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Global Corporate Social Responsibility Challenges

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Abstract

Fifty years ago, led by Albert Einstein and Bertrand Russell, eleven of the world's most eminent scientists issued the Russell-Einstein Manifesto. We have to learn to think in a new way. Over the years, the Nobel Committee has broadened its definition of peacemakers to include those involved in reducing the probability that conflicts ever occur in the first place. The Committee has expanded its list of Peace Prize recipients, by adding people and organizations involved in creating and maintaining the preconditions for peace. These preconditions include promoting ecologically sustainable development that supports a flourishing natural environment, and eliminating poverty and extreme inequities in income distribution.

Introduction

In recent decades, the Nobel Committee has made human rights a central element of the definition of peace. There were many warnings against such a broadening of the concept of peace. Today there are few things peace researchers and other scholars are as passionate about as Corporate global citizenship. Most people would probably agree that there are connections between peace, on the one hand and on the other an environment in which scarce resources such as oil, water, minerals or timber are quarreled over. The relationships between inadequate and inequitably distributed resources and conflicts are powerful, direct, and devastating in their consequences. However, who would deny that inequitable distribution, locally and internationally, is relevant in this connection? Within a few decades, when researchers will have developed more

comprehensive analyses of many of the World's conflicts, the relation between the environment, resources, and conflict may seem almost as obvious as the connection we see today between human rights, democracy and peace.

1. Challenges for the future

The Nobel Committee concluded its 2004 Peace Prize presentation by emphasizing the need for cooperation; the need for all parties to learn how to cooperate with each other on a global basis. Eventually, in order to meet environmental problems, there will have to be international cooperation across all national boundaries on a much larger scale than we have seen up to now. We live on the same globe. We must all cooperate to meet the world's environmental challenges. Considering the global experience and structures needed for such international cooperation, one is struck by the more extensive and integrated global experience of most multinational corporations as compared with the discrete, geographically defined experience of most countries and governments. In considering which organizations should be involved in delivering global solutions to global problems, it is incumbent on the world community to more seriously consider the potential contributions of all sectors, including the private sector.

Health, poverty reduction, equitable income distribution, democracy, human rights and environmental sustainability are preconditions for peace, but they are not the only preconditions. Experts are also adding health, poverty reduction and a more equitable income distribution to the list of necessary conditions for global security and sustainability. Such globally interconnected patterns are

fundamentally changing leaders' appreciation of what matters in the world, even from the perspective of the world's wealthiest peoples and nations.

Several countries, including the United States, now recognize that improving international levels of health is neither solely a domestic health issue nor an act of charity, but rather a matter of national security. Unfortunately, similar to the management of other preconditions for peace and security, past approaches that have relied primarily on programs led by governments, international agencies and non-governmental organizations (NGOs), have failed so far to successfully address the most crucial issues. Over the past few years, the human development index has declined in more than 30 countries. Only a few countries have fulfilled past commitments to provide 0.7 per cent of their GDP for development assistance following the unorthodox recommendation that alliances be formed between industry and international agencies to address society's most pressing and important challenges. What is and more importantly, what could be the role of the private sector in addressing these challenges and establishing global security? What hope do we have that the private sector will play the constructive role that the world needs it to play?

2. Global Security, Peace-Making and Private Sector

Clearly, strides have been made in the world's understanding of what constitutes peace-making. To succeed as a global civilization in the 21st century, however, our ways of thinking about global security and peace-making need to expand once again, this time to more

prominently and explicitly include the private sector. This is not because the private sector has better values than the other sectors, it doesn't, but because of the private sector's global prominences as well as its worldwide structures and processes.

For the first time in history, answers to questions of societal well-being, including questions of war and peace and of terrorism and security, may well be more in the hands of business people than in those of political, diplomatic, military or humanitarian leaders. Over the past 50 years, power has shifted dramatically from the public to the private sector. Today, 49 of the 100 largest economies in the world are multinational companies, not countries (Aspen Institute, 2003). Due to this shift in power, traditional perspectives that assumed government and intergovernmental agencies could or would take care of society's welfare are no longer relevant either for society or for the economy; this applies to both the richest and the poorest nations and peoples.

Wal-Mart, for example, is now the nineteenth largest economy in the world, with sales exceeding \$250 billion (Mau et al., 2004, p. 128). If it were a country, Wal-Mart would be China's eighth largest trading partner (Friedman, 2005). Wal-Mart's single-day revenue is larger than the annual gross domestic product of 36 independent countries. With over 1.3 million employees, Wal-Mart is now the world's largest employer. The company has more people in uniform than the entire United States Army (Mau et al., 2004). What Wal-Mart does in the world, matters not only to its own employees, customers and suppliers, but also to the global economy and society within which all companies operate and all people live.

Global solutions cannot be conceived or implemented without taking companies such as Wal-Mart into account.

3. Business Contribution: Are CEOs Missing in Action?

United Nations Secretary General Kofi Annan has challenged businesses to become co-creators of society's success and security. Let us choose to unite the power of markets with the strengths of universal ideals, let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations (Annan, 1999). Many, however, rightfully question the role that business has taken. Simultaneously recognizing the importance of business's increasing influence and society's wariness at how CEOs have used that influence, World Economic Forum President Klaus Schwab confronted the world's top business leaders as they convened in Davos, Switzerland: In today's trust-starved climate, our market-driven system is under attack.

Large parts of the population feel that business has become detached from society, that business interests are no longer aligned with societal interests. The only way to respond to this new wave of anti-business sentiment is for business to take the lead and to reposition itself clearly and convincingly as part of society (Schwab, 2003). Twenty-first century pleas for corporate global citizenship recognize that without the private sector, no attempt to create and maintain a peaceful, prosperous, equitable and sustainable society can succeed. They also acknowledge that much of the private sector will have to rethink its role if it is to contribute in more than narrowly defined, self-interested

ways. Are CEOs rising to the challenge and becoming co-creators of the type of global society that the Nobel Committee, the United Nations and the World Economic Forum aspire to? Many observers bluntly say no. Whether they cite corporate greed and corruption as brilliantly demonstrated in recent years by Arthur Andersen, Enron, Health South, Tyco, and WorldCom, among many others or other forms of corporate malfeasance, the private sector is rarely perceived as a primary contributor to global society's security and success.

New York Times editorial writer Thomas Friedman suggests that the private sector's crime is not simply behavior that is ultimately exposed as criminal, but rather CEOs' lack of constructive engagement with the world's most serious problems. As he labels it, many CEOs are simply missing in action (Friedman, 2005a). Equally seriously, many of these missing-in-action CEOs still view commitment to societal well-being not as a strategy for superior performance, both fiscal and societal, but rather as a net drain on their companies' revenues and profits. Locked in an overly narrow definition of free enterprise, they continue to adhere to classical economist Milton Friedman's dictum that the only social responsibility of business is to increase its profits (Friedman, 1970).

4. Peace, Security and Economic Prosperity

Whereas missing-in-action might reflect the behavior of far too many CEOs, it does not accurately describe either all business leaders or all business approaches. Contributions to societal well-being that some companies are making through their core business strategies

and processes are so extraordinarily innovative and effective that the Nobel Committee may need to consider expanding its candidate pool for future Nobel Peace Prize recipients to include private-sector initiatives. Perhaps the next Nobel Peace Prize will be offered to a global company, rather than to a diplomat or a tree-planter. Some of the most interesting private sector strategies include business efforts to reduce poverty, wage peace and enhance environmental quality while making a profit.

5. Bottom-of-the-Pyramid Business Strategies: Reducing Poverty and Creating Fortunes

According to management professors C.K. Prahalad and Stuart Hart, low-income markets present a prodigious opportunity for the world's wealthiest companies to seek their fortunes and bring prosperity to the aspiring poor (Prahalad and Hart, 2002, p. 2). Taking a novel approach to bringing private sector expertise to solving some of the world's most crucial problems, Prahalad and Hart guide multinationals on how to reduce extreme poverty and by extension global instability, while simultaneously earning significant profits. Prahalad and Hart advise global companies to see markets that were previously invisible to them and remain invisible to most of their competitors.

That market is the 4 billion people who earn less than \$1,500 annually. These global business strategists dispel the illusion that the world's poorest people do not constitute a market, that they do not possess buying power, and that there are no significant profits to be earned by the companies serving them. By giving the world's poor access to better and more reasonably priced products and services,

most of which would not be possible without today's advanced technological design capabilities. Bottom-of-the-pyramid strategies have the potential to reduce the risk of disease, terrorism and insurgence caused by poverty. Prahalad and Hart (2002, p. 4) explain that, although complete income equality is an ideological pipe dream, the use of commercial development to bring people out of poverty and give them the chance for a better life is critical to the stability and health of the global economy and the continued success of Western MNCs. Such strategies unambiguously work to the mutual benefit of business and society.

A number of companies are already using bottom-of-the-pyramid strategies to create wealth, reduce poverty, and thus increase global security. Examples include Hindustan Lever (HLL), which created a new detergent, called Wheel, which now has a 38 percent market share in a market that Unilever, the parent company, never realized existed (Prahalad and Hart, 2002, p. 6). Using a new business model that emphasizes volume rather than high profit margins, Wheel was formulated to substantially reduce the ratio of oil to water in the product, responding to the fact that the poor often wash their clothes in rivers and other public water systems. HLL decentralized the production, marketing, and distribution of the product to leverage the abundant labor pool in rural India, quickly creating sales channels through the thousands of small outlets where people at the bottom of the pyramid shop. HLL also changed the cost structure of its detergent business so it could introduce Wheel at a low price point (Prahalad and Hart, 2002). In its first five years on the market, Hindustan Lever enjoyed a 20 percent growth in revenue and a 25 percent

growth in profits per year (Prahalad and Hart, 2002, p. 5).

Prahalad and Hart warn that the strategic challenge for managers is to visualize an active market where only abject poverty exists today. It takes tremendous imagination and creativity to engineer a market infrastructure out of a completely unorganized sector (2002, p. 6).

Other bottom-of-the-pyramid strategies are found, for example, in the area of micro lending. Companies choosing to embrace micro-lending strategy are making a profit by giving the poor access to reasonable borrowing power, and thus access to buying power. According to the International Labor Organization's World Employment Report 2001, nearly a billion people, roughly one-third of the world's workforce, are either underemployed or have such low-paying jobs that they cannot support themselves or their families. Helping the world's poor elevate themselves above this desperation line is a business opportunity to do well and do good (Prahalad and Hart, 2002).

The business opportunity comes from the fact that, under the current system, money lenders in the poorest areas charge as much as 20 percent per day interest. Micro-lenders can charge much less and still make a substantial profit. Whereas the Grameen Bank founded by Bangladeshi economist Muhammad Yunus is the highly successful pioneer in this field. Micro-lending, offering very small loans at reasonable interest rates and within structures that are accessible to the poor is now a thriving business for the largest banks in a number of countries. At the 1999 Microcredit Summit, the United Nations, in conjunction with several major MNCs such as Citigroup Inc. and

Monsanto Company, set a goal of making basic credit available to the 100 million poorest families in the world by the year 2005 (Prahalad and Hart, 2002, p. 14).

Other examples of bottom-of-the pyramid strategies include Honeywell's interest in offering micro-turbines as small-scale distributed energy solutions to extremely poor communities; The Body Shop's policy, led by founder and former CEO Anita Roddick, of trade-not-aid; and Starbucks (together with Conservation International's), strategy to eliminate intermediaries from its business model and source coffee directly from farmers in Mexico's Chiapas region, thus enabling the company to provide coffee farmers with a reasonable standard of living and the company with a respectable profit.

Managers in MNCs, public policymakers, and NGO activists all suffer from the historical division of roles. A huge opportunity lies in breaking this code, linking the poor and the rich across the world in a seamless market organized around the concept of sustainable growth and development. Collectively, we have only begun to scratch the surface of what is the biggest potential market opportunity in the history of commerce. Those in the private sector who commit their companies to a more inclusive capitalism have the opportunity to prosper and share their prosperity with those who are less fortunate. In a very real sense, the fortune at the bottom of the pyramid represents the loftiest of our global goals.

6. Giving Peace a Chance: Industrial Parks as Tools for Peace

Bottom-of-the-pyramid strategies are by no means the only noteworthy approaches that businesses are successfully employing to enhance societal well-being and the possibilities for peace. Industrialist Stef Wertheimer, founder, former CEO, and Chairman of the Board of ISCAR Ltd, a \$1 billion-year metal-tool-cutting business, offers a very different, yet compelling, approach. Now 74 years old, this Israeli entrepreneur has expanded his vision beyond profits to include peacemaking.

Wertheimer now offers an alternative, the TefenModel, a unique business-based, cross-culturally integrated industrial-park approach that stresses creativity through an unusual combination of aims: providing high quality products to a global market, advancing entrepreneurial education and industrial training, fostering new indigenous industries, and showcasing art and culture. To these ends, the [industrial] parks in Jordan, and Turkey all have incubator spaces, educational and training facilities, museums, and sculpture gardens. Wertheimer believes that industry is the engine of economic stability and that without economic stability, there can be no peace (Wertheimer, 2002).

7. Natural Capitalism: Sustainability at a Profit

In addition to innovating poverty-reduction and peace-making strategies, businesses are also involved in highly innovative environment enhancing strategies. According to the Harvard Business Review, business strategies built

around the radically more productive use of natural resources can solve many environmental problems at a profit (Lovins et al., 1999).

Using the label natural capitalism, Amory and Hunter Lovins, along with their colleague Paul Hawken, have introduced a process by which business can gain a competitive edge and earn substantial profits by systemically focusing on the health of the natural environment. The first stage of natural capitalism involves dramatically increasing the productivity of natural resources, stretching them as much as 100 times further than they do today. In the second stage companies adopt closed-loop production systems that yield no waste or toxicity. The third stage requires a fundamental change of business model, from one of selling products to one of delivering services. For example, a manufacturer would sell lighting services rather than light bulbs, thus benefiting the seller and customer for developing extremely efficient, durable light bulbs. The last stage involves reinvesting in natural capital to restore, sustain, and expand the planet's ecosystem (Lovins et al., 1999, p. 145).

Why haven't most businesses considered such profit-making, environment enhancing strategies before? Because the benefits often don't show up on the balance sheet. Most businesses treat the natural environment as a free resource. Yet, as Lovins et al. (1999, p. 145) note, recent calculations conservatively estimate the value of all the earth's ecosystem services to be at least \$33 trillion a year. That's close to the gross world product, and it implies a capitalized book value on the order of half a quadrillion dollars. What's more, for most of these services, there is no known substitute at

any price, and we can't live without them. If there are such cost savings to be found in natural capitalism, why didn't business embrace it years ago?

The answer is not that business values are somehow skewed or abhorrent, but rather that scores of common practices in both the private and public sectors systematically reward companies for wasting natural resources and penalize them for boosting resource productivity. For example, most companies expense their consumption of raw materials through the income statement but pass resource-saving investment through the balance sheet. That distortion makes it more tax efficient to waste fuel than to invest in improving fuel efficiency. The compass that companies use to direct themselves is broken (Lovins et al., 1999, p. 145).

Amory and Hunter Lovins and Paul Hawken offer examples of many companies that are already benefiting from natural capitalism. Perhaps only one example, that of the Interface Corporation, a leading maker of materials for commercial interiors, is needed to tell the much larger and highly optimistic story of what business could be contributing to societal well-being. In Interface's new Shanghai carpet factory, a liquid had to be circulated through a standard pumping loop similar to those used in nearly all industries. A top European company designed the system to use pumps requiring a total of 95 horsepower. But before construction began, Interface's engineer, Jan Schilham, realized that two embarrassingly simple design changes would cut that power requirement to only 7 horsepower, a 92% reduction. His redesigned system cost less to build, involved no new technology, and worked

better in all respects (Lovins et al., 1999). How did Interface succeed in such a significant energy-consumption reduction?

They used two small, but highly leveraged innovations. First, Schilham chose fatter-than-usual pipes, which create much less friction than thin pipes do and therefore need far less pumping energy. The original designer had chosen thin pipes because, according to the textbook method, the extra cost of fatter ones wouldn't be justified by the pumping energy that they would save. This standard design trade-off optimizes the pipes by themselves but pessimistically the larger system. Schilham optimized the whole system by counting not only the higher capital cost of the fatter pipes but also the lower capital cost of the smaller pumping equipment that would be needed. The pumps, motors, motor controls, and electrical components could all be much smaller because there'd be less friction to overcome. Capital cost would fall far more for the smaller equipment than it would rise for the fatter pipe. Choosing big pipes and small pumps, rather than small pipes and big pumps, would therefore make the whole system cost less to build, even before counting its future energy savings (Lovins et al., 1999).

The second innovation was to make the pipes straight and short rather than crooked and long, which further reduced the friction. Interface accomplished this by laying out the pipes first, then positioning the various tanks, boilers, and other equipment that they connected. Designers normally locate the production equipment in arbitrary positions and then have a pipe fitter connect everything. Awkward placement forces the pipes to make numerous bends that greatly increase friction. The pipe fitters don't mind:

they are paid by the hour, they profit from the extra pipes and fittings, and they don't pay for the oversized pumps or inflated electric bill. Schilham's short, straight pipes were easier to insulate, saving an extra 70 kilowatts of heat loss and repaying the insulation's cost in three months (Lovins et al., 1999, p 145).

The Interface example has implications far beyond both Interface and China for two reasons: First, pumping is the largest application of motors, and motors use three-quarters of all industrial electricity. Second, the lessons are very widely relevant. Interface's pumping loop shows how simple changes in design mentality can yield huge resource savings and returns on investment (Lovins et al., 1999, p. 145). Inventing small changes, such as those at Interface that are cheap, free or even better than free (because they generate big savings) rely on whole systems thinking (Lovins et al., 1999).

With whole-systems thinking, the right investment in one part of the system can produce multiple benefits throughout the system (Lovins et al., 1999). The logic of natural capitalism is compelling. In the 21st century, unlike during the industrial revolution, natural resources, not people, are scarce. Ultimately, the companies that most effectively manage their scarcest resources will win, as will society. Those that don't will cease to exist. Where natural capitalism can eclipse Wangari Matthias tree-planting efforts is not in its commitment or values, but rather in the private sector's much higher leverage to make substantial and lasting worldwide changes.

As more businesses embrace natural capitalism, however, they would be wise to carefully observe the efforts of such leaders as

Shirin Ebadi, Wangari Maathai and Gro Harlem Brundtland when searching for approaches that are most likely to succeed.

8. From Despair to Optimism: An Ecology of Hope

In his 2004 presidential campaign, United States Congressman Dennis Kucinich described his desire to create a Department of Peace as the first step in making nonviolence an organizing principle in society (Kucinich, 2003). According to Kucinich (2003), creating a structure of peace ensures that economic structures can be sound, affirmative of human needs, and restorative of human values. There is no question that the world needs peace to prosper, and prosperity to have peace.

The world, however, cannot attain peace without all of society's primary actors actively working to create the conditions for peace. For too long, business has been left out of that equation. Now, as we enter the 21st century, forward-thinking leaders from all sectors are searching for new partnership options that include business as a co-creator of a society we can be proud of. Increasingly, business is taking the lead in some of the most innovative and exciting initiatives that offer hope for the planet.

Arnold Toynbee, in observing societal dynamics, clearly believed society could do better. The 21st century will be chiefly remembered by future generations not as an era of political conflicts or technical inventions, but as an age in which human society dared to think of the welfare of the whole human race as a practical objective (Mau, 2004, p. 15).

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