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***“Sustainability, Globalization  
and Corporate Responsibility  
in Emerging Markets in an  
Interdependent Global Economy”***

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- **Sustainability & Globalization and Corporate Responsibility in Emerging Markets**
- **A Big Globalization & Corporate Responsibility Problem- Outsourcing of Carbon Emissions to Emerging Markets by the Developed World**
- **The Sustainable Development Challenge for Corporations in Emerging Markets**
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## **DEFINITION OF SUSTAINABILITY:**

Sustainability is a difficult concept to define, due to its complexity and interdisciplinary nature, as it means many different things to different people. The first major application of the term came about in the 1970's and 1980's, in partnership with the term "Sustainable Development", and at the first Earth Summit in 1972 in Stockholm. The United Nations appointed a Commission in the mid-1980's to look at sustainable development in the context of multinationals and global development banks investing in emerging markets. The UN appointed Mrs. Gro Brundtland, at the time the Environment Minister of Norway, to lead this Commission.

That Commission defined 'Sustainable Development' as "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs." One of my favorite definitions for 'Sustainable Development' was given by an African delegate at the 2002 Johannesburg Earth Summit when he simply defined it as "Enough- for all- forever".

In the business world, the concepts of sustainability started to merge with the interests of some investors for responsible investment, leading to the term "Corporate Social Responsibility (CSR)" or "Corporate Responsibility". CSR was defined by a business organization formed in the 1990's of over 150 multinational firms called the World Business Council for Sustainable Development (WBCSD) as "The commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve their quality of life."

However, my personal favorite definition of Sustainability is one that I have assembled from a variety of sources, and I define it as "Integrating environmental, social, ethical and economic issues into *ALL* decisions of an organization, to achieve a balance of protecting the environment, creating economic development, increasing stakeholder value, and providing meaningful jobs, as part of creating a safe, just and equitable society." We will talk about all of those components of sustainability in this lecture, and how they relate to the globalization of the world's economy and corporate responsibility in emerging markets.

## **DEFINITIONS OF SUSTAINABLE ENTERPRISE AND SOCIETY:**

As business has started to recognize the impact of sustainability issues on their bottom line, both business researchers and practitioners started to try to define what a Sustainable Enterprise would look like. One of the leading proponents of the concept is a not-for-profit organization called "the Natural Step (TNS)", founded by Dr. Karl-Henrik Robèrt, a Swedish doctor, that aimed to build consensus among governments, business people and environmentalists as to what must be at least agreed to as needed

to safe-guard a prosperous life. Following preparation of this consensus document, Dr. Robèrt worked out a first version of system conditions for sustainability and a planning method that later evolved into and became known as The Natural Step Framework (or the Framework for Strategic Sustainable Development). Dr. Robèrt published these results in 1992 in a book called “The Necessary Step”. He also employed a team who began building the non-for-profit organization, The Natural Step, with the purpose of facilitating the further development and application of the TNS Framework within the corporate world.

The Natural Step Framework has taken people beyond the arguments of what is and is not possible; of what may be left or right wing. Instead, the Framework builds on a basic understanding of what makes life possible, how our biosphere functions and how we are part of the earth’s natural systems. Rather than get lost in abstract definitions and causes, it builds on a platform of basic science and is designed to allow true interdisciplinary, cross sector cooperation for concrete and measurable change towards sustainability. After all, if you want to achieve ‘success’, you have to first understand what this means in real terms before you can then take strategic steps to achieve it. In this **sustainable society**, as defined by the Natural Step Framework, **people’s** needs for clean air, water, food, shelter, and quality of life would be met worldwide.

## **DEFINITION OF GLOBALIZATION:**

Globalization is a term that was popularized by Dr. Theodore Levitt in his famous 1983 essay in the *Harvard Business Review* entitled, “In the Globalization of Markets”, where he proclaimed that new technologies had “proletarianized” communications, transport and travel, creating a new commercial reality- the emergence of global markets for standardized consumer products at lower prices. However, others, such as Stephen Green, Chairman of HSBC, say globalization is a natural evolution of the human spirit, rather than a concept or ideology. Globalization is popularly described as the increased integration and interdependence of national economies over the past 50 years, although there have previous periods of extensive international trade, such as the period before World War I when European empires traded with their colonies.

## **SUSTAINABILITY AND GLOBALIZATION IMPACTS ON EMERGING MARKETS:**

While early adopters of Sustainability believed that increased globalization and interdependence of the world’s economies would automatically raise the economic

well-being of all people in the world, many began to have second thoughts after seeing the dislocations cause by free trade agreements, outsourcing of production and pollution to emerging markets, poor corporate responsibility and the lack of environmental and social standards setting up a world of lowest-denominator social, environmental and labor standards, rather than a world of ever-increasing standards.

Thus, Globalization is seen as a two-edged sword. It can help poor people in emerging markets increase their living standards and improve quality of life by providing jobs, but in the rush to industrialize and develop, if too many short-cuts are tried, it can lead to increased environmental degradation, health problems and social disintegration. Ironically, many of the trials and tribulations that developed countries went through during their rapid development stage seemed to repeat themselves in the developing world, only on a larger scale. For example, think of the air pollution in London and Pittsburgh in the early/mid-1900's, when the UK/USA were developing countries, and compare that to the air pollution in China that was so bad that it led to the closing temporarily of all factories in the Beijing region so that athletes could breathe cleaner air at the 2008 Olympics.

### **A BIG GLOBALIZATION & CORPORATE RESPONSIBILITY PROBLEM- OUTSOURCING OF CARBON EMISSIONS TO EMERGING MARKETS:**

One of the major sustainability problems associated with globalization is the “outsourcing” of carbon emissions from the developed economies to emerging market countries. For example, over a third of carbon dioxide emissions associated with consumption of goods and services in many developed countries are actually emitted outside their borders. Some countries, such as Switzerland, “outsource” over half of their carbon dioxide emissions, primarily to emerging markets. A recent study by Steven Davis of the Carnegie Institution of Science finds that, per person, about 2.5 tons of carbon dioxide are consumed in the U.S. but produced somewhere else.

Most of these emissions are outsourced to emerging market countries, especially China. In effect, western, developed countries are attempting to clean their air and water by outsourcing dirty industries to foreign emerging markets, most of which have little or very poor enforcement of environmental regulations. This works for localized pollution, like contaminated drinking water, but not for global pollution, such as carbon emissions that cause climate change. Thus, the USA and Europe are saying they are getting “cleaner”, but in reality they are just moving pollution risks around, and often to countries that can least afford those long-term risks, while emerging market risks only receiving short-term benefits.

One can see why the Chinese and Indian governments want help in reducing their carbon emissions from developed countries, since much of their carbon emissions are caused by corporate outsourcing of production and carbon emissions to their

countries. For example, as shown in Chart 1 below, China “exports” goods to the USA with a carbon emissions footprint of over 295 million megatons of carbon emissions per year!



Source: Steven Davis- Carnegie Institution of Science, March 2010

Companies need to accept responsibility for the proper elimination, management and/or mitigation of these emissions, or their Corporate Responsibility policies will never be taken seriously in the emerging markets, or perhaps more importantly, by investors. Corporations need to eliminate the days of complying with tough regulations in the developed markets of their home countries, but using the minimum required in emerging markets. We have seen disasters such as Bhopal, pesticide contaminated surface and ground water in Africa and Asia, and the oil spills in Nigeria occur, and corporations that claim “we met the local legal standards”- that is NOT corporate responsibility. In the recent BP Gulf oil spill, BP tried initially to point the finger of responsibility at their contractors and government, and did not take responsibility for the economic and environmental damage their drilling. They only changed direction after pressure from the public and government. Meanwhile, similar incidents, in the Java Sea and off of Brazil, were handled in a more effective manner by the responsible oil company.

## **THE SUSTAINABILITY CHALLENGE FOR CORPORATIONS IN EMERGING MARKETS:**

The key is preventing history from repeating itself is to develop emerging markets in a more sustainable and responsible fashion, without re-creating the problems of

past development and industrialization. It was not easy when the population of the USA went from 100m people with more than 50% living on farms to 300M with less than 3% on farms. China, India, Mexico, Indonesia and Brazil are dealing with similar problems as technology allows their farmers to grow crops more efficiently and massive numbers of people are moving to the 10m+ populations of mega-cities like Mumbai, Calcutta, Beijing, Shanghai, Mexico City, Sao Paulo and Jakarta. China still has over 300m farmers, and if they approached US farming efficiency levels, they would only need 30-50m farmers- what would they do with the other 250-270m Chinese farmers that would be put out of work? Corporations (both those of Western and Chinese origin) have to find a responsible way to both feed the population while creating other jobs to sustain that massive social transition. To succeed will require creativity and going against the status quo to move rapidly towards a more efficient and sustainable society, as certain sustainability problems such as climate change, agricultural changes, and water quality/quantity are occurring now, not decades in the future.

For example, according to the noted UK economist Sir Nicolas Stern's Economic Impact of Climate Report issued in 2006, if we address the climate change management problem in a timely and rapid concerted approach in both emerging markets and developed markets, we could increase global Gross Domestic Product (GDP) by 5% or more (over \$2.5 trillion) in the next half-century, with new clean, well-paying jobs becoming available to lift the 2-3 billion people presently in poverty to above a minimum standard of living. If we do it wrong, fail to take action quickly, act in a continued unsustainable manner, and continue to export dirty production of goods to poorer countries that can least afford the needed mitigation measures for remediation of environmental, health and social effects of climate change, we could plunge the world into another Great Depression with a reduction in global GDP of 5-20% by 2050. Thus, key sustainability issues like climate change and clean, available water, are not just environmental and social problems, but also major economic problems that threaten global stability, peace and business activity.

The noted S.C. Johnson Professor of Sustainability at Cornell University's Business School. Dr. Stuart Hart said in 2007, "The major challenge -and opportunity - of our time is to create a form of commerce that uplifts the entire human community of 6.5 billion and does so in a way that respects both natural and cultural diversity. Indeed, that is the only realistic and viable pathway to a sustainable world, and business can - and must - lead the way." This is the kind of corporate responsibility **leadership** needed by business if the human world is to become a better world.

I had the honor in the early 1990's of working for another noted business leader, Bjorn Stigson, President of ABB Flakt, when I worked for Asea Brown Boveri (ABB). Mr. Stigson later that decade became President of the World Business Council for Sustainable Development, and in 2008 he said "Business cannot succeed

in societies that fail. There is no future for successful business if the societies that surround it are not working. Governments and business must create partnerships to deliver essential societal services like energy, water, health care and infrastructure.” That again is the type of responsible leadership needed from senior business and government leaders if we are to solve this problem, which is both a emerging markets and developed markets problem.

## **SIX MAJOR SUSTAINABILITY/GLOBALIZATION ISSUES FOR EMERGING MARKETS:**

Climate change is not the only major sustainability issue affected by globalization. Here is a list, courtesy of Bob Willard, a noted Canadian sustainability consultant, of 6 major sustainability issues that interact with Globalization issues in both negative and positive fashion in emerging and developed markets:

- 1) *Climate crisis*: Carbon caps / taxes; big impact on economy
- 2) *Energy crisis*: High energy prices; GHG risks; new clean / storage technologies; clean-tech investment wave
- 3) *Water wars*: Rising sea levels; shortage of potable water; mass migrations; China, India, Australia, EU, western North America, Africa;
- 4) *Food crisis*: Caused by droughts, speculation, “peak soil,” population explosion, climate change, new demand for meat and milk, crop diversion to biofuels, “natural” disasters
- 5) *Pollution and disease*: Pandemics; HIV / AIDS; new disease vectors; nutrition concerns; air, water, soil pollution risks; bacterial resistance to antibiotics
- 6) *War on poverty*: Globalization backlash; risk of civil disorder; closing the chasm between rich and poor

Unfortunately, the average citizen often does not understand these issues, as a Pew Global Attitudes Survey conducted in 25 countries in August 2009 shows that the people surveyed in the United States gave a lower priority to protecting the environment than Canadian or Chinese citizens, and only 41% of Americans think people should pay higher prices to deal with climate change- emerging markets citizens understood the dangers and risks much better that developed market respondents, perhaps because they will be the first to suffer. In that same survey, only 30% of Chinese respondents and 44% of U.S. respondents thought climate change was a serious problem, vs. 90% in Brazil, 67% in India and 65% in Mexico. We have a major educational process needed to make people across the globe aware of the real sustainability risks and opportunities facing the globe that will negatively affect their economic, social and environmental condition if not managed or mitigated properly.

## **THE GOOD NEWS- SUSTAINABILITY AS OPPORTUNITY FOR CORPORATION RESPONSIBILITY IN EMERGING MARKETS:**

As mentioned in Sir Nicholas Stern's Report on the Economic Impacts of Climate Change, there are many opportunities for business, governments and society to benefit from better management of sustainability risks such as climate change, and many of these advantages apply to the list of major sustainability & globalization risks mentioned earlier in this lecture. These opportunities include using a number of business and public policy strategies that have short-term and medium-term economic paybacks while significantly reducing risks and creating new job and wealth-creation opportunities. These strategies include:

- Reducing energy use/increase energy efficiency (which cuts GHG emissions and save money by reducing energy expenses)
- Using sustainable building design & land use planning
- Considering sustainability issues in risk management/insurance practices
- Encouraging efficient transportation system options
- Purchasing renewable energy and/or invest in renewable energy projects
- Evaluating sustainability-related financial risks in investments
- Increasing research spending on new/improved sustainable technologies
- Implementing purchasing practices that reduce sustainability footprint
- Make internal & external education about sustainability part of business and society's mission to create a just, equitable, and long-term sustainable society, lifting people out of poverty and improving their quality of life
- Think globally, act locally, make a fair return, do good & minimize harm...

In the next section, we will discuss a specific real world sustainability issue, and potential solutions for this issue.

## **SOLUTIONS FOR A REAL WORLD SUSTAINABILITY & GLOBALIZATION ISSUE:**

One of the side effects of the tremendous economic growth in the BRIC (Brazil, Russia, India China) economies as a result of the developing world outsourcing production of goods to BRIC countries has been a staggering increase in ocean shipping of raw materials (coal, minerals, oil, etc.) to the BRICs and of finished goods (toys, electronics, clothing, etc.) from the BRICs to the developed world. Container ship trade grew eight-fold between 1985 and 2007, as larger and faster container ships were built to serve this market. The efficiencies of larger ships is

counter-acted by the need for higher speeds of those ships to serve the perceived “just-in-time” needs of the marketplace. However, this growth in ocean shipping has had major local air quality, water quality and health impacts in the harbors and coastlines of emerging markets, global air impacts on carbon and acid rain emissions, and has increased the energy costs of shipping to over 50% of total costs, with an 800% increase in energy used by the shipping industry over 25 years. Global shipping traffic represents about 2-5% of all global CO<sub>2</sub> emissions, about 7% of global SO<sub>2</sub> emissions, and 11-12% of global NO<sub>x</sub> emissions. All of these emissions have major direct and indirect health and climate impacts in emerging markets, yet those countries often are the least prepared to manage and mitigate those impacts..

This has led to a major public relations problem for the shipping lines, as studies published by the American Chemical Society in 2007 indicated that 60,000 premature deaths could be attributed to increased ocean shipping, and that this death toll would increase by 40% by 2012. The U.S. Senate passed the Marine Vessel Emissions Reduction Act of 2008 in response, requiring any ocean-going vessel using US ports to burn fuel with reduced sulfur content, taking effect in 2010 (implemented by regulation in Dec. '09). There has also been bad publicity about how climate change will affect shipping, dropping water levels and increasing evaporation rates of the freshwater lakes that contain 20% of all of the surface fresh water on the planet. While climate change may raise sea levels by a meter over the next 100 years, it may also drop the levels of the freshwater lake ssuch as the Great Lakes by a meter, thus impacting shipping costs and the costs of infrastructure (such as harbor dredging and pier heights) for all ports and shipping lines involved.

So what are the potential mitigation/management measures that the shipping industry might adopt to mitigate their emerging market climate change risks, as well as those of the entire planet? Well there are high-tech/old tech and low-tech solutions for the energy costs and related emission problems of the shipping lines. One company has come up with a potential high-tech/old-tech combination solution, the SkySails System, using computer-controlled sails to reduce container ship energy use by 10-35% annually, and up to 50% under optimal wind conditions. Another potential solution is very low-tech, but so obvious that it was ignored for several years, namely, just **slowing down** the container ships' cruising speed down from 30 knots to 6-12 knots. In a 17 February 2010 article in the NY Times, “Slow Trip Across the Sea Aids Profit and the Environment” the Maersk shipping line described how its container ships now take 4 weeks instead of 3 weeks to go from China to Germany. This slow-down reduces fuel costs by 30% and cuts GHG and other emissions by a similar amount. The cost savings allows Maersk to cut prices, allowing them to be more competitive, even in a market where oil is \$80/barrel versus the \$10/barrel of a few years ago. A Maersk executive was quoted saying about climate change risks/costs that “This is not going away, and those of us who

are starting now are ahead of the regulators.” A great example of business leadership in sustainability increasing business competitiveness!

Ironically, similar studies have been done of the airline industry, where adding 5-6 minutes to a cross-ocean trip and optimizing the cruising altitude, can cut aircraft emissions by 10% on such a flight, according to Peter Jensen of the European Environment Agency. Studied by the International Energy Agency have shown that cutting automobile speeds from 65 to 55 miles per hour can reduce carbon emissions by 20%. Finally, the most obvious solution to the globalization shipping problem has been presented by Dr. David Bonilla of the Oxford University Transportation Studies Unit, namely “What you may have to do is to shift the location of industrial plants in international supply chains to shorten the distance between production and consumption.” However, how can corporations do this without hurting economic development in emerging market countries? These ideas points out that many solutions to the climate change, sustainability & globalization problem are not “rocket science” technology such as hydrogen or electric cars or carbon sequestration, but rather simple changes in behavior and business decision-making processes. Business leaders, to be responsible, may have to encourage local consumption rather than global consumption. Business leaders must set the sustainability and responsibility values and vision that guide the “why” of a company, and let the integration of sustainability issues into the business decision-making process allow the “hows” of sustainability solutions in a responsible fashion to be implemented by lower-level managers and staff.

## **SUSTAINABILITY & INTERDEPENDENCE IN EMERGING MARKET COUNTRIES:**

The key business issues for businesses to address will include rethinking their approach to consumption, competition and cooperation, and building more partnerships with governments, academia, and yes, even their leading or potential competitors. For example, Pepsi and Coca-Cola are cooperating recently on getting emerging market government policies on water quality and availability around the world to be sustainable, because they both realize they could go out of business otherwise. To reiterate Bjorn Stigson’s comments, “Businesses can not succeed in societies that fail.” Living in a carbon-constrained economy will require more interdependent and responsible decision-making by emerging market governments, business and society on sustainability and globalization issues. We need better mitigation and management solutions, and some solutions and approaches will be new or improved technology, and some will be encouraging people and managers to change their behavior to become more sustainable in every day decision-making, either through the right incentives or through better education, including business

school education. We also need responsible consumers as well as responsible corporations, in both emerging markets and in developed markets

## **THE BUSINESS CASE FOR SUSTAINABILITY IN EMERGING MARKETS:**

Andrew Savitz, a former Pricewaterhouse Coopers (PWC) partner, stated in a 2005 article in the Financial Times that part of the leadership changes required in the business sector include realizing that there is a business case for being sustainable, and without such, is just philanthropy. He added that companies also have to measure their sustainability performance and report it to shareholders, otherwise it is just public relations and whimsy. And not part of the vision and culture of a company. He went on to say that “Today’s best-run companies – and smartest investors – are seeing sustainability for what it truly is: a **strategic business driver** that will separate the winners from the losers in the next decade.”

A key part of the success of implementing sustainability in business organizations is that one must choose the right sustainability metrics to measure and report your progress to employees, clients, the press, government, investors, and the public. Over the past 15 years, over 70 methodologies have been developed to evaluate the sustainability performance of publicly-traded companies, and these methodologies are starting to be acquired by, or improved upon, by major business data providers such as Thomson Reuters, Bloomberg, MSCI, Risk Metrics, Dow Jones and NASDAQ OMX. There are even methodologies to evaluate the sustainability performance of cities, governments and higher education institutions and specialized indexes for emerging markets have been developed that refer to “best-in-context” corporate responsibility rather than “best-in-class” corporate responsibility. Saying we don’t know how to measure business sustainability performance is no longer an excuse!

## **SUSTAINABILITY & CORPORATE LEADERSHIP:**

Business can’t wait for politicians and society to lead, but most rather take the leadership itself in implementing sustainable and responsible corporate business practices. One sees this when major industrial companies join organizations lobbying for a “cap-and-trade” carbon emissions trading system in the U.S. Congress, or when 28 major European corporate CEOs recently (21 July 2010) signed a letter to the Financial Times encouraging the EU to raise the EU carbon emissions goal to 30% from 20%, because they know they can not afford to wait for several decades for stricter carbon regulations to be implemented, especially when they face major investment decisions now.

A key part of leading this change is changing the culture of business and our decision-making processes. Lou Mobley was the founder of the IBM Executive Training Institute, a member of the 15 person task force that developed IBM's first computer, and the developer of the Management Scorecard and Management Dashboard concepts. He said that the key to a successful business was that "Executives don't manage people, they manage culture." Therefore we must train future business executives, and re-train present business executives, to understand sustainability issues and create a vision and values for their organization that includes sustainability principles and policies. A good example of how this could work has been the subject of research by a noted business executive, entrepreneur and scholar, Augie Turek. In a recent article in Forbes Magazine (and a soon-to-be-published book), Mr. Turek explains the business secrets of the Trappist Monks, who have followed a successful business model for over 1,200 years.

Mr. Turek summarizes the Business Leadership Model of the Trappist Monks as revolving around seven key factors for executives to implement that are very applicable to any business, and (in a conversation I had with him on 12 March 2010) particularly to businesses that want to be sustainable for the long-run; 1,200 years is certainly can be seen as a long-term success! These factors include:

- 1) - Have a High Overarching Mission (only do worthy work, products & services)
- 2) - Selflessness (focus on the organization's goals, not the me)
- 3) - Commitment to Excellence (only do it right)
- 4) - Ruthless Dedication to Highest Ethical Standards (set values, ethics will follow)
- 5) - Faith (not religious faith, but trust that good business will take care of itself)
- 6) - Trust Each Other (the most valuable commodity of leadership)
- 7) - Living the Life (practice what you preach, no \$100+m bonuses)

I believe that applying these principles to sustainable business management would be an excellent step forward in moving towards a sustainable economy and society.

## **SUMMARY:**

### **Corporations Can Materially Improve both Businesses' and Emerging Economy Society's Bottom Line by Being Sustainable & Responsible:**

Sustainable & responsible business leadership can materially and positively affect the bottom line of business and society in emerging markets in a positive fashion. Sustainability issues do have direct material financial impact, and are being used as indicators of good business management, responsible leadership, product quality/innovation, talent recruitment and future performance of organizations, by stakeholders.

However, we need to look at improving potential **business models, structures and solutions** to issues such as *globalization ,corporate responsibility and sustainability*, and better understand more fully the full range of inter-disciplinary issues involved will affect business in emerging market countries. As present or future business leaders and educators for businesses operating in both emerging market and developed market countries, together we are responsible for the leadership to make change happen globally, regionally and locally. One of the leaders in this area is in China, where a group of 96 business school deans and MBA school directors signed a declaration in December 2006 stating that they reached a consensus on the need for social responsibility within China’s MBA education programs. They stated “All business schools engaged in MBA education need to cooperate with each other to push forward the cause of fulfilling their social responsibility and helping the students fulfill theirs.” And went on to say that the “...efforts will bring an even brighter future for China’s MBA education and make more contributions to the construction of a more prosperous and harmonious society.”

After finishing writing this paper, an afterthought came to me from a quotation from Stephen Green, Chairman of the international bank, HSBC, and who is the only major bank chairman who also is an ordained minister of the Church of England. He said in his recent 2010 book, *Good Value*, that “...Globalization is about something far deeper than economics, commerce and politics. It is an evolution of the human spirit. And, on this view, the end of globalization remains radically open precisely because of the ambiguities that seem intrinsic to the human spirit as it evolves.”

So the solutions for integrating corporate responsibility and sustainability into the economies of both the developed world and the emerging markets world may well be equally ambiguous, but must be faced promptly and effectively- we have no time to waste.

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