive to prevailing international labour rights norms than the Chinese. Worker's rights issues were one of the contentious items on Vietnam's quest for a WTO membership. But, with the issue cleared, Vietnam's accession to the trade body is expected by some to facilitate trade and capital flows, further pushing its competitiveness.

According to a US Congress-commissioned 2002 report, the strong anti-sweatshop movement, plus Vietnam's quest to clinch the good graces of the US as it was working for WTO accreditation, pushed the government and the trade unions to engage in dialogues on meeting international norms for labour.¹³ In the process, Vietnam's labour

standards were upgraded, an unusual example of a potential contradiction to the tendency of developing countries to participate in a race to the bottom of social and environmental standards.

In fact, according to the report, the Vietnamese government and trade union openly urged their factories to apply for SA8000, a certification of labour standards recognized by Western clients. The Chinese Government, on the other hand, has always considered any reference to its labour standards as outside intervention in its internal affairs. Since criticisms of labour standards are subsumed under criticisms of human rights violations, the Chinese Government has been sensitive to and adamant against any mention of this issue.¹⁴

For a variety of structural and historical reasons, the Vietnamese Communist Party has not taken on the authoritarian shape of its Chinese counterpart. China's leaders are more sensitive to permitting union independence since it had to deal with the socially challenging and regime-threatening experiences like the Tiananmen protest movement in 1989. Assertiveness among China's union groups has been squelched as part of the government's crackdown against the protests.¹⁵

However, although Vietnamese unions and labourers possess greater freedoms to advocate for workers and express grievances than their Chinese counterparts, still like in China, most rights and freedoms stem not from the law, but from the discretion of the Communist Party. In other words, labour freedoms and rights in Vietnam are still vulnerable to changes in state policy.

11 Corporate Social Responsibility in Vietnam: The athletic shoe industry and labor issues, a proposed project in 2003 to be administered by a World Bank team, which includes Nigel Twose, Amy Luinstra,, Ziba Cranmer

12 Mark Manyin, Vietnam's Labor Rights Regime: An Assessment, for the US Congress, updated March 14, 2002, http://digital.library.unt.edu/govdocs/crs//data/2002/upl-meta-crs-3540/RL30896_2002Mar14.pdf?PHPSESSID=25a9753dad36b5962c9469f7043f2d8e

13 Ibid

14 Ibid

15 Ibid

COMPETITIVE OPENNESS?

Fourth Quarter 2006

That is not lost to the likes of US electronics giant, Intel, which still was not deterred from taking the plunge. In fact, in November, as the US House of Representatives prepared to vote on granting Vietnam permanent normal trade relations, the final step in normalizing relations between the two countries, Intel seemingly made a statement in support of Vietnam by announcing it would increase its investments in the building of a chip assembly and testing plant in Ho Chi Minh City from US\$300 million to more than US\$1 billion. The deal, which will employ some 4,000 workers, represents the biggest ever US-led project,¹⁶ and was a huge and timely vote of confidence for Vietnam's long-term potential. A little more than a month later, Vietnam finally clinched its WTO membership in January 2007, the culmination of a 12-year process.

“
Vietnam is
more dependent on
the outside world,
both politically
and economically.

”

Having conducted business in such Asian countries as Malaysia and the Philippines, Intel hired a Vietnamese country manager, Phu Than, to assist in dealing with the government. In an interview with Fortune Magazine, Than shared the strategy on how Intel won over the officials by offering scholarships, training 30,000 public school teachers, and worked in close coordination with the Communist Party in testing software for its e-governance program. “It made coordination easier,” Than told Fortune.¹⁷ While these are charged against budgets for the

company's philanthropic projects, Intel is not reinventing the wheel. Microsoft made similar efforts when it was making inroads in China in the early 1990s, long before other multinationals were able to set up shop in the mainland.¹⁸

While it can be argued that these are mutually beneficial—the government gets the free training, software, other freebies; Intel gets the tax incentives, the permits, easy access to the bureaucrats—these highlight the fact that transnational companies, with all their resources and experiences, will also help train Vietnam's bureaucracy, which is still adjusting to the rhythm and discipline of a market-based economy. Whether the policies that emerge from this close engagement, on issues such as intellectual property protection, taxation, regulation, and development priorities, are in the citizens' longer term interests is open to debate. Weaknesses in civil society, political parties and other aspects of governance mean that that this debate may not be as open and balanced as one might hope for, especially in light of environmental concerns, which we return to below.

16 Amy Kazmin, Vietnam boosted by Intel's \$1bn plan for plant, Financial Times, Nov 13, 2006 <http://search.ft.com/ftArticle?queryText=vietnam+apec&y=0&aje=true&x=0&id=061113000089>

17 Clay Chandler, How Intel got Inside Vietnam, Fortune Magazine, Nov 13, 2006

18 Robert Buderer and Gregory Huang, Guanxi, the art of relationships, (Microsoft, China, and Bill Gates's Plan to Win the Road Ahead), Simon & Schuster, 2006

AVOIDING OLIGARCHY?

By Jem Bendell and Lala Rimando

Fourth Quarter 2006

At the very least, investors in hard assets, are in for a long haul. Vietnam's booming economy, however, is also attracting portfolio investors to its young stock and bond markets. Among those actively investing are foreign managed funds, like the Vietnam Opportunity Fund, a US\$560 million closed-end fund listed on the London Stock Exchange, and the Dublin-listed US\$200 million-worth Vietnam Growth Fund. We do not know of any funds considered as Socially Responsible Investments that have descended on the Vietnamese stock exchange.

The local equity market entered the radar of most international investors when Spencer White, the chief regional strategist for Merrill Lynch, wrote a report in February that became the oft-quoted confirmation of the growth prospects of the listed local companies. White described Vietnam as "a 10-year buy," and urged his readers to "buy equity exposure now, for your fund, for yourself, or for your children."¹⁹

There are fears that these markets are rising for an eventual fall. Investor enthusiasm has pushed total market capitalization of the 106 listed shares to US\$9.2 billion, which considering a base of only US\$510 million a year earlier, translates to a whopping 1,665 percent increase. The number of listed companies grew from 30 to 106, of which 49 new listings were transacted in December alone.²⁰ There has been limited information on earnings for these new listings which used to belong wholly to the state.

¹⁹ Financial Times (2006) Investors increasingly enthusiastic for Vietnam's growth story, May 3rd <http://search.ft.com/ftArticle?queryText=vietnam&y=0&aje=true&x=0&id=060503000559&page=15>

²⁰ Amy Kazmin, In Beijing's footsteps, Financial Times, Jan 7, 2006 <http://search.ft.com/ftArticle?sortBy=gadatearticle&queryText=vietnam&y=0&aje=true&x=0&id=070107002226&page=14>

For years, these companies were under no obligation to publish nor ever had the discipline for financial information disclosure. No wonder buyers of their stock had few ways to gauge company performance or whether an investment was sound. Although some websites track the prices of popular stocks, reliable market data is nonexistent. In other words, there is no certainty that the current prices are fair. Local investors, majority of them neophytes, depend mostly on gossip and hope that what goes up will continue to go up.²¹

Underlying this stock market boom has been the sale of state assets, since 2000. As many as 3,600 state-owned companies have been partially privatized. Company shares were sold to employees, managers, and the public who then sold them either on-line or directly to families and friends. Rapid privatisation in Russia led to a 'grab what you can' culture and the generation of a new class of billionaire oligarchs that moved money out of the country with damaging impacts on the nations economy and employment. The social dislocation and injustices that followed needs to be recalled when we reflect on the current changes in Vietnam. Will the country manage its transition in a more socially just manner?

The answer may lie in the shifting values of modern Vietnam. The country is not just changing economically; it is also changing socially, with traditionally conservative attitudes gradually breaking down. As a booming economy creates more middle class, these people would eventually demand greater freedoms. And the youth—those aged 25 and below, who account for half of the population—enjoy the spoils of economic freedom are, for the time being,

²¹ <http://english.vietnamnet.vn/biz/2006/12/646427/>

AVOIDING OLIGARCHY?

Fourth Quarter 2006

not questioning the reign and rule of the Communist Party. As things are changing very fast in Vietnam, the Communist Party would have to continuously demonstrate that it could answer the questions to be posed by an increasingly capitalist society.

“
*How willing
the leaders are*

to go beyond mere lip service will be tested as foreign investors and the growing middle class push for aspects of good governance.

”

The current officials who had lived through the wars and the hardships that followed tend to adopt the “strict father” model of George Lakoff,²² which refers to the tendency to discipline “kids” or build a controlled mechanism in order to mold them to become self-reliant and obedient adults. This could be gleaned from how freedoms of speech, association, religion and the media are all still sharply curtailed.²³

But technology, specially the internet, has provided a venue for those who want to wiggle out of these controls and explore freedoms that those in a “nurturing parent” system²⁴ would typically enjoy. At some point, the ruling Communist Party will face a choice about whether the best way to deal with them is to pursue greater openness or ever-tighter control.

The underground movement of bloggers and citizen journalists known as Free Journalists Association of Vietnam (FJAV)

has started to assert independence by gathering and disseminating news which they publish on their website. These are the stories that would be typically censored by the government, which remains a one-party state and typically does not tolerate opposing views. Every single publication in Vietnam, whether it is a newspaper or a magazine about interior design or golf, has to be registered with a Communist party organisation. Predictably, many of the FJAV activists have been interrogated and detained.²⁵

However, in a surprising effort to reach out to the techno-savvy citizens, in December former deputy prime minister, Vu Khoan, hosted the—and engaged in an—on-line chat to discuss expectations as far as Vietnam’s accession to the WTO is concerned. It wasn’t exactly exciting since it was not a live chat. All questions had been screened and sent beforehand, plus the discussions stayed on safe political ground.²⁶ Nonetheless, the fact that it happened at all shows that Vietnam’s communist rulers are trying to demonstrate that they are listening to the people.

How willing or prepared the leaders are to go beyond mere lip service will be further tested as foreign investors and the growing middle class, we may hope, continue to push for aspects of good governance, such as transparency and accountability, both in public and private arena.

22 George Lakoff, *Don’t Think of an Elephant. Know Your Values and Frame the Debate: The Essential Guide for Progressives*, Chelsea Green, 2004

23 Shawn Crispin, *In capitalist Vietnam, it’s ‘repression as usual,’ Asia Times Online*, July 6, 2007, http://www.atimes.com/atimes/Southeast_Asia/HG06Ae03.html

24 George Lakoff, *Don’t Think of an Elephant. Know Your Values and Frame the Debate: The Essential Guide for Progressives*, Chelsea Green, 2004

25 Shawn W Crispin, *In capitalist Vietnam, it’s ‘repression as usual,’ Asia Times Online*, July 6, 2006 http://www.atimes.com/atimes/Southeast_Asia/HG06Ae03.html

26 Ibid

A RACE TO WHERE?

By Jem Bendell and Lala Rimando

Fourth Quarter 2006

If Vietnam is following fast in the footsteps of China, then it could usefully take a breath of its increasingly polluted air, and assess where exactly it is racing towards. The drop in poverty is impressive, and illustrates some success of the current developments. Yet, how lasting is that trend and does it reveal enough about peoples' situation? The quality of life of the 300,000 people now living in slums of Ho Chi Minh city alone, with poor access to sanitation, clean air and water, might earn wages that rank them higher than the rural areas they left, but at what cost to their health and wellbeing? Too often the consumption demands and investment decisions of Westerners and urban-elites in Asia pressure people to abandon their communities and so the move to urban-living can not be assumed as an expression of free will.

The World Bank reports that Vietnam's environment is under considerable stress from rapid economic growth, urbanization and rising human pressure on relatively scarce natural resources. "While it has gradually improved its environmental regulatory framework, Vietnam has very limited capacity for implementation. Therefore, future rapid economic growth (an expected doubling of GDP in the next 10 years) and substantial investments in infrastructure may significantly threaten the environmental sustainability of the country's development."²⁷ The bank reports on signs of such threats emerging, such as declining rates of catch per unit of effort in the fisheries sector, with aquaculture activities having caused a substantial decline in mangroves and wetlands crucial for spawning fish. Drought is now becoming a concern in Vietnam: by the end of 2006, levels in major rivers like Serepok and Krong Ana had fallen by 30 percent in

comparison to the previous year.²⁸ Nguyen Khac Hieu, a senior official with Vietnam's Ministry of Natural Resources and the Environment, has commented that Vietnam could be badly hit by climate change and sea-level rise.²⁹ For the Vietnam environment—and consequently the Vietnamese people—the foreign dollars pouring into the country may be more destructive in the long run than the chemical bombs dropped during its war with the United States.

“
If Vietnam
is following fast in the footsteps of China, then it could usefully take a breath of its increasingly polluted air, and assess where exactly it is racing towards.”

27 Vietnam Environment, World Bank, <http://web.worldbank.org>, Accessed Dec 30th 2006.

28 <http://www.thanhniennews.com/society/?catid=3&newsid=25690>

29 <http://www.thanhniennews.com/society/?catid=3&newsid=25006>

A DIFFERENT PATH?

Fourth Quarter 2006

By Jem Bendell and Lala Rimando

With global consumption levels five times what they were just 50 years ago, the natural world is buckling under the weight of demand. The impact tolls of all these are clear: climate chaos, ecosystem stress, soil loss and degradation, ground water depletion, and toxics accumulation are some headlines. The global scientific consensus on climate change proves beyond doubt that there are limits to what our atmosphere can take, and what changes to our atmosphere that our nature, agriculture, water supplies and cities can withstand.³⁰ The UK Government Review on the economic impacts predicted a 20 percent reduction in Global GDP, which is equivalent to two world wars combined.³¹ Already, people are losing their lives and livelihoods due to climate change.³²

Many may applaud the social benefits of Vietnam's economic growth. But should the advancement of the economically poor in that country depend on putting others in danger, say the Bangladeshis and others living in low-lying or water-stressed areas? Pollution and inefficient consumption is everyone's problem and responsibility. Over half a billion middle class Asians are consuming significant and growing amounts of resources with negative impacts on their own rural and urban environments as well as abroad. For example, the Indian middle class have higher carbon lifestyles than the UK average. As Kalpana Sharma wrote in a leader article in the Hindu Newspaper in November: "The argument against putting any

pressure on countries like India and China at the moment is that they were not responsible for the problem [of global climate change], so they should not be bound to slow down or change the pattern of growth. While 15 years ago this argument had some validity, today we need to re-examine it."³³

In addition, the article reflected on the local impacts of current development paths and economic growth. "Our current pattern of development is already making the air in our cities unfit to breathe. Our water sources are polluted, our fields are laden with chemicals that travel through the food chain into our bodies, and our forests, the lungs of this country, are disappearing faster than any effort to plant more trees. Is there any point in rapid economic growth if people have to drink, eat, and breathe poisons? In the long run we damage not just the global environment but ourselves too."

The world physically has neither enough resources (particularly energy) nor sinks (particularly the atmosphere) to support or allow resource-heavy consumerist lifestyles for the majority. Consequently the type of 'development' being pursued in Vietnam and elsewhere will neither last nor be possible for everyone. This means that resource-heavy development paths are actually elitist, and certainly not socialist. Recognising this turns the existing cognitive frame of environmental concern on its head: finding a different path to societal development that is environmentally sustainable is a pro-poor and egalitarian concern, not a mere preoccupation of the rich with post-materialist interests.

The implication is that countries in

30 2007 Report of the UN Intergovernmental Panel on Climate Change: <http://www.ipcc.ch/>

31 Stern Review on the Economics of Climate Change, 2007, http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm

32 World Health Organisation Climate Change Programme: <http://www.who.int/globalchange/climate/en/>

33 Should we care about global warming? Kalpana Sharma, 28 November, 2006, The Hindu, <http://www.hindu.com/2006/11/28/stories/2006112803331000.htm>

both North and South could consider a different development path. Rather than seeing the environment as something to consider after economic growth is booming, the Hindu newspaper recognised the importance of setting out in the right direction from the start. “Logic would suggest that it is better to start the process now rather than wait until it is too late. The country’s economy need not suffer if there are fewer fossil fuel burning cars on the road and better public transport. The economy need not be affected if we use building techniques for our growing cities that are less energy intensive rather than following the Western pattern of glass-fronted high rises that require a huge amount of electricity to keep cool or warm as the case may be. And our energy requirements can be met if we work harder to minimise transmission losses, introduce energy saving at every level, and promote non-polluting forms of energy generation.”

“
*Finding a
different path*

to societal development that is environmentally sustainable is a pro-poor and egalitarian concern, not a mere preoccupation of the rich with post-materialist interests.

“

The challenge is to find and promote resource-light forms of development. With the right leadership, development need not depend on risks such as cheap oil, inequalities such as poor pay and conditions, and the disruption of rural communities’ livelihoods. Money can be made through sustainable business. In December, the Delhi School of Economics in the University of Delhi launched the report “Indian Companies in the 21st Century: An Opportunity for Innovation that can Save the Planet.”³⁴

Rajesh Sehgal, Senior Law & Policy Officer at WWF-India, explained to the JCC that this WWF report “examines the scope for Indian companies to become leading exporters of and investors in sustainable goods and services, whilst emerging as key actors in promoting a proactive international sustainable development agenda.”

The implications for corporate citizenship are that companies and investors need to assess how they are helping or hindering the right frameworks and incentives for innovation and delivery of the business models needed in a resource-constrained future. Rather than doing business as usual, with some social and environmental improvements, the scale, urgency and depth of the sustainability challenge requires companies to engage with other actors in society to promote governance for sustainability. If this happens, then the neo-corporatist arrangements in countries like Vietnam may, paradoxically, be beneficial in the change process. Otherwise they will merely compound the problems. If so, rather than capitalism’s rising star, Vietnam could be capitalism’s supernova, a commercial stellar explosion producing an extremely luminous cloud that briefly out-shines its entire host galaxy before fading from view. Those countries committed to more sustainable and equitable forms of development may not twinkle so bright, yet will maintain their light.

34 http://www.wfindia.org/about_wwf/what_we_do/cel/trade/newpusb.cfm

MODERN DAY SLAVERY

By Jem Bendell and Lala Rimando

Fourth Quarter 2006

What Global Witness is to conflict diamonds,³⁵ Bloomberg Markets is to modern-day slavery: both publish investigative stories, with Global Witness specializing on resource-linked conflicts and corruption in trade systems, Bloomberg Markets featuring people who, and issues that, move financial markets. Also, they both share a record in tackling such uncomfortable issues as conflict diamonds and modern slavery.

While both topics have long been understood within non-governmental organization (NGO) circles, they have for the most part remained outside of the public's cognizance. That ignorance will possibly be a thing of the past for conflict diamonds, which has begun to enjoy mainstream comprehension thanks to the 2006 blockbuster movie, "Blood Diamond." For most of the world's people, however, the concept of slavery is thought of as extinct, an unfortunate institution that faded into non-existence with Abraham Lincoln's Gettysburg Address.

That is not to say the media has ignored the issue. Such respected organs as *The New Yorker*³⁶ in the US, *The Guardian*³⁷ and *BBC*³⁸ in the UK, and *Frontline*³⁹ in India have all run special reports documenting stories of individuals forced into working

conditions so substandard – and so limiting as regards the worker's ability to leave – that the title "slavery" was appropriate. However, none of these stories generated the level of public outrage one might have expected, in part because the reports depicted incidents that had no connection with most readers' lives.

What made the cover story of Bloomberg Markets's December issue⁴⁰ (a follow up to a breaking story of affiliate, Bloomberg News, in November) notably different was that it identified the global, Western-based brands that benefit from this form of labour. Authors Michael Smith and David Voreacos included comments from multinational companies—such as automakers Ford Motor Co., General Motors Corp., Nissan Motor Co. and Toyota Motor Corp., appliance maker Whirlpool Corp., and sink and bath maker Kohler Co.—after establishing through interviews and documents that raw materials for their manufacturing operations in the United States could be traced to suppliers that employed slave labour in Brazil.

By highlighting the nature of these firms' supply chains, Bloomberg influenced them to adopt a more rigorous approach. Most of them eventually accepted responsibility for ensuring that their business processes are not tainted by slavery of any form, at any level of their supply chains. In other words, the articles triggered a successful mobilization of market power, which previous awareness campaigns, such as books, special reports, brochures, educational or training programmes, were unable to achieve.

35 Combating Conflict Diamonds, Global Witness, http://www.globalwitness.org/pages/en/conflict_diamonds.html

36 John Bowe, NOBODIES: Does slavery exist in America?, *The New Yorker*, April 21, 2003, <http://www.sfalliance.org/media/New-Yorker-4-03.pdf>

37 Felicity Lawrence, Migrants in bonded labour trap, *The Guardian*, March 29, 2004, <http://www.guardian.co.uk/immigration/story/0,,1422657,00.html>

38 In depth: Slavery in the 21st Century, *BBC*, 6 June 2006, http://news.bbc.co.uk/2/hi/in_depth/world/slavery/default.stm

39 Harsh Mander, In bonded servitude, *Frontline*, January 18-23, 2003, <http://www.hinduonnet.com/fline/fl2002/stories/20030131006710600.htm>

40 Michael Smith and David Voreacos, The Secret World of Modern Slavery, Bloomberg Markets, Dec 2006, http://www.bloomberg.com/news/marketsmag/modern_slavery1.html

MODERN DAY SLAVERY

Fourth Quarter 2006

The fact that a financial magazine, which is dedicated to issues that affect stakeholders in the global financial markets, took interest in dealing with the topic of slavery is a testament to how human rights issues – if effectively publicised – can impact a company's bottom line. It's also a reminder that disregarding Corporate Social Responsibility (CSR) concerns will be detrimental not only to a company's reputation, but also to its financial health.

In the Bloomberg Markets report, the journalists joined labour inspectors as they raided some of the 1,000 charcoal-making camps in Brazil's Amazon basin to investigate reports of men, women, and children being exploited to aid in the production of charcoal for companies that manufacture pig iron, a key ingredient in steel-making.

The story graphically showed workers living in squalid shacks without electricity and plumbing, drinking unsanitary water and receiving no pay. Most of the workers were recruited from poverty-stricken provinces many miles and forests away and desperate to find work. The story presented damning evidence (supported by Brazilian inspectors and customs documents) that the charcoal originating from these camps was routinely purchased by brokers for sale to steelmakers and foundries, whose semi-refined product was then purchased by some of the world's largest companies that manufacture cars, tractors, sinks and refrigerators for U.S. consumption.

To Kevin Bales, president of the Washington-based NGO Free the Slaves argues "companies have an absolute obligation to understand what's in their supply chain and review it from a moral and a human standpoint". Bales, who is also a sociology professor at London's Roehampton University, challenged corporations to step up to their responsibility of ensuring the source of products they buy and sell is not tainted by slavery. He added: "Slavery is theft of life. It's just about the most profound loss of human dignity that you can have,

short of murder."⁴¹

The UN's International Labour Organization (ILO) defines slavery or forced labour as work performed involuntarily under threat of penalty, with scarce or no compensation.⁴² ILO adds that the practice occurs when "people are subjected to psychological and/or physical coercion (the menace of penalty) in order to perform some work or service which they would otherwise not have accepted, or not have accepted at the prevailing conditions (the involuntariness)."

It notes that human trafficking is the process by which people end up in slavery. It is defined by the United Nations Convention against Transnational Organized Crime as "the recruitment, transportation, transfer, harbouring or receipt of persons" by such means as threat, use of force or coercion, abduction, fraud, deception, etc., "for the purpose of exploitation"⁴³

ILO stresses that modern slavery thrives because it is lucrative. ILO estimates that global profits made from forced labourers exploited by private enterprises or agents reach US\$44.3 billion every year, of which US\$31.6 billion are made from trafficked victims. Everyone profits, except for the slave, of which there are estimated to be over 12 million people. These include at least 360,000 in industrialised countries, of whom at least 270,000 have been trafficked into forced labour. Approximately 43 percent of these are trafficked into sexual exploitation, 32 percent into labour exploitation and about 25 percent for a mix of sexual and la-

41 Michael Smith and David Voreacos, *The Secret World of Modern Slavery*, Bloomberg Markets, Dec 2006, http://www.bloomberg.com/news/marketsmag/modern_slavery1.html

42 Forced Labour and Human Trafficking, *Estimating the Profits*, International Labour Office, Geneva, March 2005, http://www.ilo.org/dyn/declaris/DECLARATIONWEB.DOWNLOAD_BLOB?Var_DocumentID=5059

43 http://www.unodc.org/unodc/trafficking_convention.html

bour reasons.⁴⁴

Most are enslaved under a system of debt bondage, as was the case of the slaves in the Brazilian charcoal camps. Lured by recruiters and then hired by camp owners promising steady-paying jobs, they found themselves trapped in a cycle of working off their debts from exorbitantly priced basics like tools, soap, and food bought at company stores. Many go months without pay or see their wages whittled to nothing from the cost of even work-related items such as tools, boots and gloves. Lack of money, an impenetrable jungle and a long distance to travel to safety made it impossible for the slaves to leave.⁴⁵

As soon as the Bloomberg News story broke in November, those who are involved in the supply chain started to redeem themselves, obviously fearful of backlash. The car companies, in particular, almost immediately drew on their purchasing power to prod their first-tier suppliers to force all downstream vendors to avoid forced labour. The most concrete response was the move by General Motors, Ford, DaimlerChrysler and Honda to join together under the Automotive Industry Action Group to train their suppliers in how to avoid buying slave-made materials. The car association engaged Business for Social Responsibility, a San Francisco-

based organization that promotes good corporate practices, to develop the training programme which is set to commence by the second quarter of 2007. Toyota, however, decided not to join the training programme because it believes it can better resolve forced labour issues on its own. Its decision led some to question the car manufacturer's high-profile campaign for environmental innovation through its hybrid cars.⁴⁶

One of those that voiced concern about Toyota's perceived inaction was the Interfaith Center. Representing US\$700 million in investments it campaigns for improved social and environmental standards. By publicly questioning Toyota's decision, it joined groups with financial products, such as pension and mutual funds, to assert their stake in the issue.

Ideally, the fight to rid the planet of slavery, would focus global attention not only on the car showroom or the financial markets, but on the broader contexts that create the potential for slavery. The key ingredient to a slave-driven business is poverty. With over a billion people scraping by on a dollar a day, poverty breeds and feeds the supply of low-cost labourers. This is especially true in developing countries whose economies are export-dependent and have industries that are still at the mercy of Western retailers who place more value on pricing than on instituting ethics and human rights practices. Unfortunately, even in cases where governments and the private sector is responsible, corruption can undo the positives. It matters if laws are in place but enforcers turn a blind eye or are taking bribes.

That is why policymakers, NGOs, and other stakeholders in both the developing and industrialised worlds have an important role to play. They must develop strategies that address the economic, cultural and social conditions, which include illiteracy,

“*The cover story*”

of Bloomberg Markets in December identified the global, Western-based brands—such as Ford, General Motors, Nissan, Toyota, Whirlpool and Kohler Co.—that benefit from slavery.

“

44 Forced Labour and Human Trafficking, Estimating the Profits, International Labour Office, Geneva, March 2005, http://www.ilo.org/dyn/declaris/DECLARATIONWEB.DOWNLOAD_BLOB?Var_DocumentID=5059

45 Michael Smith and David Voreacos, The Secret World of Modern Slavery, Bloomberg Markets, Dec 2006, http://www.bloomberg.com/news/marketsmag/modern_slavery1.html

46 David Voreacos and Michael Smith, Automakers Pledge Joint Effort With Suppliers to Fight Slavery, Dec 11, 2006, <http://www.bloomberg.com/apps/news?pid=20601086&sid=aqs8kA0Qrpzw>

MODERN DAY SLAVERY

Fourth Quarter 2006

powerlessness, inadequate governance, and the lack of economic alternatives that allow individuals to be enslaved. There are mechanisms already in place that can aid this process. For instance, the certification systems enacted for the diamond, forestry, garments, footwear, and coffee industries, among others, can play a role. Some are still works in progress, but they are all striving to address the problem.

Two hundred years ago, the trading of slaves was banned by the US and UK, ending a barbaric chapter of those countries' histories. Now, as awareness is raised in our collective consciousness that slavery has persisted and evolved, no excuse can be made for not taking all necessary steps to stamp it out for good.



Nottingham University
Business School

2008 NET IMPACT EUROPE CONFERENCE

SUSTAINABLE PROSPERITY – TAKING ON THE GLOBAL CHALLENGE

June 12-14 in **Geneva, Switzerland**, at the **Centre International de Conférences Genève (CICG)**

Hosted by HEC Geneve International Organizations MBA, INSEAD and Nottingham University Business School.

SUSTAINABLE PROSPERITY – TAKING ON THE GLOBAL CHALLENGE

How can we tackle the global challenge of sustainability? This June, over **500 international graduate business students and professionals** will have the opportunity to discuss potential answers to this question. The inaugural 2008 Net Impact Europe Conference will address how local, national, and international businesses and organizations can effectively address 21st century globalization, innovation, and leadership.

The conference is comprised of **keynote speakers, panel discussions, networking opportunities, a Career Expo**, and much more. Our curriculum features sessions on current trends, models of success and innovation in the sustainable business world.

The annual Net Impact Conference in North America is the world's largest event of its kind, and has established itself as an important forum for business and non-profit leaders to network and learn from each other. Past keynote speakers include **CEOs of companies** such as Starbucks, DuPont, Timberland and Patagonia, **nonprofit leaders** of organizations like Accion, the Children's Defense Fund, and Big Brothers Big Sisters, and **civic leaders** such as the Honorable Al Gore.

INTERESTED IN SPEAKING? RECRUITING? SPONSORING? ATTENDING?

Contact **Catarina Soares**, Net Impact's European Director, for more details: csoares@netimpact.org, or **+351 966 777 573**.

HOW ARE BUSINESSES AND ORGANIZATIONS TAKING ON THIS CHALLENGE?

Some topics that will be discussed include: innovative business models, sustainable design, public/private partnerships, changing careers, engaging stakeholders, sustainable supply chains, responsible investment, measuring results.

THEME: Sustainable Prosperity: Taking on the Global Challenge

LOCATION: Geneva, Switzerland, at the Centre International de Conférences Genève (CICG)

DATE: June 12-14

AUDIENCE: over 500 (MBA students, MBA graduates, professionals, academia) from around the world

More information coming soon at www.netimpact.org



Net Impact is an international nonprofit organization with a growing network of MBA students, graduate students, and professionals who use business to improve the world. We offer a portfolio of programs to educate, equip, and inspire more than 10,000 members to make a tangible difference in their universities, organizations, and communities. Visit www.netimpact.org.