RESPONSIBLE BUSINESS: A TEXTBOOK FOR THEORY, PRACTICE AND CHANGE

OLIVER LAASCH

ROGER N. CONAWAY

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Responsible Business:
A Textbook for Theory, Practice and Change

A. Theory
- 1. Framing
- 2. Understanding
- 3. Managing

B. Practice
- 4. Planning
- 5. Implementation
- 6. Communication

C. Change
- 7. People
- 8. Business
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eBook Introduction

This eBook provides a theoretically sound, but highly relevant, introduction to the topic of socially and environmentally responsible business. While the eBook strongly draws from the classic background theories such as business ethics, sustainable development, and corporate social responsibility, those concepts are applied to the most current practices. Practice boxes highlight interesting details, cases and statistics; figures extensively illustrate the theoretical concepts; and end-of-chapter review questions assure the learning process. Recommended links and further readings both deepen an understanding of theoretical knowledge and allow application in each chapter.

The eBook consists of three blocks, each containing three chapters, resulting in nine chapters total. Block A provides a strong theoretical basis. Chapter 1 gives insight into the history of the relationship between business, society, and environment, and draws a dynamic picture of the actual state of our world. Chapter 2 covers the most important background disciplines of responsible business and introduces responsible management. Chapter 3 casts light on the details of the responsible management process and the specialized management instruments involved in it.

Block B focuses on the changes to be made in the mainstream management process. Chapter 4 provides deep insight into how to align the strategic management process to responsible business. Chapter 5 explains how to fine tune business activities toward embedded social, environmental, and economic performance. Chapter 6 provides a toolbox of the most effective instruments for communicating responsible business.

Block C promotes change. In order to achieve being a truly sustainable business, it is not enough to integrate responsibility into existing structures. Sustainable living, consisting of sustainable consumption, work, and activism, are the aspired goals. Chapter 8 drafts a roadmap for change on a single-business basis. Chapter 9 highlights the most important changes necessary on an industry and whole-economy level.

Prologue

Foreword to the book Responsible Business: Managing for Sustainability, Ethics and Global Citizenship

Jonas Haertle, Head Principles for Responsible Management Education (PRME) Secretariat, UN Global Compact Office

Today, sustainability ranks highly on the corporate agenda as an increasing number of executives around the world recognize the growing relevance and urgency of global environmental, social and economic challenges. Regardless of size, location or sector, businesses are looking beyond the traditional drivers of financial performance, seeing how sustainability issues can affect their bottom line. Market disturbances, civil unrest, or natural resource constraints can indeed have wide-ranging and material impacts. But sustainability issues are not only viewed from a risk management perspective. Increasingly, business leaders discover the tangible benefits and opportunities of greater sustainability.

With corporate sustainability becoming a strategic issue for companies, there also comes the demand for management education to adapt to this new reality. The Principles for Responsible Management Education (PRME), written in 2007 and now endorsed by over 400 business schools and management related academic institutions from over 60 countries, serve as guidelines for management education providers to enhance curricula, pedagogy, research and incentives to prepare organizational leaders who will balance economic and societal goals.

The eBook 's important characteristics are its international perspective, featuring cases from countries all around the world, its strong theoretical basis, and the integration of sustainability, ethics, and responsibility topics. The eBook also covers a wide variety of tools for change on individual, company, and systemic levels. It provides a useful resource to support PRME signatory schools as, well as other interested institutions.

Jonas Haertle, 27.03.2012, New York

Theory for practice

Block A "Theory", provides readers with basic background facts, figures, and insights necessary to manage a responsible business. The chapters throughout this block have been enriched with intriguing facts and figures creating a real hands-on learning experience.

A responsible business is one that ultimately contributes to the sustainable development of planet earth. Thus, coping with responsible business first requires a working knowledge of the planet, its issues and how its three major systems (business, society, and environment) interrelate.

Today, virtually every business from New York to Beijing, from London to Mexico City, is concerned about its social and environmental performance. Green products, social entrepreneurship, and eco-technologies are prominent topics of the day. Early in 2010, Harvard Business Review called sustainability the new business imperative.

Current popular books include three titles highlighting a "responsibility revolution". Businesses that have had their fair share of social issues in the past, such as Wal-Mart and Nike, have become leaders in responsible business over time. Major businesses rarely go without an extensive annual sustainability, citizenship or responsibility report. Employees increasingly search for the most responsible company instead of simply the best paying company. Higher education has witnessed a boom in courses and degree programs, preparing tomorrow's responsible business leaders.

How has responsible business become such a true megatrend? This chapter offers answers to that question. Responsible business, as we know it today, has been shaped throughout the last 3000 years by the world's most prominent thinkers, outstanding events, cultural determinants and historical movements. This chapter includes a tour of responsible business history, from the ancient Greek philosophers' condemnation of profit, to the 20th century's LOHAS consumer lifestyles, the 2006 Nobel Prize for microfinance, and Al Gore's movie "An Inconvenient Truth". Once history has been reviewed, the second section will illustrate today's state of the world, including main issues such as CO2 emissions, poverty, the world water crisis, and flaws of the global economic system. By understanding and comparing the historical development of the relationship between the economy, society, and environment with the current state of the globe, readers will be equipped with the necessary framework for management and change toward a sustainable world.

1.1. An "Applied" History of Business, Society and Environment

The historical development of **responsible business** is a valuable source of understanding and information for applying responsible management. For example, it is surprising to many practitioners to discover that the popular term "greenwashing" can be understood in depth when relating it to the classic Greek virtue ethics. Shocking to many philanthropists, stakeholder theory, which is the hailed management instrument of a socially responsible business, was designed as a profit-seeking strategic management instrument. Who would have guessed that the attractiveness of the LOHAS (Lifestyles of Health and Sustainability) market segment has a strong basis in the hippie movement? Sound knowledge of the historical landmark events of business, society and environment serves to achieve an understanding necessary to successfully manage the responsible business.

> "One thing that has always fascinated me is history. If you look at history, you see technological, economic and political cycles, and if you look at the area of enterprise and entrepreneurship it is fascinating to see how it also circulates..."
>
> John Elkington, Sustainability Pioneer (2011a).

What is Responsible Business?

Responsible business is a type of business committed to taking on its responsibility to be successful in the social, environmental and economic dimensions, ultimately contributing to a sustainable development.

Thus, responsible business is at the heart of the relationship between business, society and environment.

Responsible business aims at reaching a positive fit, a situation where businesses achieve a positive impact on society, environment and the overall economy, without forfeiting profitability. Some of the terms used in relationship with responsible business are business sustainability, corporate citizenship, corporate social responsibility and business ethics.

Those terms are necessary components and background theories of responsible business, which will be explained in detail in chapter 2.

Responsible business pioneer: If there was a red carpet for responsible businesses, the company, InterfaceFLOR, with its late founder Ray Anderson, would have walked it many times. As early as 1973, the company started producing carpet tiles, which had a considerably reduced environmental impact compared to the more common employed one-piece carpets. InterfaceFLOR pioneered carpet recycling, is currently leading in employee diversity programs, and has committed to reducing its environmental impact to zero by 2020. The company even branded this goal "Mission Zero." InterfaceFLOR has also grown successfully in the economic dimension, fueled by its outstanding environmental performance in the carpet industry, an industry which is generally characterized as an economic sector outspokenly harmful to the natural environment (InterfaceFlor, 2011b; InterfaceFlor, 2011a).

Landmark historical facts are found mainly in economic history, general social history, labor history, and environmental history. The latter describes the interaction between human activity and the environment. In the following, historical events and developments will be described and analyzed in the light of responsible business. For responsible business to grow into what we know today, the relationship between business, society, and environment had to pass through three main phases of development: the classic period, the modern period, and the progressive period. These are described in Figure 1.1.
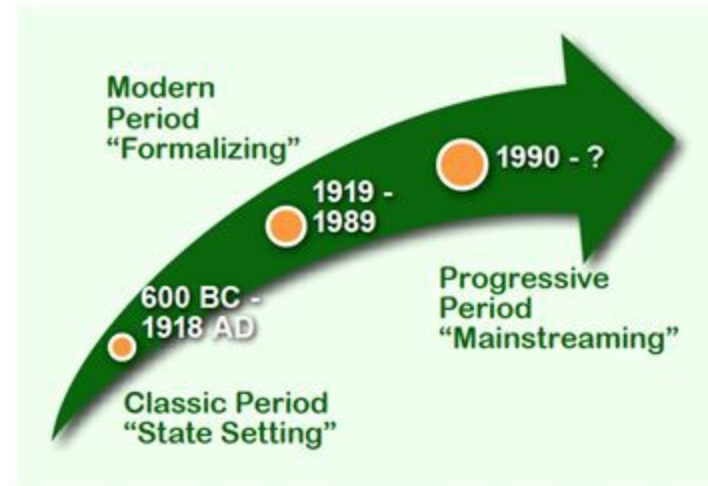
Figure 1.1 Historic Periods of the Relationship Between Business, Society and Environment

1.1.1. The Classic Period [1650 BC- 1918 AD]: Setting the Stage

1.1.1.1. The Roots of Business Culture and Responsible Business

The stage was set for responsible business during the classic period. The holy books of world religions, such as the Bible [c. 1600 BC- 100AD] and the Quran [c. 610-632], were written and are still defining elements of regional business culture and the values applied in business conduct. The values promoted by the Bible are a basic driver of business philanthropy in the Americas and many regions of the old world. The Quran has largely influenced the practices of Islamic finance, which is one of the quickly emerging ethical and socially responsible investment trends (IMF, 2007). Islamic values are defining for businesses in the Middle East and large parts of Southeast Asia. Islamic values are not in accordance with some Western causes in responsible management.

For instance, diversity policies promoting gender equality, popular in Western responsible businesses, are difficult to accept from an Islamic point of view. The thinking of Confucianism [c. 571-478] provides a common value construct for East Asian business culture. Confucianism's point of departure and most important value is the wellbeing of people or humanity as a whole. This very basic insight makes Confucianism highly conducive to the implementation of social responsibilities. The second dominant Confucian core value, righteousness, is positively related to responsible

business (Sprunger, 2011). A contemporary challenge for responsible business is to adjust responsible business practices from a western approach to a truly global practice for all major business regions.

> **An emergent responsible investment mega-trend**: "Islamic finance is limited to financial relationships involving entrepreneurial investment subject to the moral prohibition of interest earnings or usury (riba); money lending and direct or indirect association with lines of business involving anything forbidden (haram)" (IMF, 2007).

1.1.1.2. The Origins of (Business) Ethics

Ethical thinking, as it is applied today in business, is the basis of responsible business. It is rooted in the ancient Greek philosophical thought. The "band of three" [c. 469-322 BC], meaning the three most influential Greek philosophers, Plato, Socrates and Aristotle, lay the foundation for non-consequentialist ethics, which judges right or wrong actions, not based on its outcome, but on the factors influencing the way the decision was made. Non-consequentialist ethics, often called deontological ethics, includes the main streams of thought of virtue ethics, ethics of duties, and ethics of rights and justice. Virtue ethics judges the righteousness of the character of the actor and finds its roots in Plato and Aristotle's thinking. [469-322BC]. Emmanuel Kant's [1785] categorical imperative's first formulation advises to "act only according to that maxim whereby you can, at the same time, will that it should become a universal law." Kant's work is often called the modern deontology (as opposed to the Greek classical deontology) or ethics of duty. Kant describes it as the ultimate duty to of acting as good as if one's action should become generally applicable law (Hursthouse, 1999). John Locke's [1689-1695] work on the ethics of rights, which was published postmortem, refers to the unalienable entitlements of people (Chappel, 1994). These will be described in greater detail later in a discussion of the human rights movement.

> **An extreme perspective on citizenship**: Aristotle famously expressed that the one who does not take part in the community's affairs is either a beast or a god (Aristotle, 350 BC/2005). The philosopher's call for active citizenship can be seen as representative of the ancient Greek contribution to today's individual civic activities and corporate citizenship. What show should we consider companies who do not contribute to the community? Beasts or gods?

John Rawls' [1971] theory of justice lead to the ethics of justice, which promotes fairness in both the process leading to a decision and the outcome of the decision (Rawls, 1999). It is, therefore, a hybrid construction between consequentialist and non-consequentialist ethics. Outstanding

streams of thought in consequentialist ethics (judging the outcome of an action) are capitalist egoism based on Adam Smith [1776] and on utilitarian thinking by John Stewart Mills [1863].

Adam Smith in his work The Wealth of Nations (Smith, 1776/2008) draws a picture of a profit maximizing and, therefore, egoist business. Egoist ethics is ethics for the pursuit of selfinterest. Egoism is the basis for today's discussion about what businesses should strive for, egoist profit maximization or profit optimization that benefits all involved stakeholders (Thielemann & Wettstein, 2008). Profit optimization reflects an utilitarian ethics as proposed by John Stewart Mills [1863] in his work Utilitarianism (Mills, 1863/2008). Utilitarian ethics pursues the greatest amount of happiness possible, a rationale which is reflected in current stakeholder management practices. Those main streams of ethical thinking are the philosophical basis of business ethics.

1.1.1.3. The Historical Roots of Today's Unsustainability

To understand today's economic world order and its effects on society and environment, historical phases of economic world history are of crucial importance. The age of discovery and colonization [1419-1660] was the starting point of today's wealth inequality between the northern and southern hemisphere, and of exploitative relationships between the first and the third world. It is the root of the necessity for today's sustainable and responsible supply chain management practices. The first industrial revolution [1730- 1770] brought economic growth, which also caused a welfare increase for workers employed in the booming new industries. This increase in welfare in turn allowed for constant and rapid population growth, which is the basis for overpopulation and unsustainability today. The second industrial revolution [1860-1914] not only brought an additional boost of world economic activity and negative impact on the environment, but also served as a breeding ground for two of the most important characteristics of the problems being caused by today's economic activity.

First, it gave birth to today's petroleum-based industry by the introduction of the internal combustion engine and petroleum-based plastics. Responsible business aims at achieving independence from the petroleum-based industry by technologies such as solar energy, alternative engines or kinetic local energy sourcing from wind, water or even human movements. Responsible business practice also includes the constant reduction of the negative impact of petroleum-based plastics, including reduction in material and packaging, usage of plastics derived from renewable biomass, and recycling and biodegradability technologies. The second development is the birth of mass production most notably made possible by Henry Ford's development of the conveyor belt-based assembly line. Mass production is the technological basis of cheap products and the necessary condition for unsustainable consumerist behavior. Responsible management aims at fostering responsible, sustainable, and ethical consumption patterns based on real needs rather than on superficial consumerist wants.

Ancient Unsustainability: Human beings acted unsustainably long before the introduction of the fossil-fuel-based economy. The farming activity of irrigation in ancient Mesopotamia, for example, increased the soil salinity to such levels that, by the year 1700 BC, yields had decreased over 60 percent. As a result, wheat cultivation was abandoned completely (Tammilehto, 2008). The Easter Islands´ ancient civilization, famous for their giant head-shaped stone sculptures also is supposed to have become extinct because of the unsustainable use of the crucial scarce island resource: wood (Foot, 2004).

1.1.1.4. The Development of Human and Labor Rights

Current responsible management standards, such as the Global Compact framework and ISO 26 000, strongly refer to human rights. The secondary field of labor rights reflects the responsibility to one of business' most important interest groups, the employees. Human rights and citizen rights have been developed in a long line of historical events, documents, and streams of thought. At least three classic statements of human rights lie in the British Declaration of Human Rights and Man [1689] , the U.S. Declaration of Independence [1776], and the French Declaration on the Rights of Man and Citizen [1789]. Those statements also serve to understand the field of corporate citizenship, because they illustrate basic civic rights and duties, which can be applied to corporate citizens as well as individual citizens. The labor rights and standards field has been developed by transferring human rights to the workplace and matching them with Marx' criticism [1867] of the capitalist system exploiting the working masses, as described in "Capital" (Marx, 2000).

1.1.1.5. The Birth of Ecology

Human and labor rights, as part of the social component of responsible business, gained early public attention. In contrast, the environmental component of responsible business was eyed closer for the first time during the 19th century. Inspired by Darwin's evolutionary theories, the German biologist and philosopher, Haeckel, created the term "ecology" [1866], describing the relationship between living organisms and their natural environment (Haeckel, 1866/1988).

In 1854, a native American prophecy, the Cree prophecy, first highlighted the harmful effects that human activity might have on ecology. The full prophecy draws an impressive early picture of environmental unsustainability of especially western cultures. The prophecy deals with the consequences of ("white men's") greed, which can be interpreted as the search for profit maximization and consumerism. It describes a future state of environmental destruction characterized by the "earth being ravaged and polluted, the forests being destroyed, the birds would fall from the air, the waters would be blackened, the fish being poisoned in the streams, and the trees would no longer be …". The prophecy even draws on the modern understanding of the environment being a necessary precondition for human survival when stating that "mankind as we would know it would all but cease to exist" ("Cree indian prophecy", 2004, p. 1). The positive outlook of the prophecy was the advent of the so-called "rainbow warriors", which would lead the world to a sustainable situation, where "… all the peoples of all the tribes would form a new world of justice, peace, freedom and recognition of the Great Spirit [of nature] ("Cree indian prophecy", 2004, p. 1)." This prophecy was later adopted by the environmentalist movement. In retrospect, it provides a very concise account of today's problems and potential solutions. As early as 1798, the British economist, Malthus, provided a more scientific interpretation of humanity's future issues. His work on the world's demography suggests that constant population growth will exceed the earth's carrying capacity. Malthus mentioned poverty and famine as potential results (Malthus, 1798/2011).

1.1.2. The Modern Period [1919-1989]: Formalizing Responsible Management

The modern period of responsible management is characterized by an increasing formalization of responsible management in the form of international institutions, research, and practice applications. Important civic movements such as racial equality and the hippie and the environmentalist movements bring the relationship between business, society, and environment to the broad society's attention.

1.1.2.1. Civic Movements

The late outliers of the second industrial revolution changed agriculture in such a profound way that it was called the "green revolution". In the middle of the 20th century [c. 1940-1970] the world witnessed a drastic increase in productivity of agricultural production based on new technologies and practices such as irrigation, fertilizers, and pesticides. Especially the two latter practices sparked an early environmental movement, which had long lasting influences on later environmental activism. Rachel Carson's book Silent Spring moaned the negative environmental and health effects of pesticides, one of the main enablers of the Green Revolution. As a matter of fact, the book title refers to the loss of biodiversity, most noticeable in the absence of birdsongs during springtime (Carson, 1962/2002). The African American civil rights movement [1955-1968] was the beginning point of the various nondiscrimination movements. It later expanded nondiscrimination movements to include gender, sexual orientation, race/ethnicity, religion, physical handicaps, and age. In today's responsible business, the topic is called diversity management. The hippie movement [1960-1970] integrated the environmental and equality movements, combining the aspects of a liberal mindset, harmony with nature, respect, tolerance, and a search for spirituality. This spirituality and quest for holistic living reflects actual consumer tendencies towards sustainable living.

Activist with credentials: Born in 1907, Rachel Carson studied marine biology, received her M.S. in zoology, and worked for the U.S. Bureau of Fisheries. She became one of the most influential people of the 20th century after publishing several books on nature, such as the famous Silent Spring, in which she calls "for a change in the way humankind viewed the natural world" (Lear, 1998).

1.1.2.2. Development of a Global Institutional Infrastructure

To manage a responsible business, it is crucial to know the international and regional norms and organizations providing an institutional framework for management conduct. As early as 1919, the International Labor Organization (ILO) was founded to promote workers' rights and wellbeing. ILO documents are still the most important landmark standards for getting the employee stakeholder relationship right. The Universal Declaration of Human Rights [1948] is the modern version of the classically developed citizen rights. The Declaration, for the first time in history, proposed a set of universally valid entitlements for all human beings on earth. The Declaration was developed by the United Nations and has served as a basis for the development of most of the subsequent standards applied in responsible business. In 1968, the Club of Rome, an alliance of high impact business, society, academic, and political leaders, was founded with the purpose of fighting the unsustainability of human activity on earth. An explosion of institutional infrastructure

for responsible management took place throughout the progressive period.

1.1.2.3. Development Practice Tools and the Academic Discipline

Today's primary responsible business management tools began to be developed in the late 1960s. The tool of product life cycle assessment illustrates, measures, and manages the environmental, social and economic impacts of a product from sourcing and production, through usage, and to the end of the useful life cycle. Product life cycle assessment was first applied in a study by Teastley with The Coca Cola Company in 1969 (U.S. Environmental Protection Agency, 2006; AGA, 2010). Corporate ethics was formalized as an academically accepted stream of applied ethics [1970-1980] and widely taught primarily in U.S. American business schools. The field of stakeholder management received broad academic attention with Edward Freeman's publication [1984] Strategic Management: A Stakeholder Approach (1984/2010). Stakeholder management was later adopted as the main management tool of the responsible business movement.

In a parallel pattern to the responsible business practice tools, the academic understanding of responsible business evolved. According to Carroll, the publication of the book The Social Responsibility of the Business Man by Bowen in 1951 is recognized as the first publication explicitly describing responsible business (Carroll, 1999). After a sluggish growth of the academic coverage of responsible business, Nobel-prize-winning economist Friedman brought attention to corporate social responsibility in business and academic circles (Friedman M., 1970). His questioning of social business responsibilities in general is probably the most widely discussed statement in responsible business and still receives academic coverage more than four decades after its publication in the New York Times Magazine in 1970.

Only a few years later, birth was given to the modern sustainability movement. In 1972, the Club of Rome published The Limits to Growth, which reconnected to Malthus' classic forecasts of coming overpopulation (Malthus, 1798/2011). The publication was the starting point for public recognition and academic coverage of the concept of sustainable development, as defined by the report of the United Nations' World Commission on Environment and Development, also titled the Brundtland Commission [1987](Brundtland, 1987). The commission defined sustainable development as a "… development that meets the needs of the present without compromising the ability of future generations to meet their own needs." In the same year, Barbier (1987) laid the groundwork for the popular Venn diagram, defining the three dimensions of sustainable development as being social, environmental, and economic development. This diagram later served to define those three dimensions as the pillars of sustainable development. The development of the concept of sustainable development was a very timely one, because during the same period, for the first time

ever, humanity's ecological impact on the earth overtook the planet's carrying capacity [1975] (WWF, 2010b).

1.1.3. The Progressive Period [1990-?]: Mainstreaming Responsible Management

Throughout the progressive period of responsible management, the relationship between business, society, and environment moved from being an accepted side topic to a mainstream consideration for businesses, governments, and society. At the end of the progressive period, responsible business had become a worldwide social and business megatrend.

1.1.3.1 Issue, Scandals and Crises

That responsible business was able to move mainstream can be attributed to a series of publicly highlighted business issues, crises, and scandals. The popular shoe company Nike was in constant struggle with civil society actors for alleged use of cheap and exploitative, so called sweatshop labor. Nike's struggle with the activists on the issue went on for more than 20 years and served as a constant reminder of the harm that business behavior perceived as irresponsible can do to a company and its reputation (Waller & Conaway, 2011). Corporate scandals have triggered and fueled the responsible business move to mainstream. Another prominent example of this fact is the issue surrounding the Brent Spar oil storage buoy operated by Shell [1995]. Greenpeace activists occupied Brent Spar to protest the planned dumping of the platform into the Atlantic Ocean. Worldwide public attention rose to such a degree that Shell service stations were boycotted on a large scale. One service station was even physically attacked in an arson attempt (Greenpeace, 2007). The Enron and Worldcom bankruptcies, due to fraudulent accounting practices [2001-2002], not only brought down both companies, but also the world renowned accounting firm Arthur Anderson (USA Today, 2005). The world financial and economic crises [2007] had severe social consequences globally. Recession, destruction of companies, subsequent job loss, and an increase in poverty were only the most obvious consequences. The reason for the crisis was a behavior that could have been avoided by good ethics and responsible business practices in the banking sector. The crisis was caused by a massive problem with the repayment of sub-prime loans, mortgages that could be sold at a higher price due to the considerably higher risk of payback.

1.1.3.2 The "Green Pop Culture"

In contrast to the negative coverage of constant social, environmental, and economic issues, the

progressive period has also seen the development in mainstream "pop culture" of responsible management and issues related to it. Most prominently, former U.S Vice President Al Gore enjoyed impressive global public attention with his movie An Inconvenient Truth [2006], which raised awareness of climate change and its consequences (Guggenheim, 2006). The movie won two academy awards in 2007. Leonardo DiCaprio followed suit with The 11th Hour [2007], providing an extensive overview of the issues that threaten mankind's survival on earth (Conners & Petersen, 2007). Those two Hollywood productions had been preceded by a long line of movies criticizing the negative impact of businesses on society and environment. In 2003, the movie and book, both titled The Corporation: The Pathological Pursuit of Profit and Power, translated the classic business ethics criticism of profit maximization to a fashionable and mass accessible format (Achbar & Abbott, 2003). The movie maker Michael Moore even produced three business-critical blockbusters in a period of 20 years. The latest Moore movie, Capitalism: A Love Story, covers the dubious role of the financial sector in 2007 world economic crisis (Moore, 2009). The movie Supersize Me [2004] became a modern classic by criticizing the fast food industry for pursuing profits by promoting poor nutrition (Spurlock, 2004).

Last call: The 11th Hour is a film documentary, with reviews from more than 50 world leaders, that describes the endangered natural state of the earth. Narrated by Leonardo DeCaprio, the film points to technology, social responsibility, and conservation as key factors in finding a solution to the problem, although it is almost too late (Conners & Petersen, 2007).

Powered by broad public attention of social and environmental issues, the sustainable, ethical, and responsible living movement went mainstream. The broadly accepted and researched LOHAS (Lifestyles of Health and Sustainability) consumer trend is subdivided into clearly defined segments [2000]. The LOHAS market segment, and with it sustainable consumption, became a large-scale trend (NMI, 2011; NMI, 2010). A first sign of responsible business and products going mainstream happened when Toyota launched the first mass-produced hybrid car, the Prius [1997].

Again, it was pop-culture pushing sustainable behavior and sales. Pictures of celebrities such as Leonardo DiCaprio, Sting, or Cameron Diaz posing with a Prius at the gas station were extremely influential in the commercial success of more than two million cars sold in 2010. Another example is the product RED, promoted by the singer Bono. Product RED encourages mainstream corporations to introduce a co-branded RED product line, which donates a certain percentage of sales to the fight against AIDS in Africa (RED, 2011). RED was the first product-customized and global cause-related marketing campaign.

1.1.3.3. Development of High-Impact Institutions

During the modern period of responsible business, the institutional influence on responsible business behavior moved from marginalized initiatives to well accepted, high impact mainstream institutions. In the following section, the most outstanding organizations and norms will be presented as they developed. The Foundation of the World Business Council for Sustainable Development (WBCSD) [1990] is probably the best example of how seriously responsible business began to be taken by major businesses. Today, WBCSD is a global sustainability player, led by the CEOs of around 200 companies, among others Toyota, Unilever and Shell (Timberlake, 2006).

The governmental sector also started taking the topic very seriously. The Rio convention [1992], known as the Earth Summit, attracted representatives of over 172 governments, including 108 heads of state. Outcomes were broad commitments to solving the world's most pressing problems, summarized in the Agenda 21. One hundred seventy-eight governments voted to adopt Agenda 21 and to follow the development goals divided into socio-economic factors. These factors include poverty, sustainable consumption and health, environmental factors, the strengthening of groups central to sustainable development, and the measures necessary for implementation. Another important outcome of the Rio conference was the Rio Declaration on Environment and Development. This document summarizes the actions to be implemented to reach sustainable development stated in 27 principles (United Nations, 1997). In the follow-up conference [1997], the Kyoto protocol, the first global agreement for the global reduction of greenhouse gases, was signed.

The International Organization for Standardization (ISO) mainstreamed the topic of environmental business responsibility by launching the now widely accepted ISO 14 000 standard for environmental management [1995]. The ISO 26 000 norm gives guidance on social responsibilities [2010] and is expected to further facilitate the implementation of responsible management for mainstream businesses and organizations of every kind. From 1999 onward, the United Nations increasingly focused on promoting responsible business. The Global Compact (GC), a voluntary initiative which includes a self-commitment to ten responsible business principles, was founded in 2000. By 2010 GC had more than 6000 members, including many of the largest multinational companies. The United Nations Environment Program supports the foundation of the Global Reporting Initiative (GRI) by the Coalition for Environmentally Responsible Economies (CERES), which developed the GRI standard for sustainability reporting. GRI annual reports are now available for most of the world's biggest enterprises and various other organizations. The eight Millennium Development Goals (MDG) were launched in 2005 and were quickly accepted as guidance for sustainable development. Sustainability also made headway into the educational sector. In the UN Decade for Education for Sustainable Development (2005-2014) extensive efforts were made to give people the necessary mindset and skills to live more sustainable lives (DESD, 2011). The United Nations Principles for Responsible Management Education (PRME) (2007) identified management education as a crucial factor in shaping responsible businesses and focused on creating managers who can be change agents for a sustainable and inclusive economic system (PRME, 2011). The European Union also became an entity at the forefront of the

responsible business movement. Among others, the EU Corporate Social Responsibility Strategy and the EU Multi Stakeholder Forum have become role models for regional initiatives for responsible business on a worldwide scale (Commission of the European Communities, 2006).

Training responsible managers: In 2007 the Principles for Responsible Management Education were developed, by deans, university presidents and representatives of leading educational institutions, with the support of the United Nations. By 2011, almost 400 academic institutions had joined this initiative to educate a new generation of leaders to responsibly manage business for the good of the planet (UNPRME, 2011).

1.1.3.4. Megatrends of Flat Globalization and Interactive Transparency

The New York Times author and triple Pulitzer Prize winner Michael Friedman described globalization in the 21st century as a flat globalization, where companies of any kind and size are able to compete on an international scale (Friedman T. L., 2005). Such a type of globalization increases the importance of internationally recognized and applied responsible business standards. A crucial factor in a flat world was information technology. The information age began with the mass production of personal computers, but gained importance for responsible business when the internet, from 1995 on, became a mass phenomenon. The internet has been a driver of responsible business for two specific reasons. First, it facilitates an almost instant transparency about companies' positive and/or negative impacts. In combination with mobile-phone-based photography and internet connectedness, the news about an oil spill or an unethical remark of a frontline employee can go around the world instantly. It is easier for companies also to actively report social and environmental performance. Most companies have online, downloadable sustainability, responsibility, and citizenship reports, that follow the Global Reporting Initiative standards. In 2004, the term Web 2.0 was coined by O'Reilly describing a new internet age characterized by a wide variety of new features such as interactivity, user-created content, and social networking. Web 2.0 enables a cheap and highly effective form of stakeholder dialogue, which is the very basis of a successful responsible business (O'Reilly, 2005).

1.1.3.5. Focus Topic of Management Practice and Theory

Carroll's (1991) pyramid of corporate social responsibility clearly categorized for the first time the different types of responsibilities a company should fulfill. The four categories described are economic, legal, ethical and philanthropic/ discretionary responsibilities. The pyramid was a main component of a stream of research defining the different types of responsible business conduct such as, corporate social performance and corporate social responsiveness. Carroll's work is the

basis for the contemporary theoretical understanding and practice implementation of responsible business. The most conspicuous event showing how much responsible business had become a mainstream topic happened when the godfather of strategic management, Michael Porter, and his co-author, NGO specialist Marc Kramer, published the article Strategy and Society (2006). The piece was published in the prestigious journal Harvard Business Review, which is appreciated equally by practitioners and academics. Strategy and Society shows how much responsible business had moved mainstream; in this case mainstream in the field of strategic management. Another academic and business superstar, Philip Kotler, a renowned academic in the marketing field, had already integrated the responsible business topics of social and cause-related marketing into several textbooks. In 2004, he co-authored the bestselling book Corporate Social Responsibility: Doing the most good for your company and your cause (Kotler & Lee, 2004). Both publications show the integration of responsible business into classic business functions (strategy and marketing). They also gave rise to a general awareness of the business case for responsible business, describing the various ways companies can benefit from behaving responsibly. Another milestone for the mainstreaming of responsible business models is Muhamad Yunus winning the Nobel Peace Prize in 2006. It was the first time that this prestigious award was given for a business model. The micro banking model, represented by Yunus' Grameen Bank, profitably gave credits to millions of poor people in order to reduce poverty. The Grameen bank is often seen as an example of Prahalad's bottom of the pyramid theory, which postulates that businesses can tap into the potential of the poor and profitably integrate them into the market economy as suppliers, workers, and consumers (Prahalad, 2010).

Review **Table 1.1** in the sidebar about Historic Events in the Relationship between Business, Society, and Environment.

Links

Table 1.1:

» [Historic Events in the Relationship between Business, Society and Environment](#)

1.2. The State of the Planet

"What I hear in my dreams is generations in the future screaming back to us in time saying 'What are you doing? Don't you see' "

Paul E. Stamets, Biologist (2007)

1.2.1. The Planet as a Sick Organism

The problems humanity is facing are hard to ignore. Still, many people, organizations, and even governments do so, at least partly. In the mid 1960s, former NASA scientist James Lovelock and microbiologist Lynn Margulis developed the Gaia hypothesis, which sees earth as a self-regulating organism, a sick organism which is trying to fight off harmful parasite: mankind (Lovelock, 1979; Lovelock, 2006). Lovelock's theory of considering earth, or Gaia (Gaia is the word for the ancient Greek earth goddess), as a living organism has been questioned. The more conventional perspective of the earth's systems, which considers earth as an imbalanced mother system of environmental, social, and economic subsystems, explains today's issues and crisis-stricken planet.

Issues such as global warming, poverty, and the water and food crises are highly interlinked and, therefore, even more difficult to solve. This section presents an overview of the various social, environmental, and economic issues, or symptoms, of the earth crisis. This knowledge of the state of the earth will provide a sound basis for what responsible business should contribute to improving the health of the planet and the wellbeing of the people living on it.

Human climate relics: Climate relics are small populations of species that survived past eras of climate change in geographic pockets, protecting them from the hardships of changing conditions (Zimmer, 2011). Human beings might become the next climate relics. Lovelock (2009), in his latest book, The Vanishing Face of Gaia: A final warning, makes the case for the human population surviving climate change in pockets, such as in some parts of Canada. Human beings might also have the ability to create man-made climate pockets.

While one might be concerned about the persistence of the earth as a whole, it should be highlighted that the planet is very likely to survive. It is doubtful the living conditions on earth would be too hostile for humanity, before the planet ceases to exist. Lovelock states that the planet will have healed itself. This reality is well reflected in the very first definition of sustainable (earth) development, which reads as follows: A development that "(…) meets the needs of the present without compromising the ability of future generations to meet their own needs (United Nations, 1987, p. 24)." Sustainable development aims at preserving the planet, not primarily for the sake of itself, but for the sake of future generations to come.

1.2.2. The Economy-Society-Environment System

The issues and crises described here are not to be limited to only one of the three dimensions of society, environment, or economy. For instance, people tend to see poverty as a purely social problem, but there are many connections to environmental factors as well. On the one hand, theroot and very definition of poverty, the absence of wealth or money, reveals the economic component of the issue. This is why programs tackling poverty often have as many economic components such (micro-entrepreneurship, financial support, etc.) as they have social components (health, nutrition, education). While the socio-economic link seems obvious, the link to the environmental dimension may be less obvious, but is nonetheless important. The World Bank (2001), in its document describing its environmental strategy, extensively illustrates the dynamics of environment and poverty. Deteriorating environmental conditions tend to negatively affect the poor over-proportionately. Poorer population segments often earn their livelihoods in direct interaction with ecosystems, by working in fishery and agriculture. Environment is also an important health factor for poor communities. The number of people dying from diseases that could have been avoided with better environmental conditions equals the number of people dying from malnutrition. The poor are often more vulnerable to natural disasters, such as drought, hurricanes, and floods, which can often be related to environmental degradation. **Figure 1.5** illustrates the ramifications of economy, society and environment.

Cooking up diseases:

Due to increased temperatures people are more likely to get sick. High temperatures cause an increase in parasites, bacteria and viruses. The changing weather stimulates season-specific diseases to occur at any time of the year (Vanguardia, 2011).
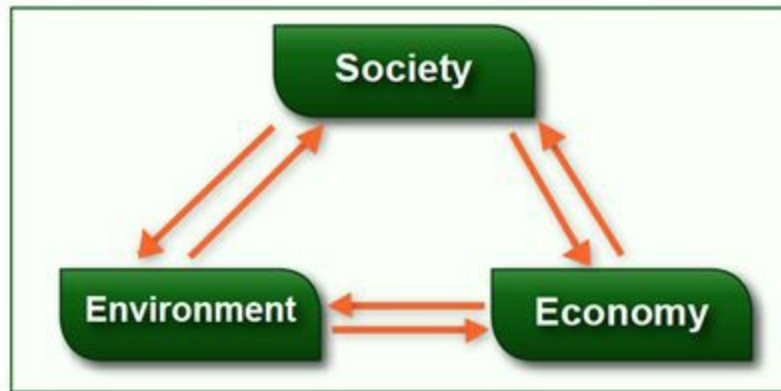
Figure 1.5 Global Interconnectedness of Economy, Society and Environment

1.2.2.1. Economy and Society

The relationship between economy and society is laden with conflicts, but it also has enormous benefits for both sides. The economic system relies on society for production activities. On the other hand, society fuels the economy with purchasing power.

Then again economic activity has immense effects on society. Economic growth, when distributed equally, leads to increased welfare and prosperity. The economy, single industries, or companies may also have negative effects on society. For example, an economic system has an inherent tendency to increase consumer behavior by massive marketing efforts. There is criticism of the pattern of unnecessary consumption, which creates artificial and often destructive wants, which distract from society's real needs. Secondary effects of economic activity on the natural environment often ultimately reflect negatively on society. One such outstanding example is the negative health effect of air pollution.

1.2.2.2. Economy and Environment

Natural resources, such as oil, ore, minerals, water, timber, plants, and animals are the most basic input of economic activity. Whole bio-systems can even serve as natural resource input such as eco-tourism. Without natural resources, economic activity would need to stop. Throughout the history of modern economic activity, natural resources have been overused. An interesting example is the book The Last Hours of Ancient Sunlight (Hartman, 2001), which explains how the economic system is based on unsustainably using up "ancient sunlight" in the forms of fossil fuels, such as coal and petroleum, which were formed by solar energy millions of years ago. Economic activity is increasingly shifting from non-renewable to renewable sources of energy and raw material. The costs of switching to a low-carbon economy are estimated to be much lower (1 to 2 percent of the annual world GDP) than the costs caused by the consequences of continuing with the current CO_2 production patterns (5 to 20 percent of the annual world GDP) and further fueling climate change (Stern, 2006).

The economy, on the other hand, is exerting a strongly deteriorating influence on the world's natural environment. Not only using up natural resources, but also emissions and waste creation put stress on the world's ecosphere. It has been suggested that economic activity must not always have to result in a negative environmental impact. For instance, the movements of environmental

entrepreneurship and natural capitalism aim at creating a basis for economic activity with added value for the environment (Paul Hawken, 1999).Secondary effects of the economy on the environment include the environmental impact of society's consumption of goods and services produced by economic systems.

1.2.2.3. Society and Environment

Strictly spoken, the global human society is just one more species in the community of living things forming the world's biosphere. Nevertheless, the impact of society on the environment by far exceeds the impact of any other species that has ever lived on the planet. The reasons are both quantity and quality of human subsistence. Fueled by exploitative production methods and technological progress, the quantity of human beings living on earth has by far exceeded the planet's biological carrying capacity. In 2007, one and one-half earths were needed to sustainably provide the space necessary for earth's population in the long run. It is estimated that by 2050 this number will increase to two earths (WWF, 2010b). Behavior patterns harmful to the natural environment are also qualitatively unsustainable. Especially in fully economically developed countries, the amount of natural resources being consumed to sustain those developed societies by far exceeds basic necessities. Developing countries, with their increasing middle class, follow suit in copying developed countries' unfortunate behavior patterns. Often environmental awareness, spirituality, and connection to living things are replaced by consumerist preferences.

Future consumption heavyweights: Due to their impressive quantitative growth, China and India are at the center of both economists' and sustainability scholars' attention. The qualitative development might even matter more than the mere population growth. For instance, India expects to increase its middle class from five to 40 percent of the population, becoming the world's fifth-largest consumer economy by 2025 (McKinsey&Company, 2007).

The natural environment provides many services to society. The Millennium Ecosystem Assessment (MA) (2005) gives an extensive overview of how human wellbeing depends on the integrity of biomes, the major types of ecosystems that constitute the planet's ecosphere. Ecosystems influence human beings by providing a wide variety of services called ecosystem services. The following list illustrates the four main categories of ecosystem services with prominent examples, as drafted by the MA.

1. **Provisioning services: Provision of food, water, timber, fiber; etc.**

2. **Regulating services: Regulated climate, floods, disease, wastes, water quality; etc.**

3. **Cultural services: Influencing culture by providing recreational, aesthetic, and spiritual benefits, etc.**

4. **Supporting services: Are the necessary support for the formerly mentioned three categories. Examples are soil formation, photosynthesis, nutrient cycling, etc.**

An evaluation of the overall value of ecosystem services, which had been conducted as early as 1987, estimated that the planet's 16 main ecosystems provide services with an average annual value of $33 trillion US to society and the economy, while the global GDP was at a mere $18 trillion US (Costanza, et al., 1987). Comparing those two facts, one easily comes to the conclusion that our society and the economic system providing the goods and services to satisfy society's need are highly inefficient. For every dollar of purchasing power created, two dollars in ecosystem services is used. Another eye-opening interpretation of those numbers is that ecosystems are actually providing more value to society than the economy does. The logical question is: Why is society supporting growth of the economy and destroying the basis for the larger value creation by the natural environment?

1.2.3. The Planet's Most Pressing Issues and Crises

As depicted in Table 1. 2, many frameworks have been developed to describe, control, and solve the global social, environmental, and economic issues and crises. The United Nations Millennium Development Goals describe the eight most urgent issues to be solved in order to erase poverty. Poverty is often seen as a root cause for many other global issues. Agenda 21 tackles the problems from a more generalized perspective, focusing on the necessary actions to ensure global sustainability (United Nations, 2011a). The annually published World Development Indicators, established by the World Bank, are divided into three categories: people, environment, and economy. They provide an extensive quantitative description of the state of the world (World Bank, 2011b). "The state of the world" is also the title of the annual collection of articles on the changing topic of sustainable development issued by the Worldwatch Institute (Worldwatch Institute, 2011).

Table 1.1 Exemplary Global Development Frameworks

Framework	Institution	Issues covered
Millennium development goals	United Nations (ratified by all member states)	» Goal 1: Eradicate extreme poverty and hunger » Goal 2: Achieve universal primary education » Goal 3: Promote gender equality and empower women » Goal 4: Reduce child mortality rates » Goal 5: Improve maternal health » Goal 6: Combat HIV/AIDS, malaria, and other diseases » Goal 7: Ensure environmental sustainability » Goal 8: Develop a global partnership for development
World development indicators	World Bank	» People: e.g. wealth and consumption distribution, education, nutrition, health, labor » Environment: e.g. agriculture, deforestation, biodiversity, air pollution, energy, water » Economy: e.g. economic output, sectoral structure (manufacturing, commerce, services), consumption and investment, monetary indicators » States and markets: e.g. business environment, stock market, tax policies, public services (military, transport, communication) » Global links: e.g. trade, debt, commodities, financial flows, development aid, travel and tourism
Agenda 21	United Nations	» Section I: Social and Economic Dimensions » Section II: Conservation and Management of Resources for Development » Section III: Strengthening the Role of Major Groups » Section IV: Means of Implementation

A difficult aspect of the issues and crises faced by the world is their highly complex structure. Aiming at economic, social, and environmental development separately is an easy mistake. The complex structure of the world's mega issues can be summarized in five crucial characteristics:

» **Interlinked:** Issues are mutually interlinked and reinforcing.

» **Systemic:** Issues are not isolated incidents, but rather based on systemic flaws in the relationship between business, society and environment.

» **Global:** Issues cannot be isolated locally, but are global in both impact and potential solutions.

» **Resilient:** Issues have been threatening and known for a considerable amount of time, but remained strong in spite of considerable solution efforts.

» **Convergent:** Joint issues development moving towards a planetary mega crisis, a show down.

As early as 1989, the Brundtland Report by the World Commission on Environment and Development aimed to create awareness of the unique threatening structure of global issues. The

term used was "interlocked crises":

> "...the various global 'crises' that have seized public concern, particularly over the past decade. These are not separate crises: an environmental crisis, a development crisis, an energy crisis: they are all one (United Nations, 1987, p. 20)."

The CIA World Factbook 2010 describes the global issues accurately. Interestingly the following description is integrated into the "economy" section of the World Factbook, indicating the close connection of economic and business activity with the issues faced by the world.

"Long-standing challenges the world faces are several. The addition of 80 million people each year to an already overcrowded globe is exacerbating the problems of underemployment, pollution, waste-disposal, epidemics, watershortages, famine, over-fishing of oceans, deforestation, desertification, and depletion of non-renewable resources (CIA, 2011)"

In order to achieve holistic, sustainable development, it is of crucial importance to understand the main global issues and their mutual interconnectedness. Some of the most critical global issues and crises are described in the following Figure 1.6. Of course, such a summary can only provide a basic, and inevitably fragmentary, working knowledge of the most important challenges faced by humanity. Each topic constitutes an extensive domain of specialized knowledge to the acquired by managers who want to contribute to the mitigation and solution of the respective issue to be addressed by responsible business conduct. See Table 1.3 for more information.

Figure 1.6 Planetary Mega-issues Overview

I. Demographics	II. Poverty	III. Environment	IV. Resources	V. Economic & political system
» Overpopulation » Educational challenges » Cultural differences	» Extreme poverty » Extreme hunger » Human Health » Global pandemics	» Climate change » Waste disposal » Biodiversity loss » Ocean crisis » Natural disasters	» Energy crisis » World water crisis » Food insecurity » Soil loss and desertification	» Economic system flaws » Wealth distribution » Globalization and trade system issues » Corruption

Links

Table 1.3:
» Planetary Mega Issues Overview

Chapter 1. Conclusion

In order to have a sound basis for what responsible business means today, one has to understand from where the concepts comes. This chapter has given an extensive overview of the historical development of the relationship between business, society, and the environment, which included the most influential streams of thought, general developments in world history, and the rise of important institutions exerting an influence on today's responsible businesses.

The general developments have been grouped into the three main phases: the classic, the modern, and the progressive periods. During the classic period, the stage was set for what responsible business is today. The classic period brought about important basics of the culture and values influencing business, the main developments of ethical thinking, and a focus on human and labor rights. The classic period also includes the historical roots of today's unsustainability and the birth of ecology. In the modern period, responsible business became formalized as a generally recognized field of research and business practice. Civic movements with social and environmental purposes, the development of important responsible management-related institutions, and the academic field of corporate social responsibility assured a general recognition of the topic. The progressive period occurred when responsible management moved mainstream and became a popular trend. Issues, scandals, crises, and the new green pop culture developed a universal awareness of responsible business. Those events also served as a catalyst for the development of high-impact institutions supporting responsible business practices. The enhanced stakeholder outreach, due to flat globalization and the development of Web 2.0, increased the exposure of businesses' responsible or irresponsible practices. As a result responsible business moved to the top of the management and academic agenda.

The state of the planet is characterized by a set of interconnected social, environmental, and economic issues and crises. The interdependence of those three dimensions and the interconnectedness of major world problems make a systemic approach to solving them necessary. Several main global institutional frameworks are involved in guiding the efforts. Examples are the Millennium Development Goals, Agenda 21, and the World Development Indicators.

Chapter 2, "Understanding Responsible Business," will illustrate the responsible business frameworks which have been developed in order to mitigate, or in the best case even solve, the global issues derived and described throughout Chapter 1.

Section	Topics	Contents
History of business, society, and environment	Classic period, "Stage setting"	» Roots of business culture and responsible business » Origins of business ethics » Historical roots of today´s unsustainability » Development of human and labor rights » Birth of ecology
	Modern period, "Formalizing"	» Civic movements » Institutional infrastructure » Development of academic and practice tools
	Progressive period, "Mainstreaming"	» Issues, scandals, crises » Green pop culture » High-impact institutions » Flat globalization and interactive transparency
State of the planet	The planet as a sick organism	» Gaia Hypothesis » The planet as a mother system of environmental, economic, and social sub-systems
	The economy-society-environment system	Mutual dependences of... » ...Economy and society » ...Economy and environment » ...Society and environment
	The world´s most pressing issues and crises	» Interlinked and convergent issues and crises » Issue areas: Demography, environmental threat and degradation, poverty, resources, political and economic system

Chapter 1. Activities

Chapter 1. Review Activity

Chapter 1. Resources

» Browse the webpage "Forgotten Books" to read original sources documenting many of the topics mentioned in Chapter 1. For instance you will find Adam Smith's "Wealth of Nations", "Mohammedan Theories of Finance" by Nicolas P. Aghnides, and "An essay on the principle of population" by Thomas Malthus: (Forgotten Books, 2011): http://www.forgottenbooks.org

» Find out how close we are to solving the planet's most pressing problems by looking at the latest UN Millennium Development Goals Report (United Nations, 2011d): http://www.un.org/millenniumgoals/reports.shtml

» Also intriguing is the dataset describing the world development in the eight MDG sections from 1990 to 2009: http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT_ID=1336&REQUEST_TYPE=VIEWADVANCED

» Check on specific issues threatening planet earth by browsing through the Worldbank's world development indicators database: (World Bank, 2011b): http://data.worldbank.org/indicator

» The WWF living planet report provides a sound and extensive overview on the impact of human activity on the planet's ecosystems with a special focus on biodiversity (WWF, 2010b): http://wwf.panda.org/about_our_earth/all_publications/living_planet_report/

» Use the WWF footprint calculator to find out how big your personal footprint on earth is. How much are you personally contributing to the state of the planet? (WWF, 2011): http://footprint.wwf.org.uk/

» John Elkington, inventor of the triple bottom line people-planet-profit framework, explains how global issues and crises will converge into a "bloody" century (Elkington, 2011b): http://www.bigpicture.tv/?id=3459