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Dear Reader,

A few months ago we dedicated an issue to Corporate Social Responsibility. Given the feedback we received from our readers, we decided to launch a series of articles exploring the different perspectives and challenges involving the role of leaders and organizations in building a better world. LIM's mission is to develop global leaders. But global leaders today have new demands and challenges compared to those that they had a decade ago.

We see our responsibility in contributing to the education and development of these executives who are making the daily decisions that shape our world. This collection of articles will be published periodically in this medium, interspersed with other topics.

We hope you not only enjoy it, but that it becomes food for thought.

Enjoy the reading!

Isabel Rimanoczy  
Editor

Quote of the Month

***"Integrity without knowledge is weak and useless, and knowledge without integrity is dangerous and dreadful."***

*Samuel Johnson  
(English poet and essayist, 1709 - 1784)*

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# LIM NEWS



***20 YEARS developing your leaders while they develop your business***

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# The Sustainability<sup>[1]</sup> Revolution

By Isabel Rimanoczy

The Sustainability Revolution is changing the rules of the game. In a global world, governments no longer hold the reins of power<sup>[2]</sup>. Corporations do, impacting health, natural resources, education, peace conditions, economic wellbeing, political decisions and environmental health of millions, way beyond a country's borders. But corporations are sustained by consumers and citizens, and they are beginning to raise their voices, demanding transparency and accountability. Are corporations prepared?

## The Purpose of Business

Over 35 years ago, the economist Milton Friedman wrote a famous article entitled "The Social Responsibility of Business is to Increase its Profits", which was published in the New York Times Magazine.<sup>[3]</sup>

On November 11, 2006 the New York Times published an article reporting on the annual Business For Social Responsibility conference, where some 1200 corporate executives, experts, academics, headhunters and consultants came together to discuss their respective initiatives in corporate responsibility. The journalist was surprised to realize the range of companies that are embracing and acting on the concept. Reports fatter than their annual report were handed out by corporations such as General Electric and Coca-Cola, listing what they are doing to make the world a better place.

Others talked about environment protection, building projects in the third world, ensuring that labor is treated fairly wherever they are involved, or the corporate responsibility of the media.

The recent cover story of the business publication INC. Magazine was entitled "Do Good Get Rich"<sup>[4]</sup>, describing a collection of entrepreneurial companies that are showing what it means to run good businesses, attack the most pressing problems of our time -- and make serious cash along the way.

What has accounted for the change in corporate self-awareness?

## From just For-Profits to Just-for-Profits.

The roots of the corporate responsibility movement originated in the seeds planted by nonprofit activists. With an initial focus on environmental damage, grassroots organizations began over thirty years ago to publicly denounce corporate practices that had a damaging impact on the wildlife, water, air or soil. Other nonprofit activists focused on human rights, pushing, demanding and boycotting corporations.

When the behavior of corporations was held up for public scrutiny, it began to make an impact on the corporate image. Nike & Wal-Mart had to respond to questions about the way they treated workers in developing countries. To face consumers and employees meant to change the labor standards in the factories of their suppliers. It became a priority in their executive agenda.

Issues that had been the province of the Legal or Public Relations department, now spread into other areas of the corporation. As extensively described in a FORTUNE Magazine article<sup>[5]</sup>, Wal-Mart's CEO Lee Scott has taken it as a personal mission now to expand corporate responsibility into all possible corners of the organization: from buying organic products to changing the energy use of their trucks and stores, up to influencing product development of their suppliers.<sup>[6]</sup>

### **Who wants to be the Bad Guy?**

Wal-Mart, the largest employer in the US, with over 1 million employees, pushed for and supported the development of a more concentrated detergent. Detergents contain a high percentage of water, and the company asked why it needed to spend money on fuel required to transport the water content of detergent from one place to another. What if the end-consumer would simply add the water? That would mean less volume per container in a truck load, which would result in improved fuel efficiency, reduced pollution and also lowered gas demand and transportation costs. The large retailer had to sponsor the project, because it involved a communication campaign, to educate the consumers who are caught in the perception that bigger is better, that a larger container of product means more value for the money.

Soon after the concentrated detergent was launched, the main competitor launched a similar concentrate. Whether this was motivated by a threat to market share or by a corporate image of being a "good-doer", the bottom line is we all win.

Companies are responding to the demands of a new zeitgeist whose influence is permeating all levels of business. No one can afford to be the "bad guy", and even if organizations are solely motivated by "me-too" reasoning, the result is positive for all. We are familiar with the vicious circle. It seems we are now witnessing the generation of a virtuous circle. Are we seeing the development of a new morality?

### **The New Ethics**

In an address to the World Economic Forum on January 31, 1999, United Nations Secretary-General Kofi Annan invited business leaders to join an international initiative that would bring companies together with UN agencies, labor and civil society to support universal environmental and social principles.<sup>[7]</sup> It was named "The Global Compact" and was officially launched at UN Headquarters in New York in July 2000.

Today, many hundreds of companies from all regions of the world, international labor, and civil society organizations are engaged in the Global Compact, working to advance ten universal principles in the areas of human rights, labor, the environment and anti-corruption.

By using the power of collective action, the Global Compact seeks to promote the development of a new corporate responsibility, where business can be part of the solution to the challenges of globalization. The vision is that when the private sector partners with other social actors a more sustainable and inclusive global economy can be developed.

The Global Compact is a voluntary initiative that asks member companies to embrace, support and enact within their sphere of influence, a set of core values. These values are organized in ten

principles, derived from the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

## The Ten Principles

Two principles address Human Rights:

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.
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Three principles address Labor Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labor;
- Principle 5: the effective abolition of child labor; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Three principles focus on the Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies

Finally, one principle relates to Corruption:

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

On November 22, 2006 Microsoft announced its membership in the Global Compact. Employing more than 71,000 people worldwide and operating subsidiaries in over 100 countries, the impact of this organization subscribing to this movement is not a minor event. Microsoft became the latest addition in a wave of major US companies to recently join the Global Compact alongside The Coca-Cola Company, Levi Strauss & Co., and E-bay. Through their membership the corporations commit to extend their work as responsible leaders in advancing socio-economic development, to make a positive impact in communities around the world.

But because statements are easier made than converted into action, the Global Compact Office also acts as a supervisory agent. On October 1, 2006 the GC Office removed 335 companies from its global list of participants. The list was made public and it indicated the reasons why those companies were taken out: they either failed to submit a Communication on Progress within three years of joining the Global Compact, or failed to submit a Communication on Progress within two years of submitting their last Communication on Progress.

This is one way to push and drive towards elevating the integrity and accountability of organizations. Beyond this initiative led by UN, there are estimated to be over 30,000 organizations in the US alone

that are working for the sustainability agenda.

## **Equipped and Prepared**

Magazines, key note speakers, academic papers and books have given this movement a name: The Sustainability Revolution.

This revolution, like others before it, is presenting a large challenge to business. It is demanding new practices in hiring and employment, in product development and design, in purchasing, in transportation, in communications, in accounting and reporting, in investing and in location strategies, in plant design and operation, in marketing, pricing and distribution, and the list goes on. How prepared are the individuals in organizations for this challenge?

In a recent conference that took place in Cleveland, Ohio, entitled 'Business as an Agent for World Benefit Forum', organized by Case Reserve University's Weatherhead School of Management, the Academy of Management and the UN Global Compact, Ray Anderson, CEO of Interface, a prestigious floor treatment company, shared an interesting perspective. From his leading position in corporate responsibility practices, he asked who knows what is needed to act in the new order? Who is learning how to do it? Who is teaching them?

He did a quick review of the contents taught in colleges these days. In Engineering school, students learn about combustion based engines but nothing about alternative wind or solar energy. In Agronomy school, organic production methods are not part of the curriculum. In Architecture school, environmental construction is not a subject that is taught. In Design school, recycling is not a course. In Accounting, sustainability measurement is not taught. In Business Schools, responsible investment has a different meaning from the Principles of Responsible Investment defined by the UN in 2006. In Teachers education, sustainability is an unknown concept. So, who will teach what they don't even know about?

A study of 2,000 MBA students conducted by Business for Social Responsibility<sup>[8]</sup> suggested that students graduate as 'more narrow minded thinkers' than they initially were as school entrants. The survey found that upon leaving school MBA students cared less about customer needs and product quality and more about shareholder value than they did when entering the program. The mantra of "maximize shareholder value" may well be socializing students to become "myopic managers", researcher Emma Stewart, PhD., says.

These issues will not be without consequences. The failure to teach the business leaders about the need and advantages of a sustainable business approach puts the very business at risk. Further, headhunters are now struggling to find managers who understand the demands of the new order, who have the knowledge and creativity to address the emerging challenges.

It's time to address the new educational challenge. At the Cleveland Conference I suggested that the MSBA be created. The Masters for Sustainable Business Administration would replace the MBA as we understand it. The image I had in my mind was this exchange, taking place, say, in 2012:

- What is your background?

- I've an MBA ...

- Oh, I see... you're from *those* days...!



- [1] Sustainability comprises environmental care, economic growth and social equity.
- [2] See Rimanoczy, I. *Corporate Social Responsibility*. LIM News May 2006. (<http://www.limglobal.net/readings/69.htm>)
- [3] See Friedman, M. *The Social Responsibility of Business is to Increase its Profits*. The New York Times Magazine, September 13, 1970. (<http://tinyurl.com/d86x9>)
- [4] See *Do Good, Get Rich: The Eco-Advantage*. INC. Magazine. November 2006. (<http://www.inc.com/green>)
- [5] See *The Green Machine. Lee Scott is not a tree hugger*. FORTUNE Magazine. August 7, 2006. (<http://tinyurl.com/ezksd>)
- [6] Wal-Mart invited GE, a major supplier, to design a refrigerator with a different light inside, like those of the laptops, in order to generate less heat – which in turn requires less energy to maintain the inside temperature. They also invited a toilet paper manufacturer to reduce the size of the inside cylinder, to reduce the size of the roll, which means less volume to be transported, which impacts the fuel used. (Source: Personal Communication)
- [7] See [www.unglobalcompact.org](http://www.unglobalcompact.org)
- [8] See [www.bsr.org](http://www.bsr.org)

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