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A synopsis of the key strategic developments in corporate responsibility around the globe over the last quarter



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Sexpenses

THOSE SEEKING MORE LEADERSHIP from government and judiciary on promoting corporate accountability often praised the work of Eliot Spitzer, when New York State Attorney General. He pursued matters of corporate crime and malpractice, on issues such as price fixing in the technology sector and stock price manipulation in the financial sector, costing companies billions of dollars in fines.¹ This is not a man the financial services industry would wish to have around amidst the credit crisis with its requests for unusual support from the government and federal reserve. On 10 March 2008,

the *New York Times* reported that Spitzer was a client of a prostitution ring. Two days later, he announced his resignation as governor of New York, citing 'private failings'.² Journalist Greg Palast suggested the timing of the news was too convenient:

While New York Governor Eliot Spitzer was paying an 'escort' \$4,300 in a hotel room in Washington, just down the road, George Bush's new Federal Reserve Board Chairman, Ben Bernanke, was secretly handing over \$200 billion in a tryst with mortgage bank industry speculators. Both

¹ 'Notable cases of Attorney General Eliot Spitzer', Wikipedia; en.wikipedia.org/wiki/Notable_cases_of_Attorney_General_Eliot_Spitzer (accessed 12 June 2008).

² 'Spitzer's Resignation Speech: Transcript', *The Huffington Post*, 12 March 2008; www.huffingtonpost.com/2008/03/12/spitzers-resignation-speech_n_91157.html (accessed 12 June 2008).



ELIOT SPITZER: WAS TIMING OF SCANDAL 'TOO CONVENIENT'?

acts were wanton, wicked and lewd. But there's a BIG difference. The Governor was using his own checkbook. Bush's man Bernanke was using ours.³

Sex scandals have long been the downfall of politicians. They are less often the downfall of leaders in business and civil society, unless involving children. However, both the growing prominence of such leaders in society, and the widespread use of sex workers in business circles, means that such scandals are likely to arise in future. In February, the role of sex in one of the biggest corruption scandals in Germany came to light.⁴ In illegal transfers that cost the company €2.5 million, VW worker representatives accepted 'special bonuses', such as opulent trips and extravagant nights out involving prostitutes in places such as Brazil and Korea in exchange for favourable policy votes.⁵ A former German MP, Hans-Jürgen Uhl, and the ex-CEO Ferdinand Piech may also be involved, the newspapers reported. Labour relations have been a source of

national German pride, with VW in particular historically being a bastion of worker rights. But the current scandal has exposed the potential risk of close relations between executives and labour leaders. This has led to some to call for a broadening of the concept of corporate responsibility and accountability that has shaped German corporate governance for decades, with the bilateral engagement between management and unions now seen as an insufficient mechanism for socially accountable corporate governance.

This case is not unique. An oil executive was sentenced in February for awarding his favourite American prostitute a contract to pay for her services with company funds—on top of raiding company coffers for trips to massage parlours and strip clubs.⁶ The payment of sexual services were also part of the bribes paid by Chinese businessmen to government officials in the Philippines, which we discuss below. Discussions by one of the authors with business people from Geneva to Singapore suggests that corporate hospitality for clients often involves arranging sexual services, and can be facilitated by major hotel companies, through opaque or false billing records.

The question we consider here is not prostitution per se. Its legal status differs from country to country; a particular problem for Elliot Spitzer was that it is illegal in New York State. The moral and pragmatic arguments on how and whether to control the industry also vary. The key issues for corporate responsibility, however, concern corruption, governance, health and gender, as well as the reputational risks involved.

3 Greg Palast, 'Eliot's Mess: The \$200 billion bail-out for predator banks and Spitzer charges are intimately linked', Reporting for Air America Radio's *Clout*, 14 March 2008; www.gregpalast.com/elliott-spitzer-gets-nailed (accessed 12 June 2008).

4 'Prison term in VW corruption case', BBC News, 22 February 2008; news.bbc.co.uk/2/hi/business/7258438.stm (accessed 12 June 2008).

5 Kate Connolly, 'Bribery, brothels, free Viagra: VW trial scandalises Germany', *The Observer*, 13 January 2008; www.guardian.co.uk/world/2008/jan/13/germany.automotive (accessed 12 June 2008).

6 David Sapsted, 'Oil chief gave his favourite prostitute a contract with the company', *The Telegraph*, 2 February 2005; www.telegraph.co.uk/news/worldnews/northamerica/usa/1482557/Oil-chief-gave-his-favourite-prostitute-a-contract-with-the-company.html (accessed 12 June 2008).

It is widely accepted, and defined in law, that a corporation should not be plying clients or partners with personal gifts, beyond hospitality. This stands whether the bribe consists of an object, straight cash, or a service. All resources a company disburses should be purchases linked to its core business and administrative needs or somehow connected to serving the interests of the organisation's owners via legal means. Bribery skews the competitive market and sets an unfortunate precedent for business relations; agreements are signed and sales made for the wrong reasons. Bribery within the context of stakeholder relations, particularly when these relations constitute processes of corporate governance, give rise to particular concerns, as revealed in the VW case.

The purchase of sexual services, however, adds insult to injury with a new dimension to institutional responsibility and corporate norms of individual behaviour. Especially where sex tourism is rampant and responsible for the exploitation, trafficking and exposure to disease of millions of children and women, and generally a reflection of a dearth of economic opportunities, and poor education and welfare systems, businesses should take a particularly strong stand against their employees' use of prostitutes' services on the company dime. Accepting cultural arguments to excuse using sex workers for business ends is cowardly and opportunistic. Considering bars with sex workers as one might restaurants, in terms of business locales providing a service that can make potential clients feel at ease and see the company favourably, obfuscates the participation in a vicious system of exploitation and social marginalisation; and therefore cannot be equated to a lavish meal out. That line should be clearly drawn. Let's not forget the risk of contracting and spreading disease, even if using protection: for the 'beneficiary', his or her partner at home, and the person providing the service. In addition, business environments that treat such sexual services as a normal way of doing business effectively discriminate against women in

their own organisations, who are excluded from the bonds made and deals done in such settings. Moreover, responsible investors may be horrified to learn that what has been charged as 'food' at a hotel by a corporate executive was actually sex. Given the reputational risk associated with such practices if they hit the newspapers, there is also a material financial reason for investors to be concerned.

Targeted solutions to such practices are, however, hard to establish. A group of organisations including the UN World Tourism Organisation, Accor Hotels, and NGOs advocating the end of child prostitution, set up the Code of Conduct for the Protection of Children from Sexual Commercial Exploitation in Travel and Tourism in 1997, committing to take steps to help prevent the facilitation of child sexual exploitation. A vital first step is an explicit repudiation of this mode of deal-making by companies themselves, as well as a credible threat of serious sanction for individuals that do not abide by the employer's code of conduct. The extension of such measures to address the sexist nature of much corporate hospitality is also necessary. Given the large number of women involved in corporate responsibility, it is surprising that sex on expenses, and sexist hospitality more generally, has not yet become more of an issue. Many senior female business travellers have had first-hand experience of returning to a hotel room while the men continue their night in a club. Might some greater solidarity with the women in those bars emerge?

Olympian graft

AS WELL AS THE YEAR THAT CHINA FIRST hosts the Olympics, 2008 marks the 30th anniversary of the beginning of that country's programme of economic reform. The major social and economic changes that have occurred in those 30 years mean that corruption has become a major problem in Chinese society, as temptations have grown and social traditions declined. Thus,

corruption has been a concern surrounding the Olympics. In January, state media reported that 38 people were arrested in Beijing during 2007 in a crackdown on corruption connected to the Olympics. Beijing's communist party chief Liu Qi, who also heads the Beijing Olympic organising committee, said the Games must be run in an 'open and transparent' manner, and previously ordered the stepping-up of audits and inspections on Olympic-related activities. The highest-profile Olympic graft case so far has yet to come to court. Liu Zhihua, a former vice mayor of Beijing, was fired in June 2006 after allegations of massive bribes concerning Olympic venues that cost more than a billion dollars to build.⁷

China has been increasing its anti-corruption drive in the past years, especially in major cities, where a number of scandals and shady deals involving top officials have been exposed. Wrongdoers have been fined, given jail terms or even death sentences. Such cases included the arrest of Shanghai's party boss, who had been a member of the Communist Party's Politburo, the power core in China, and the execution of the former head of the national food and drug regulation body. China ratified the United Nations Anti-Corruption Convention in 2005 to curb the flight of corruption officials who abscond with public funds abroad. It even participated in the anti-corruption initiatives of the Asia-Pacific Economic Cooperation and the Organisation for Economic Cooperation and Development (OECD), although it has not yet signed the OECD Convention on Combating Bribery.

Despite this stream of high-profile efforts to align national with international anti-corruption initiatives, Minxin Pei, director of the China programme at Car-



MINXIN PEI: CORRUPTION IN CHINA IS A HIGH-RETURN, LOW-RISK ACTIVITY

negie Endowment, a Washington-based policy study group, revealed in his report that, in reality, only a 'small proportion' of officials tainted by corruption are punished. He told journalists that 'The odds of an average corrupt official going to jail are at most three out of 100, making corruption a high-return, low-risk activity.'⁸

Pei's report, entitled 'Corruption Threatens China's Future', showed that, despite the Chinese government's more than 1,200 laws, rules and directives against corruption, implementation has been inconsistent and ineffective.⁹ Analysts explain that China, as an economy, has been undergoing profound structural change. The general lack of obedience to the law is attributed to increasing market competition and the growing domestic economic gap. After the collapse of the promised cradle-to-grave life-long protection, many citizens doubted that their hard and honest effort under the new open-market economy would be enough to provide a decent income. According to the *Asia Times*, business people assume that, if they have bought political backing, they can get

7 'China arrests 38 for graft related to the Olympics', *The Star Online*, 31 January 2008; thestar.com.my/sports/story.asp?file=/2008/1/31/sports/20182215&sec=sports (accessed 12 June 2008).

8 Richard McGregor, 'Corruption poses "lethal threat" to China', *The Financial Times*, 10 October 2007; www.ft.com/cms/s/0/3dbe4178-774a-11dc-9de8-0000779fd2ac.html?nclink_check=1 (accessed 12 June 2008).

9 Minxin Pei, 'Corruption Threatens China's Future', Carnegie Endowment, October 2007; www.carnegieendowment.org/publications/index.cfm?fa=view&id=19628&prog=zch (accessed 12 June 2008).

investigations into their affairs called off and stories in the state media killed.¹⁰

In the 2007 Transparency International Corruption Perceptions Index, China ranked 73rd out of 156 countries. It was, however, a few notches higher than China's 78th place the year before. The index tracks how business people perceive corruption in a country. China is not the worst in Asia, but it's in the company of many much poorer countries, such as Laos.

Pei is not convinced that corruption is just a stage in China's development. He believes rather that it is actually a failure of political reform:

The Chinese government has consistently resisted steps to further reduce the role of the state in the economy, increase judicial independence and mobilise the power of the media and civil society, even though international experience shows that only such full-fledged efforts can root out systemic corruption.¹¹

But, because of China's one-party system, these channels don't exist. Local Chinese party secretaries have sweeping control over the local media, legislatures and courts, breeding corruption and abuse of power.

Pei said that the direct costs of corruption, which could be as much as \$86 billion each year, posed a 'lethal threat' to the country's economic development. He acknowledged that corruption has not yet derailed China's economic rise, sparked a social revolution, or deterred Western investors. 'But it would be foolish to conclude that the Chinese system has an infinite capacity to absorb the mounting



HU JINTAO: CORRUPTION COULD DESTROY THE COMMUNIST PARTY

costs of corruption. Eventually, growth will falter.¹²

At a meeting of the Central Commission for Discipline Inspection (CCDI) in January, Chinese premiere Hu Jintao echoed much of this critique, warning that increasing levels of corruption could eventually destroy the Chinese Communist Party. He reviewed various regime changes across the world since the 1960s. Other than those due to foreign interference, he said the two main factors were the ruling party's corruption, and social problems associated with economic recession.¹³ At the meeting special efforts were outlined in the fields of environmental protection, food and medicine safety, work safety, and land appropriation: areas where corruption has particularly direct impacts on the general population. In addition, supervision will be intensified on the management of social security funds and the special fund for poverty and disaster relief, an issue that came into light later in the year after a catastrophic earthquake.¹⁴

10 Ram Gorni, 'China: Rule of law, Sometimes', *Asia Times Online*, 3 July 2003; www.atimes.com/atimes/China/EG03A03.html (accessed 12 June 2008).

11 Pei, *op. cit.*

12 *Ibid.*

13 Luo Bing, 'Chinese leader states corruption will destroy the Chinese Communist Party', *Chengming Magazine*, 29 February 2008.

14 'China to step up anti-corruption crackdown (Xinhua)', *China Daily*, 21 February 2008; www.chinadaily.com.cn/china/2008-02/21/content_6471821.htm (accessed 12 June 2008).

That many ordinary Chinese are concerned about corruption was highlighted just a few weeks before Hu's speech, when the new website¹⁵ of China's National Bureau of Corruption Prevention (NBCP) crashed soon after it was launched, 'as Chinese people logged on in their droves to complain about corruption among the official ranks'. An NBCP official, who declined to be named, confirmed to Xinhua the breakdown had occurred because 'the number of visitors was very large and beyond our expectations'.¹⁶ The scale of the problem indicates that firms in China will need to leapfrog the development of corporate responsibility in the West from compliance and philanthropy to become involved in promoting good governance (as 'corporate citizenship' means to some people).

Foreign direct corruption

AS CORRUPTION AT HOME IS TACKLED, attention has turned to the role of Chinese businesses in corruption scandals around the world. In February, the Philippines media and legislators were desperately trying to find one relatively unknown forestry official named Rodolfo Lozada. He was supposed to give a tell-all testimony in a senate investigation about a botched telecommunications deal between a Chinese supplier and the Philippines government, but evaded his summons by going abroad and was then whisked away by authorities when he returned. He appeared two days later, at 2:30 am, on live television, to recount who abducted him, how he was persuaded and bribed by government officials to keep silent about his involvement



PHILIPPINES PRESIDENT GLORIA
ARROYO: TAINTED BY ZTE
SCANDAL

in the controversial deal, and how his conscience made him come clean.¹⁷

Certainly, Lozada could not claim to be an angel. During his senate testimonies, he admitted profiting from kickbacks on government deals through his friendship with the economic planning secretary who approved the telecommunications project. He said this project would have been pushed through with little or no attention if the kickback had been limited to the agreed \$65 million. But various individuals—apparently emboldened by the alleged willingness of the Chinese suppliers to pay extra—wanted to bloat the project's worth to \$330 million so they could pocket up to \$200 million. He said the economic planning secretary asked him to 'moderate their greed'.¹⁸

The project involved a nationwide broadband network that would link government offices and allow the education ministry to beam instructional materials to far-flung public schools isolated by mountain ranges or located in islands. Whistleblowers, including Lozada, named

¹⁵ yfj.mos.gov.cn

¹⁶ 'China's new anti-corruption website breakdown as masses log on', www.chinaview.cn, 19 December 2007; news.xinhuanet.com/english/2007-12/19/content_7281144.htm (accessed 12 June 2008).

¹⁷ Lala Rimando, 'Lozada: Benjamin Abalos and Mike Arroyo behind broadband deal overprice', *Newsbreak*, 7 February 2008; newsbreak.com.ph/index.php?option=com_content&task=view&id=4153&Itemid=88889051 (accessed 12 June 2008).

¹⁸ Lala Rimando, 'NBN witness: US\$65-M overprice acceptable', *Newsbreak*, 8 February 2008; newsbreak.com.ph/index.php?option=com_content&task=view&id=4157&Itemid=88889051 (accessed 12 June 2008).

an election official and the husband of Philippines president Gloria Arroyo as project 'facilitators' (political backers). President Arroyo signed it days before the May 2007 national election when her allies, who would ensure she would not be impeached, won majority seats in congress.

The failed project's main beneficiary would have been Zhong Xing Telecommunication Equipment Company Limited (ZTE), one of China's biggest telecommunication makers. ZTE, a partly state-owned company, is growing its emerging-markets portfolio and the supply contract with the Philippines government would have been a coup. But vocal Filipino critics from civil society, academia and the media have criticised the ZTE contract with their government, arguing that it violates several Philippines laws, including rules that call for competitive bidding for government procurement contracts. Whistleblowers recounted during the senate investigations how the ZTE officials wined, dined, provided women entertainers to, gave free trips to, and paid an advanced 'facilitation' payment of about \$41 million to their Filipino political backers who helped them clinch the deal. Eventually, President Arroyo not only nullified the deal but also suspended other Chinese-funded projects in the country worth some \$2 billion.

Had the Philippines' active and free press and dynamic civil society not exposed ZTE officials' actions to clinch the broadband project, bribery and corruption may just have been hidden away as a business-as-usual inevitability. So, is this an indication of how Chinese state-owned companies are bringing their economic ambitions to the developing world?

It is not often that cheap, long-term loans from China encounter public wariness in a beneficiary country. China has also been generous in dispensing loans, some interest-free or as outright grants, to poor debtor African states that embraced no-

strings-attached financing for electrification, highways, railways, hospitals and schools. Such financing is in stark contrast to the austerity demands and long list of social, environmental, human rights, fiscal policy, publicly declared political affiliation, and ethical requirements of multilateral agencies, such as IMF and the World Bank. China announced that, through its Export and Import Bank, it will ramp up infrastructure and trade financing to Africa to \$20 billion over the next three years and that it would also write off unpaid debts. In return, not only did China outflank the United States, Japan and the European countries in clinching supply deals on oil and other minerals from these natural-resource-rich but development-poor nations, it also means serious business for some 800 Chinese state-owned enterprises (SOEs) now active in the continent.¹⁹

ZTE is considered as one of China's 'National Champions', backed by China's fat foreign exchange reserves that are funnelled through state-owned lending channels, which then lend *de facto* subsidised, low-cost funds to ZTE's customers.²⁰

In China's telecommunications industry, two giant equipment companies have emerged: Huawei and ZTE. They seem to be a study in contrast on Chinese companies' outbound investments.

Both have been feverishly expanding overseas and edging out their Western counterparts not only by being price cutters but because they understand that some developing markets have a 'just give me the phone' attitude, a far cry from, say, Nokia, whose customers are locked into the Finnish company's standardised products and systems. But as *CFO Asia* described, there are key differences between the two. For example, Huawei is privately owned, while ZTE has a share structure that is an amalgam of public and state ownership (about half of the shares

19 Greg Mills and Chris Thompson, 'China: Partner or predator in Africa?', *Asia Times Online*, 25 January 2008; www.atimes.com/atimes/China_Business/JA25Cbo2.html (accessed 12 June 2008).

20 Tom Leander, 'National Champion: How ZTE is taking China's economic ambitions to the developing world', *CFO Asia*, 16 May 2007; www.cfoasia.com/archives/200705-01.htm (accessed 12 June 2008).

belong to state-owned agencies and senior management; the balance are listed in Shanghai and Hong Kong bourses). They also differ in style, and perhaps even in general approach. While both are headquartered in Shenzhen, *CFO Asia* described Huawei's as a palatial Silicon Valley-like campus, while ZTE's has the official feel of a government office. ZTE's showcase lobby reportedly has LCD screens flashing pictures of government ministers and political leaders from Sudan, Eritrea, Niger, Algeria, Libya and Zambia where ZTE has already clinched equipment deals.

But perhaps the most telling difference is the overseas markets they have secured. Huawei has made inroads in the more lucrative developed markets of North America and Europe. It has won contracts with operators in France, Germany, Spain, the UK and Australia.²¹ On the other hand, ZTE's sales executives have become wizards at selling products in the developing markets of Africa, Latin America and Asia.²²

No wonder, then, that Huawei seems more attuned to the global standards of sustainability. In 2004, Huawei joined the UN Global Compact.²³ On the other hand, ZTE reported on its website limited corporate social responsibility (CSR) goals, which focused more on product, supplier and philanthropic concerns.²⁴ There was no mention of any ethical or legal standards that it vowed to uphold in its overseas transactions. In fact, consultancy firm CSR-Asia censured ZTE for vying to invest in a proposed cyber-city in Burma, which has a notorious human rights record.²⁵

However, the mere fact that ZTE has begun to document its CSR goals is a step in the right direction. This could have been a response either to its need to pro-

ject a caring image to outsiders, or conformity to government-led initiatives, such as those from the State Council's State-owned Assets Supervision and Administration Commission (SASAC), which oversees and regulates SOEs, such as ZTE. In January 2008, SASAC issued an instructing document that aims to guide SOEs in fulfilling and reporting about their social responsibilities, and in turn improving their competitiveness and sustainability. This guideline was based on CSR issues revealed from SASAC's in-depth study, which was initiated as a result of the ongoing and increasing debate on CSR in both the international and national arenas. It listed eight major CSR content points that SOEs should follow. While labour issues, product safety and environmental concerns are prominent in the document, at the top of the list is this: 'Comply with laws and regulations, moral standards, business ethics, and industrial regulations and conduct their business honestly. They should . . . *eliminate corrupted behaviours in all business activities*' [our italics].²⁶

The failed ZTE contract in the Philippines, however, is a glaring contradiction between what is preached and what is happening in practice. How these CSR reports will contrast with actual progress and achievements on CSR issues such as corruption remains to be seen.

If corruption in China is exported elsewhere through loans and contract agreements, a twin threat occurs. If the return from a project is insufficient to pay off the loans, this could lead to bad debt, which in time might create a new debt crisis in emerging nations, with similar negative developmental impacts to the previous debt crisis fuelled by Western lenders. The

21 Huawei, 'Milestones'; www.huawei.com/corporate_information/milestones.do (accessed 12 June 2008).

22 Leander, *op. cit.*

23 Huawei, 'Corporate Citizenship → United Nations Global Compact'; www.huawei.com/corporate_citizenship/managing_cr/united_nations_global_compact.do (accessed 12 June 2008).

24 ZTE, 'Corporate Citizenship'; www.zte.com.cn/main/about/Intro/Rights/index.shtml?catalogId=12068 (accessed 12 June 2008).

25 Stephen Frost, 'Alcatel-Lucent inks deal in Burma', CSR-Asia, 13 September 2007; www.csr-asia.com/index.php?id=10616 (accessed 12 June 2008).

26 'CSR Guideline for State-Owned Enterprises (SOE)', Syntao.com, 1 January 2008; syntao.com/E_Page_Show.asp?Page_ID=6407 (accessed 12 June 2008).

costs of such a situation would also mount for China. It is in China's best interest, therefore, that it safeguards the long-term viability of its overseas investments' beneficiaries and promotes enlightened self-interest among the outbound Chinese investors. If it does not, then there are also risks to be faced, as future governments in foreign countries seek to penalise companies that bribed previous administrations.

Back in China, the head of the CCDI, He Guoqiang, said in January that 'the key to winning our war against official corruption is to put punishment and prevention on equal footing'. He said, 'We will place equal efforts in punishing crooked officials for their misconduct, as well as in establishing an anti-corruption system to get rid of corruption at its root.'²⁷ Some consider one of those roots to be the shifting cultural norms in China, as Maoist Communism has been fundamentally transformed. Consequently, more Chinese leaders are speaking either overtly or implicitly about traditional Confucian and Taoist values. Some socially responsible entrepreneurs are even described as Confucian entrepreneurs.²⁸ Confucianism, like all spiritual and religious traditions, has a mixed history in how it shaped, or was used to justify, forms of governance and trade. Its role in the future of China is unclear, and even more unclear is whether it will influence the way China does business with the rest of the world. The concept of *Ren* in Confucianism emphasises interconnectedness. A more conscious approach to the broader relations it has with all the peoples of the nations it is investing in may prove a wiser approach, in the long term.

Targeting change

IN PREVIOUS YEARS A COMPREHENSIVE corporate responsibility strategy has typically involved a commitment to continuous improvement, to being near the best in class, and engaging stakeholders. In February, the latest analysis of trends in corporate responsibility from Lifeworth argued this consensus was shifting, as the scale and urgency of social and environmental challenges became more widely understood, along with the risks and opportunities to business. The review chronicled a wave of announcements of specific time-bound environmental targets from companies, concerning actual performance, rather than management processes.²⁹

In just the first month of 2008 dozens more targets were set by companies. For instance, Heinz pledged to provide free micronutrient assistance to 10 million children at risk of iron-deficiency anaemia by 2010; Coca-Cola Hellenic Bottling Company announced plans to reduce CO₂ emissions from production by more than 20% by the end of 2009; HP announced a target to reduce PC energy usage by 25% by 2010; and the law firm Freshfields Bruckhaus Deringer planned to increase its *pro bono* activities by 30% by 2009. Perhaps winning the prize for the most ear-catching target, Renault-Nissan announced plans to sell entirely electric cars in Israel by 2011.

This shift to performance targets reflects 'the urgency of the global challenges we now face, such as on water, food, poverty', argued Professor David Grayson of the Doughty Centre at Cranfield University. That urgency 'makes the search for better models of sustainable development ever more critical'.³⁰ The Lifeworth

27 'China to step up anti-corruption crackdown (Xinhua)', *China Daily*, 21 February 2008; www.chinadaily.com.cn/china/2008-02/21/content_6471821.htm (accessed 12 June 2008).

28 Juliet Roper and Ed Weymes, 'Reinstating the Collective: A Confucian Approach to Well-being and Social Capital Development in a Globalised Economy', *Journal of Corporate Citizenship* 26 (2007): 135-44.

29 Jem Bendell et al., *The Global Step Change: Lifeworth Annual Review of Corporate Responsibility in 2007* (Lifeworth/Lulu, 2008; stores.lulu.com/lifeworth).

30 'Foreword' in Bendell et al., *op. cit.*



DAVID GRAYSON: SHIFT TO PERFORMANCE TARGETS REFLECTS THE URGENCY OF GLOBAL CHALLENGES



KEN LIVINGSTONE, FORMER LONDON MAYOR: BEHIND THE 'LONDON ON TAP' INITIATIVE

review predicted that this focus on the pace of innovation and entrepreneurial activity to addressing societal challenges would lead to a shift in language about 'corporate social responsibility', with terms such as 'sustainable', 'social enterprise' and 'responsible enterprise' becoming more common.

We should, however, remember that targets themselves are not the mechanisms of change. It appears that many countries will miss their Kyoto targets, and the first Millennium Development Goals on primary school education have already been missed. In addition, studies have long shown that focusing on meeting targets can have unintended consequences and undermine true progress. The solution may be for wider coalitions of groups to apply themselves to the factors that shape our economy: to explore ways of collaborating to shift whole markets.

Drinking problem

IN FEBRUARY 2008, LONDON MAYOR Ken Livingstone launched London On Tap, a campaign encouraging consumers to ask for tap water in restaurants and pubs for environmental reasons. Jenny Jones, Green Party member for the London Assembly, called the bottled water market 'one of the biggest con jobs of the last two decades', adding that 'Selling water in bottles and burning massive quantities of fossil fuels for its transportation does not make economic or environmental sense.'³¹

San Francisco Mayor Gavin Newsom passed an outright ban on the purchase of bottled water by city departments in July 2007; New York City officials heavily promoted tap water over bottled that same summer; and officials in Minneapolis, Salt Lake City, Chicago, Rome, Florence and Paris have taken similar actions. On top of being 500 times more expensive,³² bottled water comes with a heavy carbon footprint: from the oil used to make the plastic bottles most water comes in, to the carbon emitted during transportation and

31 '19 Feb London On Tap: The Clear Choice', Thames Water press release; www.thameswater.co.uk/UK/region/en_gb/content/News/News_001558.jsp?SECT=Section_Homepage_000431 (accessed 12 June 2008).

32 www.londonontap.org

refrigeration, to the millions of bottles that end up in landfills. And the market is booming: the world spends \$100 billion on bottled water every year; in the United States its sales are second only to carbonated soft drinks.³³ The Worldwatch Institute has previously calculated that this is a similar amount to that required to ensure the whole world has potable tap water.

More than 25% of bottled water is treated tap water, including Pepsi's Aquafina and Coca-Cola's Dasani. In many parts of the developed world there is no particular health value in drinking bottled water rather than water from the tap. In fact, laws governing the testing of bottled water are much less stringent than those covering tap water: New York City tap water was analysed some 346,000 times in 2006.³⁴ Given this fact, much of the advertising that claims bottled water is beneficial to health could be challenged.

Principally, though, the corporate responsibility problem lies with the bottles. According to the Earth Policy Institute, more than 17 million barrels of oil are needed every year to produce the 29 billion plastic water bottles used in the United States alone. Less than a quarter of these are recycled; the bottles that end up in landfills take four centuries to biodegrade.³⁵ Add to this the emissions generated through pumping, processing, refrigeration and transportation, since 25% of bottled water is imported relative to where it is consumed, and its environmental impact per litre is estimated to be up to 300 times that of tap water.³⁶

Kim Jeffery, president and CEO of Nestlé Waters North America, does not like the comparison with tap water. He argues that consumers don't choose be-

tween bottled and tap water but between bottled water and other bottled drinks, which are sugar-loaded or otherwise unhealthy. In addition, he highlights that water is one of hundreds of beverages to come in plastic bottles. According to Jeffery, water bottles constitute less than 1% of municipal solid waste in landfills.

All of this raises the question: is it legitimate to target bottled water producers? Is similar attention being paid to really big water users, such as agriculture, or old and inefficient infrastructure? Part of the bottled water focus is due to the fact that large corporations are easy, cohesive advocacy targets. But of all drinks sold in plastic bottles, water is the easiest to replace instantly—in most industrial countries—it is quasi-ubiquitous, safe and cheap, and in this regard makes for an excellent advocacy target, since the public can act instantaneously.

Those pushing for extended producer responsibility would demand that companies take responsibility for their containers' life-cycle. But producers have shunned deposit programmes and emphasised community recycling, for which they are not responsible and incur no costs. There are, however, signs of change: in September 2007, Coca-Cola announced its intent to build the world's largest recycling plant in order to recycle and re-use the entirety of its plastic packaging in the United States.³⁷ Unfortunately, there was no specified time-frame. Nestlé and Coca-Cola are reducing the plastic in certain bottle sizes by 20–30% to diminish plastic waste and the energy spent in making the bottles. Nestlé produces its own bottles on-site, so they don't have to be shipped to the plants, which would add to emissions. An option

33 Janet Larsen, 'Bottled water backlash is growing', 7 December 2007; peopleandplanet.net/doc.php?id=3156 (accessed 12 June 2008).

34 New York City Department of Environmental Protection, 'NYC 2006 Drinking Water Supply and Quality Report'; www.nyc.gov/html/dep/html/drinking_water/wsstate.shtml (accessed 12 June 2008).

35 London On Tap, 'Facts and Figures: Understanding the Differences'; www.londonontap.org/facts (accessed 12 June 2008).

36 *Ibid.*

37 'Coca-Cola Enterprises forms Coca-Cola Recycling LLC to help lead recycling efforts', Coca-Cola Enterprises news release, 5 September 2007; ir.cokecce.com/releasedetail.cfm?ReleaseID=262794 (accessed 12 June 2008).



CONGRESSMAN ED MARKEY:
CALLING FOR DEPOSIT LAW

that seems greatly ignored could be a shift towards materials that are more easily biodegradable, such as hemp- and natural fibre-based pseudo-plastics, which are made without resins and break down much more quickly than petrochemical-based plastics. Finally, producers could offer a re-usable bottle, or join in on the trend of directly encouraging re-use by selling water at a discount to those who bring their own container. Regarding emissions, the problem applies more widely than this industry; legislation and political pressure could encourage the use of modes of transport with lighter footprints.

Legislators could offer consumers a real incentive for bottle return, e.g. a deposit law charging a small sum for each bottle on purchase, which is refunded on return. In the US, states that have deposit laws and community recycling have much better rates of return than the national rate, but they are in a stark minority. Again, there are signs of change: Massachusetts Congressman Ed Markey has called for what amounts to a nationwide deposit law on single-use beverage containers, though his programme is still to be fleshed out, as it currently lacks crucial specifics such as

management and sources of funding. A final way to target bottled water consumption is to look at it practically: people also buy bottled water because having a portable form of hydration is practical, since it's not given that there will be a clean source of water wherever one is. In Bath, where council bottled water costs were running into the thousands of pounds annually and a ban on bottled water in all council offices was recently passed, activists have additionally called for the rehabilitation of public water fountains.

As with most environmental dilemmas, the problem is structural: it has to do with how we live and consume in daily and seemingly inconsequential ways. Campaigns such as London On Tap, which seek to raise awareness about our societal disconnect with the environmental and commercial systems we function in, are only a first step to jolt consumers towards simpler, cheaper and more environmentally friendly modes of consumption.

This is not to say that this is not a matter of corporate responsibility. Nestlé articulates its new approach to corporate strategy is one of creating 'shared value' for its shareholders and society. Its 2007 annual corporate responsibility report highlights a range of commercial initiatives that are generating revenues while addressing social problems.³⁸ Such initiatives are laudable, but any reader of its report could justifiably ask whether this 'shared value' approach is really central to the Nestlé core business. It is difficult to see which social or environmental problem is being addressed, which social value being created, by the sale of bottled water in industrialised countries, rather than adding to existing problems of pollution and waste. The arguments offered by their CEO do not resonate with a 'shared value' approach. Given that many of the examples offered by companies of how they can address social challenges through business are in practice making less of a rate of return than that expected from the business as a

38 Nestlé, 'Creating Shared Value: An Approach to Corporate Social Responsibility' (2008); www.nestle.com/SharedValueCSR/Overview.htm (accessed 12 June 2008).

whole, are not scalable, and are dependent on government or NGO subsidy through partnership, we may question whether they really embody a new strategy. Perhaps they could be more appropriately understood as an advanced form of an established strategy: effective public relations through corporate philanthropy.



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