

**SMC Working Paper**

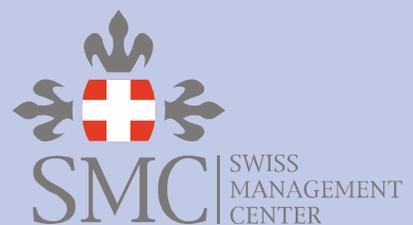
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## **The new Triad Power**

**Key Players in the promise of global CSR**

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## **THE NEW TRIAD POWER<sup>1</sup>: Key Players In The Promise of Global CSR**

Over the last 20 years Corporate Social Responsibility in all its forms<sup>2</sup> has increased in importance and taken center stage around the world. The growing importance of CSR has been largely a by-product of corporate and societal problems that reach far beyond national borders and affect persons far from the point of origination. These crisis events psychologically jar the larger global society reaching deep into the collective psyche forcing resultant reactions on the part of individuals and concerned organizations. Examples of some of the better known crises in the past that have remained durable in the minds of people everywhere include: Union Carbide in Bhopal, Shell in Nigeria and Nestle in Africa<sup>3</sup>.

These examples show that the world has become smaller and that crises remain with us physically, psychologically and legally for a very, very long time. In the case of Bhopal thousands of individuals died. The chemical spill created a long-term pollution issue and the psychological damage and stress to the people affected is revisited each time the event is brought back into the legal sphere, most recently in May 2008. Globalization it would seem has its demons as many of its detractors would remind us.

In recent years the focus of debate in the CSR movement, but most particularly for issues of sustainability, has moved from the management of individual crises or disasters to the consideration of more systemic problems, such as: climbing carbon emissions and global

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<sup>1</sup> Acknowledgement is given to Kenichi Ohmae and his renowned work on Triad Power. The title is used in this work to reflect a tri-party relationship based on functional roles as opposed to the geographic orientation of his work.

<sup>2</sup> For the purpose of this paper the terms: Corporate Social Responsibility (CSR), Corporate Citizenship (CC), and Corporate Sustainability (CS), will be used interchangeably.

<sup>3</sup> See the appendices for descriptions of these crises.

warming to water and food availability. These physical/social problems have been accompanied by ethical disasters in the boardrooms with such notable companies as: Enron, Adelphi, Tyco and WorldCom making headlines<sup>4</sup>. More disturbing is the case of Arthur Andersen the accounting firm convicted of obstruction of justice for shredding documents after the SEC launched an investigation into accounting practices at Enron. Ultimately Arthur Andersen, one of the largest accounting firms, was forced to cease operations. It would seem that unethical practices not only affect business but also affects those trusted to monitor those businesses.

The potentially negative role that business can play in the struggle between the ecological and economic systems has in a few short years become clear. Evidence that the engine of global economic growth is driving its way into unsustainable territory, that ultimately may cause a depletion of resources and possibly lead to a collapse of the very economic system upon which it is based, is available to all<sup>5</sup>. Experts and lay-people alike are aware that the time has come for action in order to avoid a possible catastrophe and collapse of our economic system in the near term. In recent months this has been made even more evident through large increases in both gasoline and food prices felt around the world disproportionately affecting the most disadvantaged groups in our society. These increases expected to ease only slightly over the next decade<sup>6</sup>. As many people intuitively believe a better way must be found.

Implicit in these events are a host of characters or players who by virtue of their economic and social power have the ability to radically change the underlying socio-

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<sup>4</sup> The Forbes Corporate Scandal Sheet identifies 22 corporate accounting scandals since the Enron case in October 2001 not including insider trading. Source: <http://www.forbes.com/2002/07/25/accountingtracker.html>

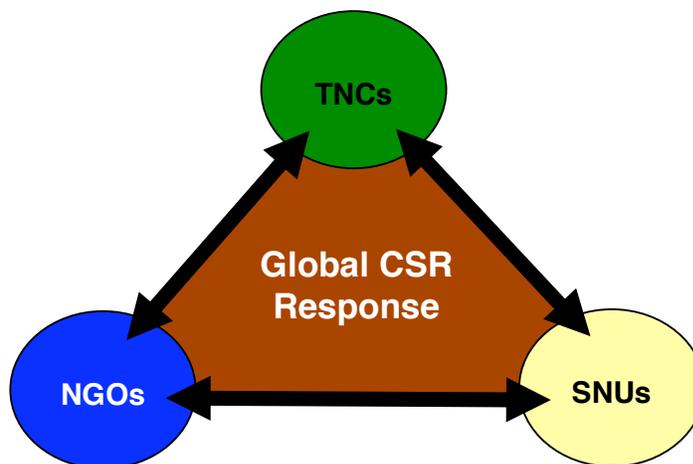
<sup>5</sup> See the United Nation Intergovernmental Panel on Climate Change at <http://www.ipcc.ch/> as well as The Stern Report on the Economics of Climate Change.

<sup>6</sup> See the Food and Agriculture Organization of the United Nations - FAO Newsroom at <http://www.fao.org/newsroom/en/news/2008/1000849/index.html>

economic system for the better and modify the future of the planet. Sustainability issues or crises as they are played out through corporate social irresponsibility affect the global community. In order to find a solution to these problems the very players who are accountable for creating the problem will be required to re-orient their perspectives and become part of the solution. Without this re-orientation a successful solution to the major problems facing humanity will not be found.

The thesis of this paper addresses the above thought that those players implicit in most of the negative history and many of the problems presently facing the global community are the very players that must be included within the solution. In fact, it is stated that a viable solution to the perils now faced will not be found without their inclusion, re-orientation and transformation. These actors include: Trans National Corporations (TNC), Non Governmental Organizations (NGO) and Supra-National Unions (SNU). Through their interaction and interdependency these actors form a triad of political influence and economic power that dwarfs the possibilities of other organizations and combinations considered.

**Figure 1: The New Triad Power: Global CSR Response Interdependence**



*The above represents a balanced*

*relationship between the TRIAD partners.*

These three entities work in a symbiotic and self-reinforcing relationship and only through this inter-reliance can a solution powerful and focused enough be developed to redress the pending ecological damage and return the world to an economically sustainable future.

### **How We Reached This Crisis State**

Returning the world to a state of sustainability requires a look back to the causes or roots of the problems the world is now collectively facing. It is far too easy to point a finger and simply blame Transnational Corporations for the ills affecting the planet. The world is an interconnected system of economic and social organizations that together have laid the groundwork for the errors and omissions that have enabled both corporate and social irresponsibility to flourish.

Globalization<sup>7</sup> in itself is probably the greatest antecedent. Yet, it is difficult to state that globalization in itself is the cause. On the one hand globalization has created economic and social dislocations that have caused hardship in differing forms. Whenever society experiences a system change there are dislocations. An example of this is off-shoring or outsourcing<sup>8</sup> of both core and non-core business processes. The Indian worker who now is able to earn a substantial increase in wages due to the new position within a call center in Bangalore represents the call center attendant in Houston who is now put out of work. Or the

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<sup>7</sup> “American firms expanded their global reach significantly during the past two decades, in both production and sales. The proportion of sales outside the United States by the largest US firms (in manufacturing, retail, transportation, and finance) increased from less than 14 percent in 1985 to more than 30 percent in 2001, with only a slight drop in the aftermath of 9/11...The fact that international trade grew faster than global output, both for the world as a whole and for nine of the ten largest countries (Japan being the lone exception), while foreign direct investment (FDI) grew still more rapidly than both, indicates that the same phenomenon was occurring in other major industrialized countries as well.” [Davis G., Whitman M., Zald M., 2006: 14]

<sup>8</sup> “Outsourcing, that is, moving a variety of “non-strategic” activities from in-house to outside suppliers, continues to be seen as a major means of decreasing costs and increasing efficiency by a growing number of American corporations.” [Davis G., Whitman M., Zald M., 2006: 13]

transfer of core manufacturing jobs to a lower wage country in South America, for instance, modifies the traditional nature of the original corporation to that of a more virtual entity<sup>9</sup>. Taken on an individual basis the shift can be justified by corporate efficiencies, national arbitrage and reworked global values chains producing increased short-term profitability - something that is good for the company. Magnified across an industrial sector, or the economy as a whole, and the seemingly benign management technique manifest itself as a plague against a whole strata of national workers. These workers watch their jobs disappear en masse in a relatively short period of time often fueling sentiments of nationalism and distrust of business entities and elites.

Yet, we also see that globalization has been the greatest asset in the fight against global poverty without which hundreds of millions of people in both China and India as well as elsewhere in the world would not be lifted out of their rural bondage and persistent impoverishment. For example, as of 2001 in China more than 400 million fewer people lived in extreme poverty as compared to 1981<sup>10</sup>. When taking a global perspective looking across national borders one person's view of corporate national irresponsibility, the outsourcing of one nation's jobs, is another person's view of corporate global responsibility and poverty assistance. It is precisely this point that makes it difficult to point a finger at globalization as the cause of economic and/or ecological ruination.

There is no doubt that the benefits of globalization have been enabled by technology. More specifically the technology that forms the underlying superstructure of the globalization system adheres to certain Laws that ensure that its forward facing effects will more than

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<sup>9</sup> "Indeed, by the turn of the century, a number of large "Manufacturing" firms were in fact manufacturing nothing at all. Companies like Sara Lee sold off nearly all their manufacturing plants and became, in essence, "virtual" manufacturers, taking charge of design, marketing, and distribution but outsourcing the actual manufacturing to suppliers, following a model pioneered by Nike." [Davis G., Whitman M., Zald M., 2006: 11]

<sup>10</sup> Source: The World Bank.

multiply out into the future. The laws are given to us by such notable scientists as Moore<sup>11</sup>, Gilder and Metcalfe whose insights promise that the global technological system will continue to expand exponentially, become cheaper and thus more valuable as it grows. Suffice it to say that this process is virtually unstoppable. Globalization as it is aided through technology is not going to slow down or disappear any time soon; in fact it will become more pervasive.

The difficulty with globalization and the exponentially increasing technologies that enable its growth is that the present and past economic systems of the world have been developed with checks and balances that are typically based on concepts born of national economies. That is, since early world economic history organizations and nations have exchanged goods based on a system of balance of trade. Measurements such as GDP and GNP are meant to give indication as to a country's relative strength with per capita quantum indicating one's membership within the developed or developing classes. Ingrained in this view is the thought that resources are scarce and that one country's gain is another country's loss. Thus, with a mercantile and imperialist mindset national economies exploited foreign resources through colonialization and fought to protect themselves with trade barriers, duties and other countervailing measures to protect nascent and home grown industries. To a certain extent these measures proved mostly successful for the developed/exploiter countries involved. Naturally, the exploited countries did not fair so well and even today face the economic and psychological burdens of their collective histories. It is important to note that much of what is considered to fall under the purview of Global Corporate Social Responsibility for transnational corporations today, i.e.: helping to (re)-build the resources of host countries – particularly in Africa, is actually a product of the exploitive actions taken by

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<sup>11</sup> "If Moore's Law continues, within 25 years a computer could possess the processing power of the human brain; 25 years after that, it could have the total processing power of all human brains". Source: 2007 State of the Future Report.

the early examples of TNCs within those regions and economies. In many respects it is impossible to run away from history.

With the advancement of free-trade the world has entered a period where many of the duties and trade barriers have come down or been dismantled. These measures have sent aftershocks through previously protected industries and uncompetitive marketplaces as businesses react to the freer movement of goods and services and take advantage of lower cost jurisdictions both from the standpoint of factors of production and taxes<sup>12</sup>. Dislocations abound with entire national industries becoming unprofitable or uncompetitive. This drastically changes not just the economic backdrop of the nation but also the social and spiritual fabric that weaves its way through every part of society. The result is societal unrest and demands to turn back the clock to the days of protectionism.

What is not blatantly clear to the masses, as are the dislocations and externalities, are the cost reductions that occur due to globalization as implemented through trade barrier reduction and specialization. As David Ricardo explained, in his theory of comparative advantage, people are better off if countries are able to specialize in the production of a good where they hold a comparative advantage and trade with other countries for other goods, as opposed to trying to produce all goods themselves. This theory has formed the cornerstone for the liberalization of freer trade that the world has experienced over the last decades.<sup>13</sup> In practical terms, for the consumer, the cost of goods is reduced while the availability of those goods, and all goods in the marketplace, is increased in comparison to what would otherwise

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<sup>12</sup> “American firms frequently locate their nominal headquarters or subsidiaries outside the country for tax purposes, while a few multinationals have split their jurisdictional loyalties so many ways as to erase any semblance of national identity. Tommy Hilfiger Corporation in 2001 “had its corporate headquarters in Hong Kong, was legally incorporated in the British Virgin Islands, listed its shares on the New York stock exchange, held its annual meeting in Barbados, and contracted to have its products manufactured in Mexico and Asia” (Davis and Zald, 2005: 338)” [Davis G., Whitman M., Zald M., 2006: 16]

<sup>13</sup> Total trade as expressed by the summation of all imports and all exports across all national economies rose from \$11.3 Trillion in 2002 to \$20.1 Trillion in 2006 at an average rate of 15.5% per annum. Source: OECD.StatExtracts. See Appendix.

be available under a protected system. However, since there is no comparison point, as you either function under a protected marketplace or a freer marketplace, consumers are not able to quantify for themselves the marginal benefit of globalization and free trade<sup>14</sup>. This is the primary reason that the media display an heightened focus on the dislocations of globalization and trade liberalization without the counter balancing economic arguments pointing to its tangible benefits.

To a certain extent media is a child of technology. Though it precedes technology it too is enabled by technology. Media can bounce a message or news item across the world in seconds so that events in Burma are in your living room within the shortest time delay possible. The speed at which this is made possible has empowered large groups within society who otherwise feel disenfranchised with respect to the aforementioned economic and societal dislocations. In the last decades the growth of transnational corporations (TNCs) has only been met by the growth of nongovernmental organizations (NGOs).<sup>15</sup> One might say that the two are interlinked in a type of codependent relationship. One cannot exist without the other and is dependent on it for its “raison d’être”. As with transnational corporations, nongovernmental organizations are made even more powerful and far reaching through the very technology that the targets of their message also use. The very technology that creates the “*problem*” of globalization is the very technology used in order to combat it.

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<sup>14</sup> “Policies that make an economy open to trade and investment with the rest of the world are needed for sustained economic growth. The evidence on this is clear. No country in recent decades has achieved economic success, in terms of substantial increases in living standards for its people, without being open to the rest of the world”. Source: IMF, “Global Trade Liberalization and Developing Countries: Benefits of Trade Liberalization”.

<sup>15</sup> “The first International NGO (INGO) was the Anti-Slavery Society formed in 1839. By 2000 there were more than 37,000 INGOs and over 20,000 transnational NGO networks. Over \$7 billion in aid to developing countries now flows through INGOs. About 2,150 NGOs have consultative status with the UN Economic and Social Council, and 1,550 are associated with the UN Department of Public Information. However NGOs do not have consultative status with the UN Security Council or General Assembly. Only 251 of the 1,550 NGOs associated with the UN Department of Public Information are based in developing countries. Of the 738 NGOs accredited to the WTOs 1999 ministerial conference in Seattle 87% were from industrial countries.” Source: UN Human Development Report 2002 at <http://hdr.undp.org>

The strong growth of NGOs is also due in part to the inability of local, state and national governments to address larger problems and issues that have percolated to the surface for their constituents. Traditional issues such as declining budgets and increases in the overall financing charges to support existing government debt reduces the scope of service that local municipalities, state and federal agencies are able to provide<sup>16</sup>. Moreover, many of the new priorities in the global arena felt by constituents go beyond the ability of these governments to monitor or control. That is, many of the issues are either transnational or x-national in nature. As a result more and more ordinary people are joining nongovernmental organizations and agencies in order to make their voices heard and ultimately to make an impact. Whereas citizens would have previously resorted to dealing with their legislatures, or members of government in order to effect change, they are more readily willing to turn to NGOs for support and commitment. These NGOs have played a critical role in the global democratic process and provide a venue and outlet for social discontent that otherwise would not be available to millions of people.

Countering the positive effects of the aforementioned high rate of growth and increase in the importance of NGOs is the issue of duplication of effort, competition between similarly mandated NGOs, lack of efficacy within their own governance and operational structures as well as the potential for damage to their reputation due to irresponsible behavior. Too often well meaning NGOs are either under funded and therefore ineffectual or their efforts are duplicated by other NGOs creating an aura of competition in a cacophony of movement and intent. Often, a small percentage of radical groups take over the media and present to the world a chaotic view of NGOs whose seemingly only intent is to drive attention to their role<sup>17</sup>.

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<sup>16</sup> “Sometime between 2030 and 2040, non-discretionary spending alone will exceed government revenues, under present tax policies”. Source: GAO “The Federal Government’s Financial Health-2007”. See Appendix.

<sup>17</sup> The protest activity surrounding the 1999 WTO Ministerial Conference in Seattle is a prime example of radical behaviour taking over the agenda of NGOs to the detriment of any useful or productive purpose.

The history of recent G8 meetings is a prime example of how all NGOs can be painted with the radical brush in the view of the media and the minds of its viewers.

Thus, we see in looking back through the last twenty years, in particular the discussion of Global CSR, Global Corporate Citizenship and Global Corporate Sustainability has continued to take on a greater sense of importance. The discussion has evolved as concepts of CSR and Sustainability have themselves evolved from dealing with disaster events and crisis management to considerations of more systemic issues. Today's world of Global CSR in many respects is forced to correct the mistakes of our early mercantilist and imperialist history where the exploitation of resources and people was the accepted reality and became embedded in the human psyche as acceptable. Many parts of the world are still grappling with the historical implication of these events and this mindset. But most importantly the last decades have sharpened our view, thanks generally to the work of the international media, of both the good and bad effects that globalization brings by way of freer trade, international finance and technological progression. The occurrences of ethical disasters and crises in the boardroom show that at the center of the debate lies the issue of trust.<sup>18</sup> Trust represents the major criterion around which GCSR will find its inflexion point moving from an individualistic pursuit by self-serving entities to become a collective pursuit by interdependent members of a global community who understand that the health of the global commons depends on finding common heritage, common insight and common action. It is to this important point that we now turn.

### **A Glimpse At The Future**

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<sup>18</sup> “Trust” is a key issue for building social capital and more sustainable societies and lies at the heart of effective corporate citizenship but as we all know trust has to be earned. In the worlds of Anne Lawrence, when writing about the multinational company Royal Dutch/Shell, and the measures this company has taken to improve its social and environmental performance, earning this trust comes about “as the result of an ongoing process of making and keeping commitments.” (Lawrence, 2002:194). It requires relationship building, and that in turn requires knowledge and understanding from all parties involved in the relationship.” [Birch, D, 2004: 5]

On moving forward to a solution influencing the degradation of the commons individuals, governments, corporations and organizations must recognize that some of our most closely held beliefs must change. Two of those beliefs that are critical in the redefinition of the problems of Global Sustainability are: the primacy of the Nation State and the concept of self regulating markets.

Historians generally attribute the concept of national sovereignty, or the formation of the Nation State, to the Peace of Westphalia in 1648 that brought the end to the Thirty Years' War in Germany and the Eighty Years' War between Spain and The Netherlands. Since that time the primacy of the Nation State has been upheld in practice and in international law as well as with religious issues affecting the State. The term Nation State reflects both the thought of a cultural as well as geographic homogeneity. That is, the State defines the geographic borders while the Nation typically defines the people found within those borders<sup>19</sup>.

Through the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> centuries the concept of the Nation State served humanity in so far as it provided a workable framework under which much of the world's political and economic issues could effectively be managed. Issues typically revolved around trade, colonization, taxation, border disputes or war. Most of these issues were controlled by way of treaty or bilateral/multilateral agreements. When these treaties broke down and states were unable to resolve their differences the result was typically war or invasion. In the era of the Nation State the ultimate trump card is war and the ultimate reward is extended territory and increased natural resources. Wealth is directly related to land and natural resources upon which the economies of the time are based. Because of this mentality Nation States were constantly investing in their armies in order to provide a defensive posture against other

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<sup>19</sup> Some Nations are borderless such as the Jewish Nation. Even though there exist Israel as a State the Jewish Nation refers to a people that can be found throughout the world. Other Nation States reflect an extreme level of homogeneity amongst their people who typically reside in a well defined region, such as Japan.

Nation State's who might wish to increase their wealth by way of territorial expansion. Territorial expansion and colonization were the primary methods of attaining more and more resources and thus greater wealth for the home country's inhabitants. This is the precise reason for European expansion in to Africa and other parts of the globe as well as for intra-European conflict.

In the 20<sup>th</sup> century things began to change that would bring into debate the efficacy of the Nation State paradigm<sup>20</sup>. Wars increasingly became more expensive<sup>21</sup> and destructive<sup>22</sup> as a means for dispute settlement. Moreover, the legitimacy for a Nation State to wage unilateral war no longer remained an accepted belief, a concept that was a founding principle of the Nation State<sup>23</sup>. Economies have become more diversified and reliant on knowledge and human resources as the driving factor as opposed to natural resources. Mobility and large scale immigration was made possible by new technologies<sup>24</sup> reducing the importance of unique nationality as a defining factor in a person's identity. Due to the mix of the above factors many issues have become transnational rendering a viable solution beyond the grasp of an individually acting state<sup>25</sup>. Together, both changing social and economic factors create a decreasing importance of individual Nation States as we move forward in time.

Nevertheless, the death of the Nation State may be over stated. People the world over still make reference to themselves as American, British or Japanese and one can say that the psychological shift to larger regional identities has yet to take place. Practically speaking,

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<sup>20</sup> In fact scholars throughout the centuries have spoke of the decline of the Nation State, including such notables as: Kant, Karl Marx and Bertrand Russell [Drucker 1997]

<sup>21</sup> The cost of the Iraqi war is estimated at \$526 Billion as of June 2008 and increases at a rate of \$324 million per day. Source: [http://www.nationalpriorities.org/costofwar\\_home](http://www.nationalpriorities.org/costofwar_home)

<sup>22</sup> World War II is credited as being the first Total War where the demarcation between civilians and military personnel as legitimate targets no longer held importance.

<sup>23</sup> Recent examples of this are the Gulf War where the invasion was carried out by a coalition of forces and UN security backing and the Iraqi War where there was an overriding necessity on the part of the United States to prove the existence of weapons of mass destruction and obtain UN security council approval.

<sup>24</sup> International travel by automobile and airplane has greatly changed the nature of personal mobility in the 20<sup>th</sup> century.

<sup>25</sup> Kenichi Ohmae's famous book, Triad Power, introduced the concept of growing regional power of trading blocks based on economic factors that would eventually render individual states redundant or less relevant on the world stage.

most of the international community still functions on the basis of the Nation State as the primary metaphor and administrative unit for binding agreements between sovereign entities. Further, the number of Nation States has steadily increased across the years with recent evidence of new states forming from former imperialist and communist regimes as far a field as Africa and Central Europe. Thus, we see that the case of the Nation State may not be one of either disappearance or demise as much as relevance. The concept of the Nation State is not static. It modifies itself depending on the prevailing socio-economic environment. For newly democratized countries the level of relevance of the State is high. Their countries are new, immature and unproven. Further, the inhabitant's claim to democratic rights is tentative at best, particularly in former regions governed by totalitarianism or collectivism, such as the former Soviet Union. In these circumstances the State still proves to be an all important actor within the minds of its constituents and neighboring countries due to its newness and unproven record. Often these newly democratic states are the sole protectors of newly achieved personal freedoms and rights that for decades hung in the balance. In more established Nation States the inalienability of such issues as personal rights of freedom, economic property rights and the Rule of Law is so entrenched as to make any thought of their disappearance or subjugation seem unimaginable. One could say that there is a difference in relevance or primacy for the Nation State in the eyes of its constituents depending on that country's level of development or relevant life cycle position along a democratic maturation and standard. The farther down the natural life cycle development of the Nation State, and maturity in the establishment of basic human rights and freedoms, the more its inhabitants will accept those rights as being inseparable and thus place less primacy on them and overall importance of the state from an immediacy standpoint, all other things being equal. Otherwise said, they become assumed rights not rights that you have to worry about each day.

The fact that some nations are positioned early in their democratic development while others are more established accounts for some of the movement and timing on the part of independent states towards Supra National Unions such as: the EU, NAFTA and ASEAN. Typically, Supra National Unions are formed by states that are confident in their relative power positions vis à vis their partnering states. Confident in those relations and with a commensurate level of control over their own existing economies they are willing to relinquish some control over their sovereignty to the Supra National Union. This is the case for the EU and though there may be political arguments supporting the concept of an united Europe the primary motivator for the creation and expansion of the EU is market dominance and capacity to compete for its member countries. Recognizing this as the *prima facie* of Supra National Unions we can argue that in a marketplace dominated by globalization SNUs are expected to become even more concentrated with new independent states being added. In the future states not part of a Supra National Union will be at a great disadvantage to those that are able to call on its collective clout and bargaining power.

The above shows that the concept of the Nation State is changing due to systemic and individualistic considerations. The 20<sup>th</sup> century has introduced significant changes that have reoriented the role of the Nation State. Further, the level of importance held within a society towards the validity of the Nation State is dependent on the particular history of that state under consideration. For more established states the primacy of the state is giving way to the importance of more collective notions of common markets and unions. For less established newly democratizing states a period of stabilization is required for them to establish their legitimacy and power as well as economic governance in order to be able to make a smooth transition to Supra National Union membership. With the relentless focus on economic competitiveness in the age of globalization the process supporting the enlargement of SNUs is expected to continue with them becoming more potent both economically and politically.

For issues of Global CSR the above trend is important in so far as it precedes the increasing importance of shared responses to crisis events and systemic sustainability issues in the world. National economies and political realities are inevitably intertwined, especially as supported through the mechanism of SNU. We have increasing evidence that the issues of sustainability that affect the world at large are transnational in their nature as earlier discussed. Being transnational these issues require a transnational response that only SNUs are able to effectively mount. Through the collective action of the SNU individual member states are able to coordinate and harmonize their policies and actions to effectively mediate or address transnational issues. Without the over-arching umbrella of the SNU member states would otherwise remain powerless and paralyzed with respect to mounting an effective response to global corporate irresponsibility and sustainability crises.

As important as the potential transnational response by the SNU to global sustainability issues is, equally important is its influence and effect on both small and large and foreign states who are forced to adopt policies in order to exchange goods and services within the territories of the SNUs. In particular, smaller states that lie outside the SNUs that trade with them are effectively trapped within its sphere of influence and are forced to incorporate SNU standards and practices into their products and production methods.<sup>26</sup> Otherwise stated, they are forced to play by the rules of the SNU and not their home country if they wish to be allowed access to the large marketplace of the SNU. This creates a type of ripple effect across non-SNU member national borders with respect to values and belief systems held within the SNU. Effectively trade mechanisms enable the SNU to exports its

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<sup>26</sup> “Thus it is that a wide and growing variety of consumer products made by firms based outside the EU have been or soon will be adapted to meet EU safety, environmental, and recycling rules. As Jeffrey Immelt, CEO of GE, put it: “Europe is in many ways the global regulatory superpower. It can speak with one voice and a degree of certainty.”” [Davis G., Whitman M., Zald M., 2006: 31]

value set and belief systems to non-SNU member countries. This can be a powerful force for democracy through the reinforcement and promotion of the SNU's value set and belief system based on the economic necessity of the non-SNU member country. The overall effect or global impact of the SNUs is reinforced by its own member states understanding of the above process. In being able to see the SNU not simply as an economic mechanism meant to reinforce competitive postures but also as a vehicle to promote democracy, export values and effectively deal with issues of sustainability well beyond their borders, the potential for positive change in the global world along several fronts is made more visible and attainable. The SNU provides Nation States with a viable mechanism whereby they may both protect their existing economic positions as well as reinforce their political standing and influence within the global community while effectively mounting a coordinated response to many transnational challenges. The mind shift away from the primacy of the Nation State and towards the Supra National Union is a must if Global CSR and planetary sustainability is ever to take root.

The second major assumption that is generally accepted within both the global community and national economies is that of the efficiency of the self-regulating market. This concept on the global scale is a variant of the invisible hand of Adam Smith used to describe the efficiency model of libertarians and liberalist. The thought is that markets left to their own mechanisms will regulate so that capital and factors of production are used in the most efficient manner. Being efficient it is in the best interest of all players to let the market be.

The major problem with the above as it relate to Global CSR is the concept of externalities. Essentially externalities are by-products of the economic system whose costs are not necessarily incorporated in to the cost of the goods produced. Pollution is the best example of an externality that through the 20<sup>th</sup> century has created the most unaccounted for

damage to the collective commons. As it has been in the past the cost of a production method often excludes the cost of its by-products which are transferred to the commons by way of dumping some of which remain highly toxic and whose costs to remediate remain unknown far into the future. A specific example is that of General Electric and the Hudson River where the company is reported to have dumped close to 1.3 million pounds of cancer causing PCBs into the river over a 30 year period from its Hudson Falls plant. The eventual cost to clean the river, if at all possible, never makes it to the cost of the product and in that sense the product carries a false price, one that does not include all the cost of its manufacturing. The market is not efficient and does not self-regulate in consideration of all the cost of production.

If we reflect back on the concept of self regulating markets there are a few arguments that need to be made. First companies such as General Electric would state that they have done nothing illegal and that their actions were permissible under the law existing at the time. Morally, they take a very relative view of the matter. From a consumer standpoint we see that self-regulating markets function based on the concept of complete or transparent knowledge. This essentially means that when comparing different products consumers are able to know the underlying attributes of each competing product and are able to make the most logical decision that satisfies their needs. This also means that the consumer would pick a product that would provide the greatest benefit and the least amount of harm. The general problem with this assumption is that market knowledge is not universally known by all participants and many "*attributes*", otherwise called externalities, of the product that cause harm remain hidden and unknowable. Looking back on the major assumption of self-regulating markets is the fact that they are supposed to create the greatest amount of net benefit to the end consumer. However, if by definition much of the harm in the form of externalities is not accounted for in the price of the product, as in the case of G.E. mentioned above, then it is impossible to state that self-regulating markets are ultimately to the benefit of the consumer.

Otherwise stated, we would not be able to make that claim unless all cost associated with a product are included in its cost of manufacturing and ultimately its market price and not hidden or transferred to the commons through such methods as toxic waste dumping.

The above brings forward two important considerations. The first is that the example provided of G.E. was domestic and not transnational in nature. Nevertheless, the ability to bring this situation to an acceptable solution for all stakeholders secure in the fact that the pollution has been or will be remedied satisfactorily and no health issue persist has proven very difficult. If this case would have been transnational in nature the argument could be made that the ability to remedy the pollution and return the area back to an environmentally satisfactory condition would be many times more difficult. It should be kept in mind that transnational issues that involve multiple layers of government by definition are several times more complex and vexing than their domestic equivalents.

The second point to make is that markets based on self-regulation and self interest tend to gravitate away from equilibrium, contrary to economic theory. That is, in its pursuit of profits the market focuses on short-term results and stock price becomes the overriding metric with greed and often fraud being the result as exemplified by the earlier noted ethical scandals.<sup>27</sup> Layer on top of this the increase in the movement and fluidity of capital, since the introduction of floating exchange rates in 1973 by President Nixon, and the potential for transnational crises increases exponentially. Aided by technology capital can move around the globe in seconds, merely at the push of a button, and can have a larger effect on a country's exchange rate than national governments are able to control. Others negative impacts that the movement of vast amounts of global money can have include: "enfeebling national powers of

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<sup>27</sup> George Soros the financier of international renown mentions: "Although I have made a fortune in the financial markets I now fear that the untrammled intensification of laissez-faire capitalism and the spread of market values into all areas of life is endangering our open and democratic society. The uninhibited pursuit of self-interest results in intolerable inequities and instability" [Schlesinger, 1997]

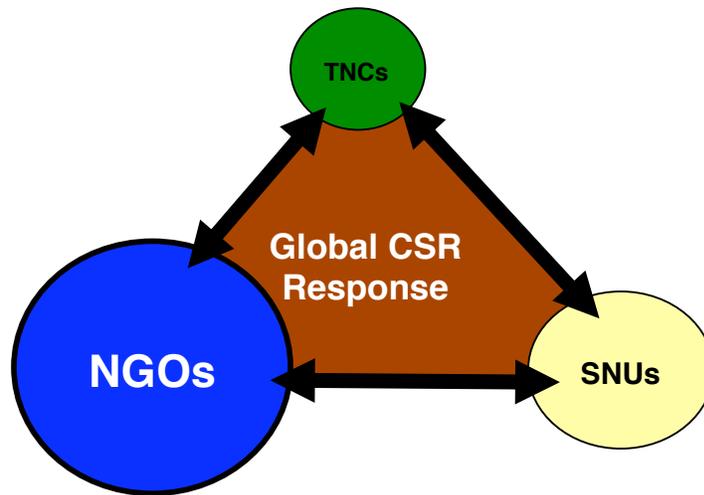
taxation and regulation, undercutting national management of interest and exchange rates, widening disparities of wealth within and between countries, dragging down labor standards”. [Schlesinger, 1997] Though the above points are less physical in nature as compared to pollution they have a real impact on Global CSR as the power of capital movements in the virtual world, whose only concern is to find a suitable return, impacts the long-term viability of both developed and developing nations and the sustainability of the entire economic system. What nations need is for long-term perspectives to take hold and direct decision making for the benefit of all citizens, not just those of a particular region, country or multinational/transnational corporation. However, it is believed that the long term perspectives required will only be initiated by the intervention of government bodies (SNUs) and public leadership (NGOs) and is where the Triad of TNCs, NGOs and SNUs obtains its moral and ethical grounding. Together with enlightened business approach and perspectives positive change to the stewardship of the commons can be created. It is now to this that we turn our attention.

### **The New Triad Power**

By now it is hoped that the groundwork has been laid well enough to support the understanding that many of the most important issues of sustainability and CSR are transnational in nature. Further, any effective response to those issues and challenges must be mounted by an economically, socially and politically powerful coordinated effort on the part of TNCs, NGOs and SNUs working in tandem in a symbiotic and self-reinforcing manner. Figure 1, previously shown, identifies the ideal situation where all three entities share a balanced and functional perspective and response each acting and reacting within their own

area of expertise yet interdependent on a coordinated response from and with the other partner or parts of the system. However, it is possible for this system to become unstable or dysfunctional.

**Figure 2: Dysfunctional Triad Response**



*The above represents an unbalanced or dysfunctional relationship between the TRIAD partners.*

Dysfunction typically results when the needs of the larger community constituents and stakeholders are not adequately satisfied in lieu of competing interest of others players. In this case, one or two Triad partners begin to override and compensate in various magnitudes for the lack of stability or action in the remaining deficient partner area. Being dysfunctional the system is typified by actions that encompass: anger, discounting, denial, aggressive behavior, codependent inaction and outright silence as opposed to directed action and directed thought<sup>28</sup> of collaborative interdependence.

In order to operate functionally the system must address the underlying psychological, theological and legal beliefs of the larger community and mount the appropriate response that includes proportional action on the part of all three Triad partners. In the previously

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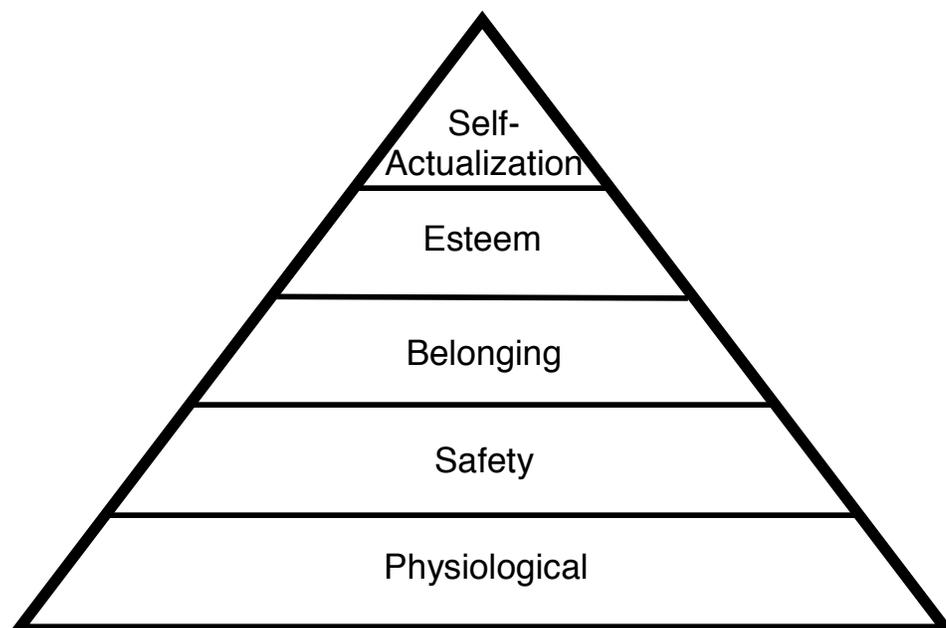
<sup>28</sup> “Each approach is based on one’s decision to either respond in a proactive or reactive manner to the crises incident, or ignore it altogether. Each is based on the adaptability of our [the] belief system” [William 1993]

mentioned case of General Electric and the Hudson River pollution we see examples of denial, discounting and silence on the part of the company. In the case of the belligerent NGOs at the G8 Summits we see examples of anger and aggressive behavior. Both cases are examples of dysfunctional responses to underlying causes that resulted from an imbalance in the relationship of responsibility of Triad partners back to the larger community. Actions were exemplified by restrictive behavior and not expansive and creative thought leading to directed action as was needed to satisfactorily remedy the situation. As the model predicts, if a crisis situation or systemic issue is not dealt with an appropriate response that addresses the needs of the community by all three Triad partners then the system will be out of balance and compensating behaviour, usually dysfunctional in nature, will occur.

### **3-Dimensional Approach to Global CSR**

The psychological underpinnings of the New Triad Power of Global CSR can be represented by the famous Maslow hierarchy of needs as incorporated in to the model. The premise is that society as a whole seeks to maximize its position along the Maslow continuum potentially reaching as high a level as possible to ultimately achieve self-actualization.

**Figure 3: The Maslow Hierarchy of Needs**



The first four levels of the pyramid are labeled deficiency needs. When they are not met the individual, or in our case – society, experiences stress. When one of the Triad partner’s actions refuses to meet the needs of the larger stakeholder community the individuals in that community experience stress and collective compensating behaviour will be the result, as in the reaction at the G8 meeting earlier mentioned. The result is a variant on Figure 2 where one or two triad partners are deficient in their response to the community’s needs and equilibrium is lost. Necessarily, the highest position that society can reach along the Maslow hierarchy is that position which represents the lowest position held by any of the three Triad partners. Thus, the collective Global CSR response is only as strong as its weakest link/partner and is why these partners must work in a collaborative and integrated manner incorporating self-reinforcing perspectives. Each partner must recognize that a weakness in their opposite partner is also a weakness that ultimately limits the overall response and satisfaction derived from the system for its underlying constituents. Moreover, it is in all the Triad partner’s benefit to satisfy these constituents as much as possible so that society as a whole can achieve a collective sense of actualization.

**Figure 4: The Relative Hierarchical Positions of the Triad Partners**

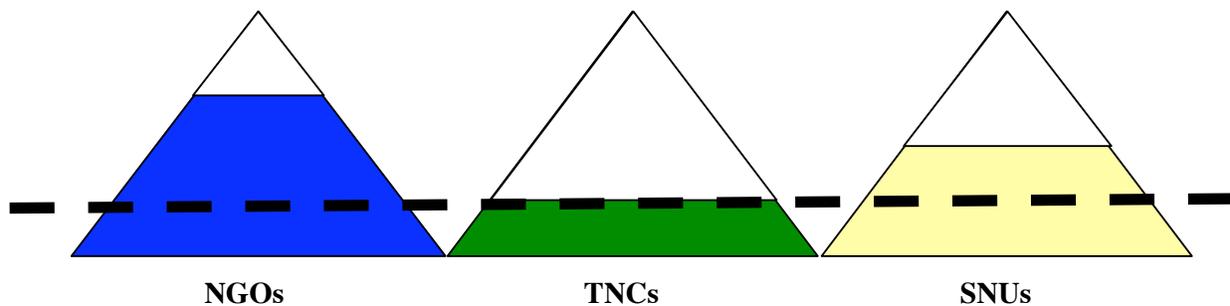


Figure 4 represents the psychological positioning of the hypothetical Triad partners in Figure 2 with respect to the Maslow hierarchy. We see that the NGOs are placed higher up the

pyramid as they primarily respond to the underlying needs of their constituents with regards to belonging and esteem. Likewise the SNUs are placed at mid point as they primarily address issues of safety and belonging. TNC are placed low on the hierarchy as they typically respond to the satisfaction of basic and/or safety needs. As mentioned, in order for society as a whole to attain self-actualization all previous level needs must be fulfilled. The above splits the levels into categories that are typically responded to by separate Triad partners, however it must be kept in mind that all partners play a role in each of the Maslow hierarchical levels. The important point to remember is if one of the partners does not satisfy its primary role or refuses to act in a collaborative manner the entire system is limited to that level of operating.<sup>29</sup> Otherwise said, if a business pollutes the environment and refuses to address the situation that they have caused by using stall tactics, silence or aggressive behaviour through litigation then the entire system of needs satisfaction for the society is limited to the Safety level of the hierarchy. People will fear for their health and safety due to the remaining threat of environmental pollution. This naturally will throw the collective system into dysfunction and counteracting behaviour by the other Triad partners whose responsibility it is to address this lack of responsibility will be stressed. In the case above, the moral/spiritual/trust obligation will fall on the NGO partner<sup>30</sup> while the legal obligation will fall on the SNU partner<sup>31</sup>. Since the system is out of balance and in a state of dysfunction the resulting reactions will necessarily be typified by dysfunctional behaviour. The NGO may result to violence or aggression in order to be heard. The SNU may result to punitive action and far reaching legislation in order to control its economic citizens and elicit the necessary behaviour.

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<sup>29</sup> “MacIntosh argues that if we are to create a truly sustainable society, what he call “a shared home for humanity”, for both ourselves and for future generations, we absolutely need to develop “trust in, love of and belief in, planet home” (p27). Corporate citizenship argues that such a position is a non-negotiable, non-discretionary, position for all of us to take – business, government and civil society.” [Birch D., 2004:6]

<sup>30</sup> In reference to two world-wide surveys conducted for the World Economic Forum in 2002 questioning over 36,000 people in 36 countries Professor David Birch comments that “Big companies, together with legislatures and parliaments, are the least trusted entities in the world, while NGOs are the most trusted” [Birch D., 2004: 1]

<sup>31</sup> “Thus while the literature on CSR typically highlights anecdotal evidence of corporate altruism (e.g., the oft-repeated story of Merck’s development of its river blindness drug—see Margolis and Walsh 2003 for a critique), our reading suggest that regulation may be a surer path to soulful corporate behavior than good-hearted executives.” [Davis, Whitman, Zald 2006: 9]

Individual citizens may punish the corporation by refusing to purchase its products and thereby affect its economic standing. All these behaviors are a result of the imbalance in the system and the need to regain functional operation and response. Only through striving for collective actualization and collaborative solutions will society be able to eradicate the world's most persistent social issues, such as: poverty, global warming and the energy crisis.

## **Synthesis**

The world of Global CSR is typified by transnational issues and crises that are a product of our historical maturation as individual country entities. Effective response to these global ethical, moral and physical problems requires the response by society's most socially, economically and politically powerful players in a collaborative and integrated manner. NGOs, TNCs, and SNUs constitute the most logical entities to collectively address global issues. Shifts in our most cherished concepts of Nation State and self regulating markets are needed in order for players to see and appreciate the interconnectedness of the system.

These players acting creatively and collaboratively as a Triad are able to satisfy the underlying needs of the larger stakeholder community and move society into a transformational direction where heretofore self-serving actions are replaced with more society-centric trust building actions. The understanding that individual benefit is ultimately limited by the benefit afforded society as a whole must become paramount. In the end societies that refuse to act and respond in accordance with the principle of collective action for collective gain will be economically punished as the Triad system will be thrown into dysfunction. Reaction will occur that most likely will be ultimately punitive until balance can be restored. Ultimately restoring balance by way of punitive measures through the courts, by legislative authorities or by consumer reaction will cost the global community more than

maintaining that balance through proactive responses based on trust, open communication, transparency, community understanding and a heightened recognition of our own interdependence. If society is to transform successfully in its appreciation for its own interdependence than it must break with the past and forge new economic relationships that place the primacy and overall health of the global citizenry at the center of all economic decisions. If not, history is bound to repeat itself and the global commons will continue to deteriorate.

## **Appendix A**

### **Disaster Summaries**

#### **Bhopal, India:**

On the night of Dec. 2nd and 3rd, 1984, a Union Carbide plant in Bhopal, India, began leaking 27 tons of the deadly gas methyl isocyanate. None of the six safety systems designed to contain such a leak were operational, allowing the gas to spread throughout the city of Bhopal.[1] Half a million people were exposed to the gas and 20,000 have died to date as a result of their exposure. More than 120,000 people still suffer from ailments caused by the accident and the subsequent pollution at the plant site. These ailments include blindness, extreme difficulty in breathing, and gynecological disorders. The site has never been properly cleaned up and it continues to poison the residents of Bhopal. In 1999, local groundwater and wellwater testing near the site of the accident revealed mercury at levels between 20,000 and 6 million times those expected. Cancer and brain-damage- and birth-defect-causing chemicals were found in the water; trichloroethene, a chemical that has been shown to impair fetal development, was found at levels 50 times higher than EPA safety limits.[2] Testing published in a 2002 report revealed poisons such as 1,3,5 trichlorobenzene, dichloromethane, chloroform, lead and mercury in the breast milk of nursing women.[3] In 2001, Michigan-based chemical corporation Dow Chemical purchased Union Carbide, thereby acquiring its assets and liabilities. However Dow Chemical has steadfastly refused to clean up the site, provide safe drinking water, compensate the victims, or disclose the composition of the gas leak, information that doctors could use to properly treat the victims.

Source: [www.Bhopal.org](http://www.Bhopal.org)

#### **Shell In Nigeria:**

Ken Saro-Wiwa and the Ogoni 8 were leaders of MOSOP, the Movement for Survival of the Ogoni People. As outspoken environmental and human rights activists, they declared that Shell was not welcome in Ogoniland. On November 10, 1995, they were hanged after a trial by a special military tribunal (whose decisions cannot be appealed) in the murder of four other Ogoni activists. The defendants' lawyers were harassed and denied access to their clients. Although none of them were near the town where the murders occurred, they were convicted and sentenced to death in a trial that many heads of state (including US President Clinton) strongly condemned for a stunning lack of evidence, unmasked partiality towards the prosecution and the haste of the trial. The executions were carried out a mere eight days after the decision. Two witnesses against the MOSOP leaders admitted that Shell and the military bribed them to testify against Ken Saro-Wiwa with promises of money and jobs at Shell20. Ken's final words before his execution were: "The struggle continues!"

Source: [www.essentialaction.org/shell/issues.html](http://www.essentialaction.org/shell/issues.html)

#### **Nestle – Baby Formula:**

At the center of the increasingly bitter conflict are babies, millions of babies with the shriveled limbs and the distended bellies that signal kwashiorkor, the Ghanaian term for malnutrition that has become part of the medical literature. According to Unicef, about 11 million infants in developing countries - more than the combined populations of New York and Los Angeles - die each year before reaching their first birthday. Most of them succumb to

malnutrition or diarrheal diseases. Although estimates vary widely, Dr. Stephen Joseph, one of the A.I.D. officials who quit last May, blames reliance on infant formula for about a million of these deaths.

The formula itself is a nutritious product, and it can be an acceptable alternative to breast milk under certain conditions: when the mother can afford to buy sufficient quantities; when she has access to refrigeration, clean water and adequate sanitation, and when she can understand the directions well enough to mix the formula properly. And, as nutritionists point out, formula can save lives. Dr. Joseph remembers a cholera epidemic in Chad in 1972, when "a lot of mothers died." Fortunately, he says, "we had formula available through international agencies and we saved a number of kids."

He and many other physicians argue, however, that most third-world women cannot use formula safely and that, as a result, their babies become seriously ill and malnourished. They also charge that aggressive marketing of formula has contributed to a vast shift away from breast milk, the safest and most nutritious food for infants.

The formula companies deny that their marketing has influenced the choice of feeding methods, and they contend that misuse of their products is rare. For them, a rich global market is at stake. Formula sales in this country reached \$550 million last year at the wholesale level, divided principally among Abbott Laboratories (50 to 55 percent), the Bristol-Myers Company (40 percent), and American Home Products Corporation (8 percent). In the world market, estimated to be as great as \$2 billion wholesale, Swiss-based Nestle commands a 50 percent share, while the American companies and dozens of other competitors divide the rest.

Leah Margulies, a founder of Infact (Infant Formula Action Coalition), now associated with the Interfaith Center on Corporate Responsibility of the National Council of Churches, says that many antiformula advocates are "in favor of a choice that's real; we want mothers and families to make a decision that's not based on the marketing strategy of a high-profit industry." (Among the alternatives, Infact supports suggestions by nutritionists who recommend the mixing at home of powdered milk with sugar and oil, or yogurt.)

The controversy over formula did not boil over until the publication in 1974 of a journalistic expose, "The Baby Killer," by War on Want, a London organization. The booklet, which was widely translated and distributed, brought scores of groups, many of them church-related, into the fray. While some of them launched shareholder suits and resolutions against the American manufacturers, others began a nationwide boycott of Nestle products. The nerve center of the protest became the Interfaith Center on Corporate Responsibility. Commenting on the boycott, Rafael D. Pagan Jr., president of the Nestle Coordination Center for Nutrition in Washington, says: "Nestle, of course, is a Swiss company and does not manufacture, distribute or sell infant formula in the United States, and thus there has never been any direct impact on the company through that product."

**Source:** "The Controversy Over Infant Formula", NY Times, Steven Solomon, December 6, 1981

## World Trade

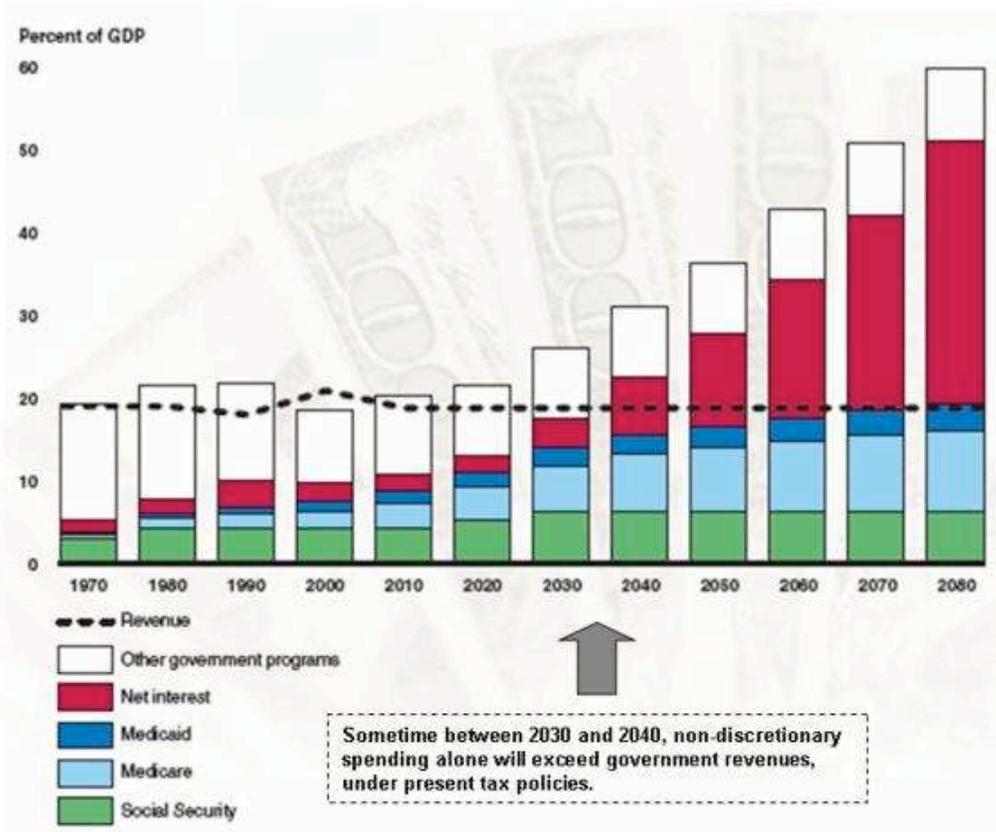
	2002	2003	2004	2005	2006
Total Imports-Non EU 15	\$4,884,354,662,256	\$5,648,566,984,388	\$6,763,505,579,644	\$7,570,276,919,185	\$8,624,997,167,613
Total Exports-Non EU 15	\$4,568,610,213,807	\$5,254,639,399,976	\$6,252,348,483,959	\$6,839,783,599,063	\$7,748,609,546,066
EU Imports	\$933,995,865,749	\$1,119,002,625,793	\$1,383,154,076,909	\$1,687,776,773,802	\$1,951,812,689,060
EU Exports	\$942,866,268,082	\$1,107,115,080,236	\$1,361,780,435,379	\$1,660,653,018,285	\$1,809,698,802,153
<b>Total Trade</b>	<b>\$11,329,827,009,894</b>	<b>\$13,129,324,090,393</b>	<b>\$15,760,788,575,891</b>	<b>\$17,758,490,310,335</b>	<b>\$20,135,118,204,891</b>
Total Imports	15.6%	15.6%	19.7%	11.9%	13.9%
Total Exports	15.0%	15.0%	19.0%	9.4%	13.3%
EU Imports	19.8%	19.8%	23.6%	22.0%	15.6%
EU Exports	17.4%	17.4%	23.0%	21.9%	9.0%
<b>Total Trade</b>	<b>15.9%</b>	<b>15.9%</b>	<b>20.0%</b>	<b>12.7%</b>	<b>13.4%</b>
Average Yearly Increase in Total Trade =	15.46%				

**Source: OECD.StatExtracts**

Note: Countries included: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. Also includes Chinese Taipei.

## Appendix B World Trade

## Appendix C US Government Debt



Source: GAO "The Federal Government's Financial Health-2007"

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