Escuela de organización industrial

“How CSR has gained strength through Corporate Scandals: *case studies of social, environmental and economic dimensions"*

2010

Francesca Culcasi
Hélène Ruozzi
Claudia Sandia
Jocelina Valle

Tutor: Aurora Pimentel

08/07/2010

I.- INTRODUCTION

The purpose of this work is to analyze how nowadays Corporate Social Responsibility has gained strength in organizations, as a tool to maintain their operations and to engage with the society, no matter the size or the sector where they develop their activities.

In order to have an accurate approach, the triple bottom line analysis will be implemented given its advantages to provide an assessment of the impacts that operations can cause from an environmental, social and economic perspective.

Research from internet, newspaper, books and documents will be used as main sources of information. Finally, business cases from multinational organizations with important implications in the triple bottom line will be implemented as a way to approach the theory field within reality, and compare the appraisals made by business about the new business tendencies.

Conclusions will provide a starting point to future students from the International Master of Sustainable Development and Social Corporate Responsibility at EOI, for future analysis about business arena, especially from the Corporate Social Responsible field.

At the end of the document, the lector will find a glossary section which provides concrete information and definitions about main terms and institutions used during the elaboration of the project.

II.- ABSTRACT

Thanks to the development of technology, the world is more connected than twenty years ago. As a result, a new world of relationships have been created affecting many field as economic, financial and political from local to global levels.

Businesses are immersed in this dynamic and they have achieved new ways to respond and adapt to world's demands, changing their traditional structures to adapt a more flexible scheme.

Nowadays consumers are more exigent given that they are demanding better quality on products and services. Sadly, the resources have not been used in a proper way causing the depletion of these.

Consequently, both businesses and consumers are concerned about their future which has forced them to consider if current business models would be able to respond to future challenges.

In this sense, businesses have analyzed the impacts of their production process in the social, economic and environmental field. And have discovered a necessity to act ethically correct considering the consequences of their actions and identifying every group involved. Furthermore, society itself has demanded to organizations to respond to these challenges and also to embed ethical behaviors into the business pillars.

As a result, Corporate Social Responsibility has been endorsed in the business core of each company, considering as a matter of strategy. And in order to confirm this business appraisal, the case of Nike, Shell and Enron will be analyzed.

I.- INTRODUCTION 2
II.- ABSTRACT 3
III.- THEORY APPROACH 7
3.1. BUSINESS AT CENTURY XXI 7
3.1.1. Sustainability from business perspective: is it an obligation to subsist or is it an ethical conviction? 7
3.1.2. Business and Sustainability: 3 pillars relationship 9
3.1.3. CSR Definition: a punctual strategy? 10
3.2. BUSINESS AND STAKEHOLDERS 11
3.2.1. Who are the stakeholders and how are they related? 12
3.2.2. How can they affect the company strategy? 14
3.2.3. Role of stakeholders in defining ethical behavior and companies practices 16
3.3. BUSINESS REPUTATION: How scandals can affect expectations 17
3.3.1. Corporate reputation: the most precious intangible 18
3.3.2. Corporate scandals: how stakeholder change business 19
3.3.3. Business response after a scandal: the evolution of CSR 21
IV.- BUNISSES CASES 24
4.1. NIKE CASE 24
4.1.1. The company 24
4.1.1.1. Sales 25
4.1.1.2. Products and operations' countries 26
4.1.1.3. Corporate social responsibility in the company 27
4.1.2. Scandal: Nike's working conditions 28
4.1.2.1. Indonesia 30
4.1.2.2. Pakistan 31
4.1.2.3. Vietnam 32

4.1.3. Reputation x media 33
4.1.4. Activism 37
4.1.5. Nike’s response 39
4.1.6. It is not the end… 41
4.2. SHELL CASE 43
4.2.1. Company description 43
4.2.1.1. Leadership 44
4.2.1.2. Purpose 44
4.2.1.3. Values 45
4.2.1.4. People 45
4.2.1.5. Business 46
4.2.2. Shell in Nigeria 47
4.2.2.1. Purpose 47
4.2.2.2. Leadership 48
4.2.2.3. Business 49
4.2.2.4. Employees 50
4.2.2.5. Human rights 51
4.2.3. The affected indigenous community of the “Ogoni” 52
4.2.3.1. Beyond the legal license: the social license 53
4.2.4. Environmental and health impacts 55
4.2.5. Ogoni reactions: Ken Saro-Wiwa and the MOSOP 60
4.2.6. Shell: a responsible corporate member of society? 62
4.2.7. Strategy and tools applied for the scandal remedial actions 63
4.3. ENRON CASE 64
4.3.1. The company 64
4.3.1.1. History 65
4.3.1.2. Characteristics – A Risk-E-Business 66

4.3.1.3. Faces of the Guilty 67

4.3.2. The scandal of the Crooked "E" 69

4.3.2.1. The Bare Facts 69

4.3.3. The Reaction 79

4.3.4. The counter-reaction: 81

4.3.5. Lessons from Enron 83

V.- CONCLUSIONS 89

6.1. Nike experience 90

6.2. Shell experience 91

6.3. Enron experience 92

V.- GLOSSARY 94

5.1. ACRONYMS 94

5.2. WHAT IS WHAT? 94

5.3. WHO IS WHO? 96

VI.- ANNEX 102

VII.- REFERENCES 107

III.- THEORY APPROACH

The following sentences will provide a guideline of the main theories and tendencies in the business arena, especially in the Corporate Social Responsibility field, that will help readers to understand the concepts used by corporations these days, and that will be used during the work.

3.1. BUSINESS AT CENTURY XXI

The Globalization has made boundaries almost inexistent, interconnecting people worldwide in a way that people are closer to each other. As a consequence, the activities of persons, organizations and business, have been affected; and main topics as communications, religions, politics, geography, etc., have been rethinking (Cera, 2006). Therefore, commercial, financial, social, and political fields have changed; and markets may do not have a defined territory for their operation.

The technology has become the key issue in this process; it has changed the relationships between countries, companies and communities, through the development of new communications tools and networks as internet.

As companies are immersed in these networks, they have changed their traditional structures and strategies in order to respond even faster to the world's new demands. These demands can be summarized as: new and faster trading relationship, new products and services, better quality of products and services, new legal requirements, complex standards and regulations, and even responsible behaviors.

Moreover, companies' opportunities to respond to demands are decreasing, making competition between them harder. Besides, consumers are being more demanding and resources are depleting. The world is constantly changing and companies need to adapt to this reality.

In this sense, roles and responsibilities of social actors have changed; corporations work under a huge pressure and scrutiny from citizens, and governments have lost their power to resolve and give the answer to every world challenge (John, et al. 2003).

Therefore, there is a necessity to analyze sustainability, which means evaluate how companies' activities are affecting the surroundings from a social, economic and environmental perspective; companies need to analyze their long term survival: are they well prepared to survive in the long term? How many years can they be profitable?

Naturally, companies have a constant observation of customer needs and the environment which at the end can affect their business core: their mission, vision and values. Somehow, they have become more flexible.

3.1.1. Sustainability from business perspective: is it an obligation to subsist or is it an ethical conviction?

From a business perspective, sustainability means the wise use and management of natural and economic resources, respecting people and other living things. It is a continual improvement system that looks for increase natural, social and economic human well-being (Blackburn. 2007, p.5).

While companies are concerned about their long term survival or in its own sustainability, the society is also pressing them to provide leadership together with governments and other stakeholders in addressing social, economic and environmental challenges at local and global level.

According to Mr. Richard Locke from Sloan MIT (2010), sustainability is not a fad and several reasons support this statement: worldwide people are concerned about environmental issues, there exist scarcity problems that must be tackled; companies are more efficient, they are implementing resources in an intelligent way (doing more using less); and finally, communities are demanding more transparency and accountability from business.

In fact, 70% of large companies surveyed by Price Waterhouse Company during 2002 (Blackburn, W. 2007) were agreed that sustainability is important for the future of the company and 90% assured they would make more emphasis for the next years.

Businesses might see this inclination as big business opportunities, as a way to innovate and to rethink and redesign each process in order to be more efficient. They could believe in it because at long term, it might be good for the business: it will develop new markets and will differentiate them from competitors.

Sustainability is within future and several companies have acknowledged it. According to the Journal of Business Ethics in its article *The Ethics of Organizations: A Longitudinal Study of the U.S. Working Population* (Kaptein. 2010, p.601), ethical and sustainable investing in the U.S. increased from $639 billion in 1995 to $2,159 billion in 1999 and from $2,290 billion in 2005 to $2,711 billion in 2007.

As an example, General Electric has an initiative call Eco-imagination and it reflects how GE's is investing in creating innovative solutions to environmental challenges and delivering valuable products and services to customers. The initiative enhanced revenues on such products from US$ 6.2 billion in 2004, before the initiative began, to US$ 10.1 billion in 2005. The initiative was tied to GE's business strategy, products, services, effective communication, and employee engagement (Deigendesch, T. 2010).

Another example can be taken from the German chocolate Ritter Sport, who stands for fair treatment of employees, sustainable and ecological production, and a social commitment in developing countries. Ritter packaging saves 1,000 tons of material every year. It pays Fair Trade prices for organically grown cacao. Today, Ritter exports its chocolate products to more than 60 countries worldwide and has been reporting continued growth in the last years (Deigendesch, T. 2010).

These business examples and the ones that will be presented in the next pages, prove how companies address sustainability in a way to increase their profitability, taking into account the impacts they are causing in others actors. Therefore, it is interesting that firms might be considering ethical principles: Do they are behaving in a wrong way or in a right way?

As a result, companies have realized that to survive in a long term, they need to behave ethically correct considering how their actions are impacting and affecting to communities, environment and economy which means analyze the relationship between each pillars and guarantying the wellness of each other.

Consequently, sustainability should be understood beyond a company necessity and moreover as an ethical conviction.

3.1.2. Business and Sustainability: 3 pillars relationship

As it was mentioned before, sustainability should be considered as a part of the core business of each organization: if a company analyzes its impacts, it analyzes sustainability. Basically, sustainability has three dimensions and businesses have acknowledged it through the triple bottom line.

The Dictionary of Sustainable Management defined triple bottom line as: "An addition of social and environmental values to the traditional economic measures of a corporation or organization's success. Triple bottom line accounting attempts to describe the social and environmental impact of an organization's activities, in a measurable way, to its economic performance in order to show improvement" (Dictionary of Sustainable Management website).

Visser, et al. (2008, p.566) identified the triple bottom line as a concept that underscores the fact that companies and other organizations create value in multiple dimensions. The term was introduced in 1994 by John Elkington and has been further elaborated both in hundreds of company reports aligned with the Global Reporting Initiative (GRI) and in a growing number of books. Nowadays, businesses monitor and ensure their adherence to law, ethical standards, and international norms. But additionally, they question themselves about the value they can produce over this triple bottom line.

An overall look of the main challenges and opportunities that a company may deal within its operations implementing the triple bottom line analysis, according to Jackson, et al, in their book *"From Words to Actions, The Stakeholder Engagement Manual Volume 1: The Guide to Practitioners' Perspectives on Stakeholder Engagement"* (2005, p.16), are the following:

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Air and water discharges, extractions and other impacts • Material and energy use • Climate change • Reclamation issues • Regulatory issues • New technologies (e.g., genetically modified organisms, nanotechnologies)	• Employee health and safety, satisfaction, training and development, displacement • Equal opportunity and diversity issues • Equity and developing world issues, including health, availability of drugs • Community contributions • Relationships with indigenous peoples	• Sharing intellectual property without impacting profitability • Supply chain issues • Corporate contributions to local, regional and national economic development • New public-private partnerships

For most managers, this looks very wide, unpractical and challenging to organizations to achieve it and non-feasible. Even though, in order to achieve success and be coherent with values and actions, firms should consider (what is a more practical approach) during the establishment process or

revision of the strategy, what Blackburn, W. (2007, p.42) suggest in his book *Sustainability Handbook: The Complete Management Guide to Achieving Social Economic and Environmental Responsibility*:

- Economic success (the wise use of financial resources): Do our business activities promote sustainable economic health for the company and the global community?

- Social responsibility (respect for people): Do we conduct our business in a manner that contributes to the well-being of our employees and the global community?

- Environmental responsibility (respect for life and the wise use and management of natural resources): Do we manage our operations in a way that is protective of the environment to help ensure the earth can sustain future generations and company's ability to meet future necessities.

These questions, obligations, and topics underscore two important points about sustainability: each organization must help assure the sustainability of itself as well as that of the external society. The long-term success and survival of organizations may dependent upon the long-term success and survival of the communities in which they operate. It demands that companies go beyond their internal silos to understand, be a part of, and help improve the external world upon which they depend (Blackburn, W. 2007, p47).

As Bendell says "Deep changes will be required beyond economic governance if we are to achieve a sustainable society…" (Bendell, J. 2010).

3.1.3. CSR Definition: a punctual strategy?

Corporate social responsibility can be seen as a business perspective to address sustainability, which means to take responsibility of the impacts that a company caused on the environment, society and economical field, considering their compliance with law regulations and standards (Blackburn, W. 2007).

For Begoña Beneytez in her "Estado de Implementación de la Responsabilidad Corporativa de la Empresa Española" (2007), confirms it does not exist in the academic field any agreement between the different terminologies implemented in the Corporate Social Responsibility field: which one is the most accurate, corporate social responsibility or corporate responsibility? To some academics and business leaders the most adequate term is corporate responsibility because it is not only a matter of social impact, it is a matter of economic and environmental aspects. Nonetheless, corporate responsibility involves a new business model, a new way of thinking and analysis, which need to be embedded in the business core. At the end, the adding value of this process will be an increase of the business transparency.

For the purpose of this work, the term corporate social responsibility is the most accurate because normally a firm in its daily operations considers the economic and environmental impacts, but sometimes forgets the social dimension, and a way to avoid this dissemination is to include the social term in the definition.

A broader definition of the concept is provided by the Boston College Center for Corporate Citizenship (2010), who defined corporate social responsibility as: "The business strategy that shapes the values underpinning a company's mission and the choices made each day by its

executives, managers and employees as they engage with society"(Source: Boston College Center website).

In the same order, this institute suggests: "The current global challenges of transparency, stakeholder expectations, accountability, trust and reputation require a strategic approach endorsed at the highest levels of the company and integrated and aligned throughout the business operation" (Boston College Center website).

Four basic pillars which any company should stress in their business plan, have been identified (Boston College Center for Corporate Citizenship website. 2010). These are: minimize harm, maximize benefit, be accountable and responsive to key stakeholders and support strong financial results.

Through these pillars, every company will minimize its impact on the environment; it will recognize each stakeholder that can be defined as any group or actor who can affect or be affected by the company's activities, and most important, it will build trust relationships around them. At the end, the managers will gain for the organization the improvement and recognition of the company as a responsible brand.

According to Foretica (Forum for the Ethical Performance Assessment) "corporate social responsibility goes beyond legal framework and endorses the voluntary integration of governance, strategy, policies and procedures of social concerns, labor conditions, environmental impacts and respect for human rights, as a consequence of the relationship and transparent dialogue with its stakeholder, assuming the responsibility of the impacts that every firm can cause in its daily operations" (Beneytez. 2007, p.20).

Many academics recommend that companies ascribe this statement in the core value of every actor involved, in order to assure a win-win relationship. However, there is not a unique recipe; each company can adopt this formula at its own.

Experience and best practices have become more accessible and are more widely exchanged due to the growth of networks and associations. As Bendell suggest in his article "*Capitalism in Question: The Lifeworth Annual Review of 2009",* "some initial guidance is given for how business leaders and educators can play a socially progressive role at this time. The trends in corporate responsibility should include analysis of government stimulus packages, responsible tax management, responsible mining, responsible cosmetics and beauty businesses, as well as particular trends in Asian countries. And business leaders need to need to understand these issues, as well as actors and dynamics involved in order to be successful"(Bendell, J. 2010).

In this sense, corporate social responsibility might be more than a strategy or an annual business plan; it might be a belief that it is immersed in every activity developed by the company.

3.2. BUSINESS AND STAKEHOLDERS

Companies are more vulnerable nowadays due to the knowledge and power that consumers have acknowledge in the last years. In fact, "57% of U.S. consumers currently say that their purchase decision could be influenced by whether or not a product supports a worthy cause" (Kapteing. 2010, p.601).

Non-governmental organizations (NGOs) are true stars in the identification and communication of e negative impacts that may cause a company and are agents in the complaint, the solutions or trade boycott. The number of international NGOs that scrutinize the ethics and behavior of organizations has increased worldwide from 30,000 in 2000 to over 60,000 in 2007 according to Union of International Associations in 2008 (Kapteing. 2010, p.601).

Society as consumers want companies to tell them what is in products and how they are made and provide additional details about information, labels and claims shared offline in the store, on the package, in an advertisement, etc.

Organizational interests include high levels of productivity, efficiency, market share, reputation, and profit. And in order to have an accurate approach in the field, companies need to identify the networks where they are involved.

3.2.1. Who are the stakeholders and how are they related?

Edward Freeman defined the term stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, R. 2009). It is business strategy due to the power of their actions and organizations cannot deny this fact, they need to deal with them; what is more, understanding this process creates value for the company.

The stakeholders can be ordered in two groups: primary as managers, employees, shareholders or owners, investors, suppliers and clients; and secondary as competitors, unions, government, universities, NGOs, media, community. Both groups should be identified and taken into account during the strategy analysis and implementation (Freeman, R. 2009).

The identification process requires managers to see the connections between the world of business and the world of ethics (Visser, et al. 2008). Stakeholders may have the power either to block or improve companies' activities; some may be interested in what they are doing, while others may not care.

Every stakeholder shares a common goal given to the fact that each one has something on play which depends on the company's performance; there is something they expect to win, not to lose or just maintain in this dynamic. However, the motivators or drivers can be completely different and can be distinguish on political interest, economic interest and even symbolic interest. But at the end, what the companies are looking for it is their "license to operate", the simple approval from the social groups that goes beyond the legal frameworks.

To be identifying as a stakeholder, the actor involved should show one of this characteristics:

- The sufficient power to influence the company.
- The legitimacy to maintain the relationship between them and the company (Bajo, et al. 2010, p113).

Rachel Thompson (n.d.) in her "*Stakeholder Analysis Winning Support for your Projects"* implements a power/interest grid for stakeholder prioritization matrix (Figure 1) to identify the level of influence of each stakeholder and to determinate how the companies should behave in each situation.

Depending of the power of influence and the place where each actor is positioned, the company action plan will be different. In other words, the engagement level with each group will vary depending on the value that each group can inject to the business process.

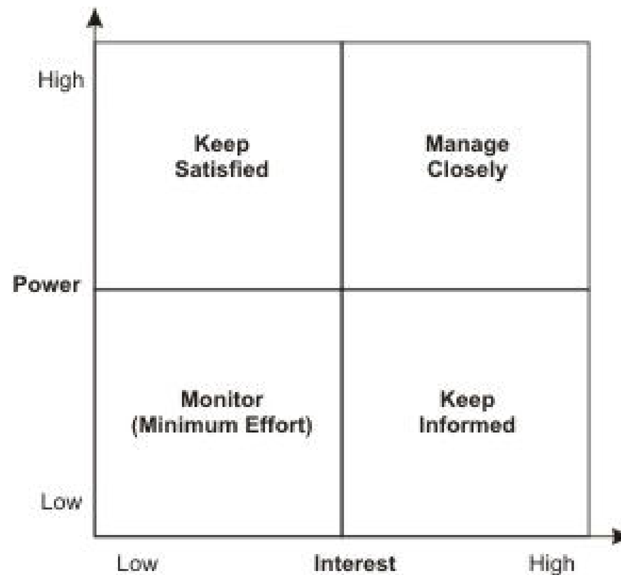


Figure 1: Power/Interest Grid for Stakeholder Prioritization

- **High power, interested people:** these are the people that companies must fully engage with, and make the greatest efforts to satisfy.

- **High power, less interested people:** companies should put enough work in with these people to keep them satisfied, but not so much that they become bored with their message.

- **Low power, interested people:** companies should keep these people adequately informed, and talk to them to ensure that no major issues are arising. These people can often be very helpful with the detail of the project.

- **Low power, less interested people:** it is recommendable to monitor these people, but trying to avoid excessive communication in order to not bore them (Thompson, n. d.).

The way how they related with each other could also vary depending on the company and the context where they play on. Furthermore, both companies and stakeholders have expectations from each other.

In this sense, from the side of stakeholders, they demand from companies the following:

- **Consumers and customers:** quality services and products, fair prices, responsible behavior and actions.

- **Employees:** life quality, waves, properly working conditions, respect, recognition.

- **Investors:** socially responsible investment, profitability, accountability.
- **Suppliers:** loyalty, profit, ethical behavior.
- **Governments:** compliance with laws and regulations.
- **Community activists, media and NGOs:** information, transparency, accountability.

And, in the other hand, companies expect from these groups the following:

- **Consumers and customers:** sales, loyalty, feedback.
- **Employees:** loyalty, commitment, efficiency, innovation.
- **Investors:** financial resources, guidelines, trust.
- **Suppliers:** quality in service and materials, responsible behaviors and actions, fair price, efficiency, loyalty.
- **Governments:** clear and fair frameworks and regulations**.**
- **Community activists, media and NGOs:** support, trust, reputation, feedback.

The goal that companies should pursuit is the balance between each stakeholder interest; and in this sense, work to create trust relationship among them. At the end, what the company is doing is working to improve one of its most important intangible: its reputation.

3.2.2. How can they affect the company strategy?

As it was mentioned before, depending on the business and context, stakeholders have different level of influence. Basically, every company might identify the following groups:

- **Primary stakeholders:** consumers and customers, employees and investors, suppliers.
- **Secondary stakeholders:** governments, communities, media and NGOs.

But, what is the power these groups have to affect companies' strategies?

- **Customers and consumer:** power in purchasing decisions and to affect the reputation and loyalty of the communities. They have the power to suspend the "license to operate".
- **Employees:** nowadays companies move also in a knowledge economy where innovation is a competitive advantage. To retain and attract human talent have become a huge challenge for organizations. Employees have the power to leave a company and move to competitors whenever they consider necessary, taking the knowledge with them**.** This means a loss of a source of innovation that could increase the competitive advantage of its main competitors on the sector.

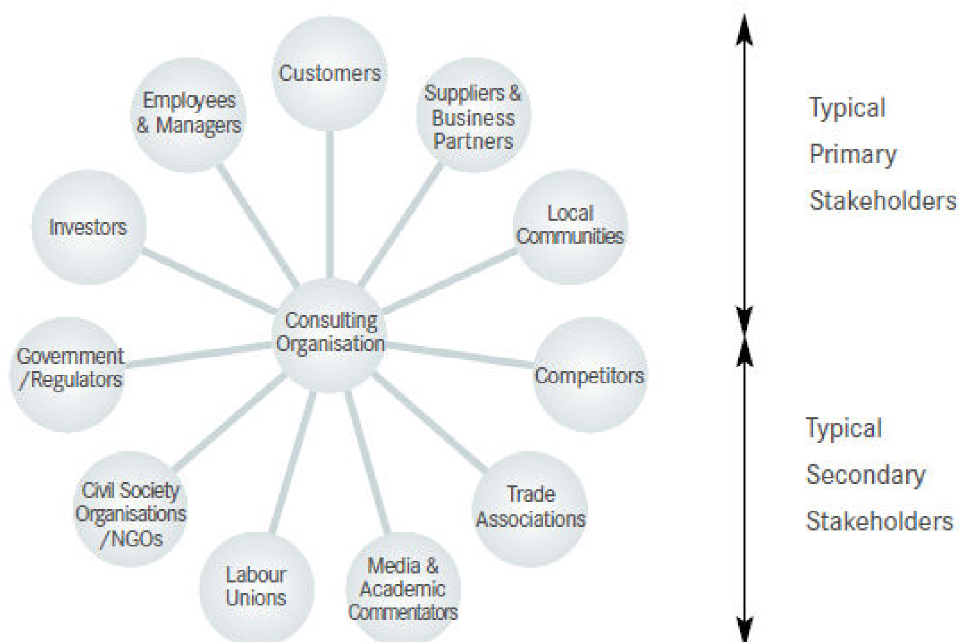
- **Investors:** they have the power to decide when, how and where to invest their money. Companies need resources and in somehow depend on them.

- **Governments:** stricter in terms of social and environmental regulations, making the production process more expensive and time consuming.

- **Community activists, mass media and NGOs:** the power to make audiences aware of companies' actions and to change customer decisions and customs. Also, they have the power to start unfair boycotts that can have important economic impacts.

Relationships with stakeholders are not static or uniform, and due to the power of social networks and internet, new stakeholders can emerge on the scene unexpectedly; monitoring the context is essential. In this sense, companies usually need to draw their stakeholder map, but most important, they need to build relationships around them based on loyalty, commitment and transparency.

Mapping the stakeholder means to consider the following graph (Jackson, et. al. 2005, p.14):



Companies need to go beyond listening to stakeholders, they need to prove a real commitment in actions and in their way they behave, if the purpose is to engage and improve their transparency. Hence, it may be create a continuous feedback process, where engagement can help organizations meet strategic needs and gathering information, and trends that may impact their activities. Some companies have established partnership with stakeholders, as a manner to improve the way the work on, thus they can minimize the impacts of their operations, demonstrate real commitment and identify new business opportunities

Nowadays, consumers are most interested in information that may determinate their purchasing decisions. In fact, 23% have switched brands or boycotted a company based on negative information learned about a product, company or brand.

Business Week (2000) article notes: "Citizen's attacks on corporations have been surprisingly effective, and many executives have seen how stonewalling and defensiveness have boomeranged. In some cases, the criticism intensifies, with the potential to damage brand images and sales, undermine companies' standing with regulators and politicians, and, ultimately, whack a company's stock price" (Roach, B. 2008).

The 2009 Cone Consumer New Media Study (Cone, 2009) explored how new media users interacts with brands and how they support social and environmental issues and engage with corporate responsibility practices. Respondents said they want companies to tell them what is in products and how they are made (85%) and provide additional details about information, labels and claims shared offline (e.g., in the store, on the package, in an advertisement).

Stakeholders can influence corporations from many perspectives and perhaps the most tangible in the short term is through people investment decisions.

Consumers, non-governmental organizations, and other stakeholders can make their preferences known through boycotts and protests. Consumer boycotts and public information campaigns have been instrumental in leading to corporate change in some instances.

Firms cannot deny these statistics and in contrast, they should acknowledge these facts and in order to give a proper response; they should enforce Corporate Social Responsibility as a matter of business strategy that adds value to organizations.

3.2.3. Role of stakeholders in defining ethical behavior and companies practices

Nowadays people have more access to information thanks to the development of technology and the faster penetration of internet. Analysis shows that around two thirds of American new media users feel they can influence business practices by voicing their opinions online and 23% of them recognized that they have switched brands or boycotted a company based on negative information learned about a product, company or brand (Cone, 2009).

Across the world there has been an important increase in the new media that goes beyond traditional media such as blogs, RSS feeds, Google books, podcasts, video casts, online video (YouTube, blimp TV, etc.) social networks as Facebook, search engines, affiliate programs, word of mouth, viral marketing, second life, online games, virtual trade shows, online communities, eBooks, mobile phones to receive news alerts, access the Internet, and purchase and view music and film etc. (Grayson, D. 2009). And Cone survey assures that 65% of American believes they know where to look and find whereas information.

Actually, communities know that governments have provided authorization to develop businesses, but they are conscious that final approvals to work on the field are given by them, they have the power of "the license to operate". They have acknowledged this power and business are aware of that.

A survey conducted in 2002 by Gallop International and presented to the World Economic Forum in 2003 (John, et al. 2003), proved how multinationals and democratic institutions have lost credibility and how NGOs are particularly trusted by citizens in the European Union and North America.

Stakeholders are aware that organizations have responsibilities and developed activities to improve the society. They demand on organizations to commit with the environment: around 47% of American thinks companies in these days are transparent and honest when talking about their corporate responsibility efforts and 30% of them assure they have changed their buying behavior thanks to the information obtained in blogs about products and companies (Cone, 2009). People know they can influence business practices by voicing their opinions online.

David Grayson in his *Corporate Responsibility and the Media* (2009, p.27) refers to a statement made by McKinsey and Co., in the Economist in May 2005: “Large companies must take the lead in explaining their contribution to society. They should define their ultimate purpose in a way that is more subtle than “the business of business is business” and less defensive than most current approaches to corporate social responsibility”.

Increased transparency on environmental and social issues allows investors to seek out corporations that behave in a socially responsible manner or screen out corporations based on certain criteria. Between 1995 and 2003 the amount of money involved in socially responsible investing in the U.S. grew 40% faster than the overall growth in investments. In 2003, about 11% of all investments in the U.S. were in socially responsible assets, or about $2.2 trillion. As mentioned earlier, the evidence is unclear whether socially responsible firms perform better or worse, on average, than other firms. Some investors may even be willing to accept below-market rates of return when investing in corporations that pay good wages, provide job security, reduce environmental impacts, or otherwise benefit the broader community (Roach, B. 2008).

Companies have to learn that higher standards of accountability and transparency are now required to business because of the easy with which the public can now access news – this has intensified with the rise of new media. Attempts to manipulate the media (traditional or new) are more likely to be exposed with the rise of the new media (Grayson, D. 2009). Thus, reality is proven the vulnerability of traditional organizations.

As a result, both companies and stakeholders are conscious of the consequences of their actions and they are considering each other in order to improve their life quality and create a better world. Even more, the firm and its shareholders may work together to guarantee a social contribution and may increase its stocks values within the market, enhancing its reputation and social credibility.

Current managers are asked to response to issues beyond the narrow economic, technical, and legal requirements and combat the dilemma of economic and social aspects cannot work together, considering social aspect is not going against economic aspect. Of course, social issues are costly but at the end they can represent considerable future savings.

3.3. BUSINESS REPUTATION: How scandals can affect expectations

Business leaders need to awake to the reality of current management to align organizational culture with public behaviors and customer expectations.

Nowadays, there is a much greater opportunity for stakeholders to hear alternative views from independent published media. Only a few years ago, companies only communicate when they have been involved in problems or difficult situations. But the market is demanding to open to new alternative points of view and be ready to dialogue to their main critics.

A notorious rise of socially responsible investment products and the increasing capacity of consumers to educate themselves about the ethical impacts of their purchasing decisions are the main drivers of this new business model. And those who do not approach to this reality will experience a reputational decline.

In fact, it is on the reputational arena where the relation between the economic and the social are more tangible. Activism is on the table and managers are aware of how this can modify both risk exposure and company profitability.

Corporate social responsibility might become an effective answer for these demands.

3.3.1. Corporate reputation: the most precious intangible

What makes a company different and great is the value of its intangibles. An intangible is the long-term resources of an entity, but have no physical existence. They derive their value from intellectual or legal rights, and from the value they add to the other assets (Business Dictionary web site. 2010). And the most valuable intangibles for a company are recognition, patents, copyrights, reputation and knowledge.

Many academics argue that reputation can be one of the most appreciable intangible for company at least in time of crisis. Despite differences across industry sectors, this intangible asset is often the main source of competitive advantage, leading to unusually high profits, at least until competitors are able to respond.

As it was mentioned before, the goals for organizational are productivity, efficiency, market share, reputation, and profit; and in order to have an accurate approach in the field, companies need to identify the networks where they are involved, they need to approach to stakeholders.

It is interesting how reputation it is mentioned within this group and is identified as a company concern, where all indicators are measurable and accountable to managers. Reputation is the perception of people of a company and it is constructed by expectations. Obviously, people's perception is not an objective target and can be manipulate in many ways. But the main impact of this indicator lays on the consequences it can produce: a company can disappear thanks to a bad reputation and that is the reason why managers are considering in their balanced score card.

In this sense, a corporate reputation is a collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders. It gauges a firm's relative standing both internally with employees and externally with its stakeholders, in both its competitive and institutional environments (Fombrun, et.al, p.6).

Reputation is the company's image or the image that they project in the society where it operates, the clients perceptions, the way how employees lives their commitment and how they belong to them, and how the company approach to cultural values. In this sense, a company should considering reputation as the following:

- Doing the right thing,
- Be consistency between actions and statement.
- Long term vision and commitment within all organization considering that every piece involve contributes in this building process.
- Behave ethically correct.

As a consequence, the benefits to implement a reputation management are:

- Help to enforce relationships with stakeholders
- Underpins interaction with community
- Increase ability to attract talent
- Enhances sales
- Determinate the company Investment Rating
- Balance the bargain power with Suppliers

Managers can make strategic use of a company's reputation to signal its attractiveness. Reputational status depended not only on structural factors like company size and economic performance, but also on a company's position in the interaction networks linking firms in each institutional field: economic, social and environmental. Additionally, depends on a net or aggregate of perception by every stakeholder, not just one or two.

What is more, reputations are indicators of legitimacy: they are aggregate assessments of firms' performance relative to expectations and norms in a field (Fombrun, et.al, n. d.).

But, what is legitimate? Something that is acceptable within the context where firms are related: something perceives as good or bad, and what people expect from future performance. This appraisal depends on the relationship between the stakeholder experience, the corporate message and the media message. Obviously marketing can develop a manipulation role on this dynamic. However, stakeholder thanks to its own essence will always demand real tangibles long term actions that cannot be hold only through marketing strategies.

It is important to differentiate reputation from brand. According to Reputation Institute a brand is a promise, and making a relevant and distinctive promise helps to build a brand. But a corporate reputation is built by fulfilling that promise to stakeholders. Therefore, a company owns its brand, but stakeholders own its reputation (Reputation Institute website, 2010).

Considering the previous, stakeholders may have to power to change business strategy.

3.3.2. Corporate scandals: how stakeholder change business

Due to the fact that stakeholders account with the most precious intangible, how can they push to change business strategy? Through the power to affect business, risk, reputation, sales, efficiency and profits.

Every group can design its own strategy based on:

- Shareholder: shareholder activism which stop investment.
- Employees: inefficiency, strikes, lack of commitment.
- Mass media: public campaigns.

- Society represented by NGOs: blogs, rumors, spread of information.

When all these groups coordinate their actions and act together against companies' practices, is when companies are pushed to deal against what is called Corporate Campaigns. At the end, what these groups will achieve is the removal of the company "license to operate".

Activism is a human activity (John, et.al. 2003). It is a normal way for communities to pursue a change and in somehow, to guarantee sustainability. Their first approach to address change is through dialogue but when this fails, stakeholders are pushed to use other tactics even harder (sometimes the strategy is violence), with the only purpose to raise their hand. Furthermore, they are pushed to take advantage of media power and start implementing media campaigns in order to let their voices heard. In some cases, the media campaigns could be considered as "fake", to a lack of supported information (in this case, the purpose is only to catch people's attention, make marketing); but most of the times, media campaigns are real and the intentions are to show society how companies are threating future generations ability to satisfy their own needs.

Media plays an important role in this dynamic. In fact, they account with the power to rapidly spread information. In this sense, it is essential to identify who are the media actors, engage with them and built relationships based on trust and transparency. However, due to the velocity of information, this dynamic might change day by day.

As a consequence, the big challenge these days is having good performance on managing information (blogs, social networks, YouTube) and balancing credible vs. non credible information; both elements came from different sources that cannot be ignored. Information is everywhere and business can be threatened with good or bad information at any time worldwide.

A scandal can be considered as bad information. Business dictionary define corporate scandal as a set of questionable, unethical, and/or illegal actions that a person or persons within a corporation engage in. This often becomes a wide public incident event which (depending on the circumstances) may lead to a damage, disaster, or loss. Typically there are questions about the corporation's actions, which are either allegedly illegal or actually proven to be illegal. Corporate scandals are therefore brought about from allegations about ethical practices or behaviors, by legal action or decisions, or a combination of the two. They may also be due to persons within a corporation acting on his or her own behalf with or without regard for the company (Business Dictionary web site. 2010).

Perhaps the most obvious responsibility of corporations is that they obey existing laws. The regulation of corporate business practices has received increased attention in response to a wave of corporate scandals in the last few years. While the specific circumstances vary in each scandal, the primary issue has been the exaggeration of profits, and consequently stock prices, using unethical or illegal accounting practices. In most cases, top corporate executives sold billions of dollars of stock at inflated prices, while ordinary investors suffered large losses when the firm's financial problems eventually became known.

The accounting scandals in recent years can be linked to the widespread use of stock options as a means of executive compensation in the late 20th century. Many economists supported this practice arguing that executives would manage corporations for the benefit of all shareholders if their compensation were linked to the firm's stock price. In addition to a regular salary, top executives are given shares of the firm's stock. , the scandal at Enron is perhaps the most famous because of its fast-paced culture of greed and influence at the highest levels of government.

Organizations compromise wealth of society, and activism fight to preserve it. Thus, companies need to address public concerns in order to maintain or even increase reputation and avoid public scandals that can leave them out of business.

Activism is a positive influence for both sides: it has opened new opportunities for business, and it has moved public to concern about justice, environment and human rights. When organizations recognize and address these public concerns early, both public and company would win.

3.3.3. Business response after a scandal: the evolution of CSR

A corporate scandal can make a business to lose millions of dollars, even to mitigate its impacts and correct what was wrong, or moreover, to advocate and dismiss actions against. Furthermore, the impacts that a scandal produce over an industry goes beyond a sales reduction; corporate campaigns can affect the stock market value exchange, social responsible investor will cut its investment in companies which are involved in practices considered as "unethical". The consequences are immeasurable, company's reputation is declining; all stakeholders will take action over irresponsible companies.

Obviously, when board of directors see their stocks values falling, call for actions to repair damage and maintain what is strategy for business (only if it is perceived as ethical, otherwise company will never end its scandal). The actions will be responsibility of corporate social responsibility experts, and they will be accountable for their success.

Companies under attack need to highlight the positive outcomes of their activities, but they need to look further and realize the opportunities of engaging with the social and environmental field which means to moves from PR to CSR approach.

Many approaches have been developed to act and repair these damages. All of them will depend of the commitment that top managers have on current social agenda and the importance they give to the impacts they cause on their surroundings. Nonetheless, what is evident is the evolution of many industries have experienced when they have been forced to react to social agendas.

Corporate social responsibility has also evolved. A practical approach provided by Jackson, et.al. (2005, p.18-20) shows this evolution in recent years, moving from responsive arena to a more strategic that adds value to corporations. In this sense, the author suggest an evolution from "Awareness Era", moving forward to "Attentive Era and finally ending with "Engagement Era".

3.3.3.1. The Awareness Era

During 1980 a few leading companies start reacting in countries where activism movements expressed concern for the environment and start losing faith over companies. A first level of environmental and social concerns starts to be feeling.

These companies had a number of things in common: a large local presence and identifiable environmental and consumer impacts, such as air and water pollution, toxic chemical emissions, technological accidents, workers quality of life, etc.

During this era, the majority of companies addressed issues only when they were made aware of problems by external actors and responded largely by denying or avoiding the problem as best as possible. The strategy used to focus on avoiding the problem.

3.3.3.2. The Attentive Era

Around 1992, during the Earth Summit at United Nations Conference on Environment and Development, local environmental issues awaked concerns in both environmental and social arenas. This was the result of an increasingly spread role of NGOs.

In this era, public concerns start focusing on sustainability, impacts of industrial sector and the consequences of operations over climate change. As a result, the problems became much harder to ignore.

As an example, Greenpeace challenged Shell's actions in Nigeria with respect to the environmental and social justice issues for the Ogoni. Also, manufacturing companies such as Nike, which at the beginning were perceived as neutral (the impacts were almost zero), were called to account by their stakeholders for labor conditions in their supply chains.

Many companies started to be more attentive to these issues, acknowledging that they had responsibility for the impacts of their operations (all these cases will be presented forward). The result was a more proactive approach to managing issues through, for example, reporting of progress in their environmental and social reports. Additionally, companies started to implement Code of Ethics, which provide a principle of guidelines to fight against dilemmas and to clarify what is ethically correct or not.

3.3.3.3. The Engagement Era

At 2002, many corporations became addressing environmental and social issues within their own operations. At the same time, a number of leading businesses, along with governments and NGOs, began to recognize that none of them could tackle global sustainability challenges on their own.

Engagement becomes the trend at this point; dialogues and partnerships become a matter of business strategy in order to gain transparency and accountability not only for companies, but also to NGOs.

While these positive developments have been spread, indicators of environmental degradation and social injustice continue to cause concern to society, especially to NGOs. The path to follow is complex and extend, although change in business is been considered.

Considering the previous, corporations might to be in different maturity levels of corporate social responsibility, and what is more, business dynamic show many recipes in the business arena to endorse into organizations. Despite of it, most corporations have endorsed the "Code of Conducts", and even demanded to supplier to comply whit it. Thus, this can be associated to an initial approach for the establishment of a corporate social responsibility culture, which assures ethical behaviors are followed within all organization.

As Porter says (Porter, et.al. 2008), companies and society need each other. A company should select the social issues that intersect with its business and this is what will drive the corporate social responsibility initiatives.

Large corporations implicitly recognize their interconnection with society in their donations to NGOs. For example, Wal-Mart donated a total of $200 million in 2002 to thousands of organizations. Exxon-Mobil describes how they helped create the Save the Tiger Fund, which has collected about $9 million since 1995 to fund conservation projects around the world. General

Motors reports on their cooperative efforts with Detroit-area schools to curb youth violence. In the late 1990s, annual contributions by American companies and their foundations amounted to over $8 billion (Roach, 2008).

Some initiatives can be perceived as philanthropy. When it comes to philanthropy, managers see themselves as caught between society demanding higher levels of commitment and in some cases higher levels of "corporate social responsibility", and investors applying pressure to maximize profits. Increasingly, philanthropy is used as a form of public relations or advertising, promoting a company's image through high-profile sponsorships. But there is a more truly strategic way to think about philanthropy. Corporations can use their charitable efforts to improve their competitive context, as a manner to develop the quality of the business environment in the locations where they operate.

Using philanthropy to enhance competitive context might help firms to align social and economic goals and improves its long-term business prospects. It is not a matter of altruism it is a matter of doing what you have to do to maintain business.

Such initiatives should respond to stakeholder (Responsive CSR) but should not stop here. In contrast, it should moves to a level which not only mitigate harm but also reinforce business by advancing social conditions (Strategic CSR). It is evolved from “good citizen”, to make right choices that integrate social concerns with core strategies.

Nowadays, transparency has become more demanding due to the fact that activist always come for more; however, corporate social responsibility agenda should be there to provide the proper response. In fact, firms have learned that when they make a mistake they need to recognize and solve it quickly; as time passes, it is more difficult to pick up the pieces and repair the damage.

At the end, what a company should achieve is to avoid distinguished what is sustainability and corporate social responsibility, and commit with the social agenda in every activity developed. Only at this level, the company will be catalogued as responsible business, and that is the goal that business should pursuit.

As follow, it will be presented how corporate social responsibility can be tailor-made depending on the business sector, manager’s commitment, business maturity and the context where it is involved. Some actions have been successful and have proven how this new approach can add value to organizations.

5

IV.- BUNISSES CASES

As it was mentioned before, sustainability should be considered as a part of the core business of each organization and through its three dimensions (the triple bottom line) we will here analyze some of the most notorious business cases to offer a better example, starting from the social perspective (case of Nike), moving forward with the environmental perspective through the analysis of Shell and finally with an economic perspective considering the case of Enron. Although it is important to highlight that none of these perspectives can be isolated from each other.

People know they can influence business practices by voicing their opinions online. Consequently, business practices have to respond to a wave of corporate scandals. The business cases chosen are well known due to the impacts they had, that gone beyond economic barriers. Some of them have respond through a change of structure and the way to make business, but others still remaining the same.

As following, it will be presented the case of Nike, from the social perspective

4.1. NIKE CASE

The athletic footwear industry is dominated by a few large companies. In fact, ten main companies control over 70% of the global athletic market. In the 1990s, Nike became the largest and most important athletic footwear company in the world (Locke, 2002).

Nike's business model grew by investing in design, development, marketing and sales and then contract with other companies to manufacture its products. At this moment, corporate social responsibility didn't make part of the strategy of the company.

Following this model, Nike been increasing its sales mainly through low-cost manufacturing (suppliers, shippers, retailers and other service providers) and employing directly or indirectly. But, this economic vision led them to one of the biggest scandal in the manucfactoring business.

4.1.1. The company

The athletic footwear industry is considered a collection of smaller and segmented markets defined by different sports, models and price. This segment is dominated by a few large companies as Nike, Reebok, Adidas, Puma, Asics and etc. In fact, ten main companies control over 70% of the global athletic market. These main companies are Nike, Reebok, Adidas, Fila, New Balance, Asics, Puma, Converse and others (Footwear News, 2000). In the 1990s, Nike has become the largest and most important athletic footwear company in the world (Locke, 2002).

Nike, then called Blue Ribbon Sports – BRS - was founded in a handshake between Phil Knight and Bill Bowerman in Oregon, USA, in January 1964. This handshake cost an investment of $500 each by Knight and Bowerman. The company has evolved from being an importer and distributor of Japanese specialty running shoes to becoming the world leader in design, distribution and marketing of athletic footwear (Nike's web site, nikebiz.com).

Nike's web site reported that "our business model in 1964 is essentially the same as our model today: we grow by investing our money in design, development, marketing and sales and then contract with other companies to manufacture our products".

According to Nike, its business model was developed by Knight and he realized that while lower-cost and high-quality Japanese producers were beginning to take over the US consumer appliance, footwear companies were still manufacturing their own shoes in higher-cost countries like US and Germany. By outsourcing shoe production to lower-cost Japanese producers, Blue Ribbon Sports began to import high-tech sports shoes from Japan (Locke, 2002).

In 1972, the Nike brand was launched and the company officially changed its name to Nike, Inc. in 1978 (Nike's web site, nikebiz.com). Nike's products are based in sportswear, shoes, gears, accessories and equipment. The products are divided in men and women fashion in different categories of sports or activities as basketball, dance, golf, gym training, swimming, soccer, walking, yoga and others. The company also produces for boys and girls through different collections as Jordan sportswear, for example.

Another category is clothing, shoes and accessories for team sports. Beyond these product lines, Nike also provides a customize service, it means customize with team graphics and/or personalize gear, clothing or shoes.

4.1.1.1. Sales

Nike grew quickly on the global scale throughout the 1980s with the help of endorsements from athletes such as Michael Jordan or the Brazilian World Cup Champion soccer team. A catchy slogan like the "Just Do it" campaign and the success at the Olympic level such as the 1984 games when 65 Olympic medals were won by the 58 athletes sporting Nike athletic shoes (Nike Timeline, Nike's web site, nikebiz.com) contributed to transform in a consolidated brand in the market.

In the Nike's back office, the company developed a strong working relationship with two Japanese shoe manufacturers, but the impact of the first Oil Crisis on Japan's economy over the course of the 1970s, forced Nike to seek other alternatives with lower-cost producers.

By the early 1980s, the costs continued to increase in Japan and US and at the same time, the Korean government created a number of incentives to develop Korea's footwear industries and then, Nike moved almost all of its production from Asia (Locke, 2002). Over the 1980s, Nike entered on a successful roll through new technological design in running shoes (Nike Air), shoes for NBA team and mainly a fantastic publicity and marketing around Michael Jordan signature (Nike's web site, nikebiz.com).

Nike Air Max in 1980 and Michael Jordan
(Source: Nike's web site)

Combining these two moments in one, Nike increased its sales through low-cost manufacturing, design and marketing (see the table below). Especially in manufacturing, in 1982, 86% of Nike's athletic footwear came from Korea, Taiwan and new plants in Indonesia, China and Vietnam.

Sales (Million US$'s)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
US Footwear	69	144	245	399	581	666	640	567	650	510	758	1,058
US Apparel	1	2	8	33	70	107	122	160	165	131	143	208
US Athletic Equipment	-	-	-	-	-	-	-	2	3	1	-	-
Non-US Footwear												
Non US footwear + Non-US Apparel	1	4	17	26	43	94	158	217	252	235	303	348
Non-US Apparel												
Other												96
Total Revenue	71	150	270	458	694	867	920	946	1,070	877	1,204	1,710
Net Income (Million US$'s)	4	10	13	26	49	57	41	10	59	36	102	167

Sales (Million US$'s)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
US Footwear	1,369	1,680	1,744	1,969	1,869	2,309	2,772	3,754	3,499	3,245	3,351	3,209
US Apparel	266	327	369	361	339	424	831	1,407	1,556	1,293	1,154	1,260
US Athletic Equipment												
Non-US Footwear		652	868	1,049	998	1,244	1,682	2,391	2,460	1973.8	2,210	2414.8
Non US footwear + Non-US Apparel	479											
Non-US Apparel		210	268	353	359	473	651	1,087	1,436	1383.7	1392.6	1503.3
Other	121	135	157	199	223	312	534	548	602	881	886.6	1101.5
Total Revenue	2,235	3,004	3,406	3,931	3,788	4,762	6,470	9,187	9,553	8,777	8,995	9,489
Net Income (Million US$'s)	243	287	329	365	299	400	555	796	400	451	579	590

Source: Nike Financial Report 2001

4.1.1.2. Products and operations' countries

"If you have a body, you are an athlete" (Nike co-founders Bill Bowerman, Nike's web site, nikebiz.com). Bowerman was defining different possibilities for human potential in sports. Along the way, Nike has established a strong brand portfolio with several subsidiaries.

Over the years, Nike has broadened its product range. In 1980s, Nike had around 175 different styles of shoes. In the year of 1990, it offered 772 different styles in its spring collection. And in the spring 2000 collection it offered almost 1200 different styles of shoes. Nike has also moved into other sectors such as apparel and sports equipment and expanded its sales beyond the United States (Nike Financial Report 2001, Nike's web site, nikebiz.com).

Today, Nike produces footwear, clothing, equipment and accessory products for the sports and athletic market. It operates in more than 160 countries around the world. Through its suppliers, shippers, retailers and other service providers, Nike employs directly or indirectly one million people around the world. That includes more than 33,000 Nike employees across six continents.
For the fiscal year ending May 31, 2009, Nike reported record revenues of $19.2 billion representing a growth of 3% over last year's earnings Nike's products are manufactured in more than 700 factories worldwide (Nike Financial Report, 2010, nikebiz.com). Currently, the manufacturers' countries are (Nike's web site, 2010, nikebiz.com):

Albania
Argentina
Australia
Germany
Greece
Guatemala
Pakistan
Peru
Philippines

Bangladesh	Holland	Portugal
Belgium	India	Romania
Bosnia	Japan	Singapore
Brazil	Jordan	South Africa
Bulgaria	South Korea	Spain
Cambodia	Lithuania	Sri Lanka
Canada	Macau	Switzerland
Chile	Macedonia	Taiwan
China	Malaysia	Thailand
Dominican Republic	Mexico	Tunisia
Egypt	Moldova	Turkey
El Salvador	Mongolia	United Kingdom
Fiji	Morocco	United States of America
France	New Zealand	Vietnam

4.1.1.3. Corporate social responsibility in the company

In 1996 Nike faced widespread criticism from anti-sweatshop groups. The factories making the company's products in Vietnam, Indonesia, Pakistan, China and other countries failed to meet even the lowest standards of working conditions. Nike neither owned nor operated any of the factories, and initially made the argument that, as a sports-apparel marketer, it was not responsible for how the products were made. That only fuelled more criticism in the US, highlighted by a television documentary called "Just Do It – Or Else", detailing the poor working conditions in Nike-contracted factories (The Economist Intelligence Unit, The Economist, 2007).

Following protests, strikes and boycotts, Nike in 1998 began establishing an approach to operational corporate responsibility which seeks to monitor and improve a company's internal operations, from waste management to improving working conditions.
In 2001 the company released its first Corporate Responsibility Report using the Global Report Initiative (GRI) guidelines, to assess and communicate the impact of how the company runs its business.

In this first Corporate Responsibility Report, the CEO Phil Knight recognized the mistakes around the working conditions in its supply chain that some years ago were denied (Nike Responsibility, Nike's web site, nikebiz.com):

"…We made mistakes, more than most, on our way to becoming the world's biggest sports and fitness company. We missed some opportunities, deliberated when we should have acted, and vice versa…
…Things change. We are still passionate and focused. We are still about sports. But our world has become much bigger, our impact felt beyond sports. In January 2001 we redrafted our mission and values to reflect this evolution of Nike, to recommit to our fundamental truths while identifying opportunities for growth as a business and as a citizen."

Nike in its first experience in corporate responsibility report dedicated the content entirely of natural environmental, labor practices, Nike people and community affairs. The stakeholders mapping was represented in a table in the end of the report. On this table, Nike considered suppliers and contract manufacturers' part of its business relations. On this business relations' session, Nike indicated

different tools and monitor to improve the relation between the company and suppliers or contract manufacturers (Nike's web site, nikebiz.com).

Source: http://www.nikebiz.com/Nike_FY01_CR_report.pdf

4.1.2. Scandal: Nike's working conditions

By the early 1980s, the costs to manufacture Nike's products in Japan and United States increased considerably. At the same time, the Korean government created a number of incentives to develop Korea's industry. So, in 1982 Nike decided to establish its production line through Asian suppliers. At the time, 86% of Nike's athletic footwear came from Korea and Taiwan (Amsden, 1989). Over time, as Korea and Taiwan also began to develop, costs began to rise in these countries as well. As a result, Nike began to urge its suppliers to re-locate their operations to other, lower cost-countries. The company worked with its lead suppliers to open up manufacturing plants in Indonesia, China and Vietnam (Amsden, 1989).

Important differences exist among the sectors in which Nike competes. And these industry differences have a significant impact on the kinds of relationships that Nike can develop with its various suppliers (Locke, 2002).

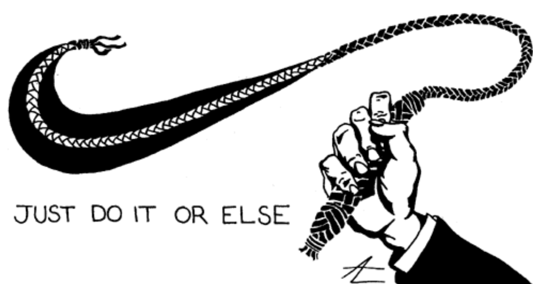
For example, in footwear, Nike has been able to develop long-term relations with several large Korean and Twainese firms. With some of these firms, Nike designers create and then relay via satellite new footwear designs and styles for upcoming seasons to suppliers, who in turn, develop the prototypes (Nike's web site, nikebiz.com). Once these prototypes are approved, these lead suppliers fax the product specifications to their various plants throughout Southeast Asia, where production can take place almost immediately. This level of trust and coordination facilitates

production and compliance activities for Nike. In apparel, given short product cycles and volatile trends, the situation is completely different. Nike works with numerous suppliers, most of whom are also working for other companies. Given that different apparel suppliers specialize in particular products or market segments, shifts in consumer preferences or fashion trends could translate into very short-term contracts with and/or limited orders from Nike (Amsden, 1989).

The level of commitment which Nike has with these suppliers and its ability to monitor on a regular basis the production processes and working conditions of these factories influenced a range of issues related to human rights and the company. The same factors that permitted Nike to grow taking advantages of global sourcing opportunities to produce lower cost products and investing these savings into innovative designs and marketing campaigns (Nike's web site, nikebiz.com) have also created serious problems for the company.

Nike has been criticized for violation of human rights since the 80s. But during the course of the 90s, Nike was involved in many problems related to low wages, poor working conditions, child labor and violation of human rights in Indonesia, Pakistan, Vietnam, China and others (Locke, 2002). These problems were related by NGOs and activists in different media channel such as TV, newspapers, internet and etc. Then, these problems were related as scandals to public opinion, customers and investors. All these scandals combined to tarnish Nike's image and reputation.

In May 1998, Phil Knight, Nike's CEO, lamented in a speech to the National Press Club that "the Nike product has become synonymous with slave wages, forced overtime and arbitrary abuses" (Locke, 2002).



Source: google.com – Nike sweatshops

According to Rosenzweig (2005), more than 374 million pairs of athletic shoes with a value of $11.6 billion were sold in the United States in 1992. The leading brand was Nike with 31.8% of the market. Nike thanked to highly visible marketing campaigns and endorsements from some of the world's best known athletes. In 1993, Nike earned $365 million on sales of $3.9 billion with a return on equity of 24.5%. The firm concentrated on product design and marketing and did not manufacture shoes, farming this out to contractors in South Korea, Taiwan, China, Indonesia, Thailand and the Philippines. Rising labor costs were a major concern to Nike, and as the relative cost of labor shifted among Asian nations, they studied the advantages of relocating production. Hoping to retain their working relationships with Taiwanese and South Korean manufacturers, Nike provided incentives for them to move to countries with lower labor costs. Several Taiwanese manufacturers moved to China and many Korean manufacturers moved to Indonesia. As athletic footwear factories expanded in Indonesia, they came under the scrutiny of the Asian-American Free

Labor Institute which alleged that Nike's system of procurement was rife with exploitation and cited the firm for a range of labor abuses. Faced with slowing demand at home, Nike looked for new ways to grow, and with increasing advertising expenses, rising development costs, and with consumers becoming more price-sensitive, remained vitally concerned with controlling costs (Rosenzweig, 2005).

Nike has been confronted many problems related to labor rights. This study covers three different labor rights problem in three different countries such as: labor conditions, ages of workers and low wages. The following shows an exposition of the facts related to human rights' problems at Nike suppliers' factories in Indonesia, Pakistan and Vietnam.

4.1.2.1. Indonesia

In the beginning of 90s, Nike worked with Korean suppliers in six Indonesian factories, employing more than 25.000 workers. Four of these factories were owned by Nike's Korean suppliers (Amsden, 1989). Reports by a variety of NGOs and labor activists claimed that these plants were common with exploitation, poor working conditions, and a range of human rights and labor abuses (Locke, 2002). Many Nike's Korean suppliers did not pay the minimum daily wage claiming to the Indonesian government that they had difficulties to pay it (Locke, 2002).

At that moment, according to official Indonesian government calculations, the minimum daily wage (2.100 rupiah or about US$ 1) covered 70% of the basic needs of one individual, but did not cover the family.

A range of NGOs, as Oxfam Australia, and labor activists as Jeff Ballinger (founder of Press for Change) publicized through a qualified use of media hard and critical reports about working conditions in Nike's plants. These working conditions referred to exploitation, labor abuses, poor environmental working conditions and low wages (Locke, 2002). In 1993, CBS aired a report about workers' struggles at Nike's Indonesian suppliers, featuring Ballinger. In 1994, harsh criticism of the company's practices appeared in an array of different publications: The New Republic, Rolling Stone, The New York Times, Foreign Affairs and The Economist (Locke, 2002).

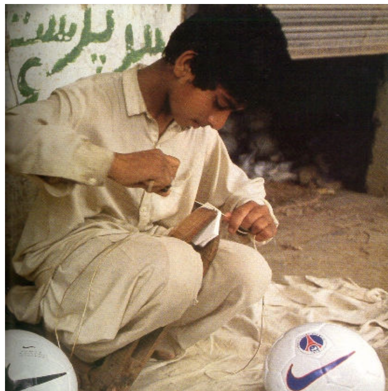
Source: google.com - Nike sweatshops in Indonesia

4.1.2.2. Pakistan

About 70% of the world’s high-quality soccer balls are produced in the city of Sialkot, Pakistan – many of them for leading brands like Nike, Reebok and Adidas. Sialkot is home to a cluster of small and medium sized firms specializing in an array of labor-intensive, export-oriented goods, including hand-stitched soccer balls. The region hosts a wide variety of subcontractors (suppliers) and work from home is also common. A dozen of local firms dominate the local sports good cluster, in terms of employment and production (Locke, 2002).

According to Montero (2006), Sialkot's hand-stitched ball industry, about a century old, is a big business: Saga Sports alone accounted for $33 million of the industry's $210 million total. For Sialkot's 45,000 stitchers, who earn less than $100 a month on average, soccer balls are a way of life. But for as long as there have been soccer balls in Sialkot, the hands of children have stitched them. That is not unusual in Pakistan, where a per capita income of about $2,800 commonly drives children to work. According to UNICEF estimates, more than 3 million boys and girls below age 14 work in Pakistan (Montero, 2006).

In June 1996, Life magazine published an article on child labor in Pakistan, which a 12-year-old boy was stitching a Nike soccer ball. This article and its accompanying photo unleashed another wave of criticism against Nike and a call by various consumers groups, trade unions and NGOs boycotted the Nike’s soccer balls producer (Locke, 2002). According to Maria Eitel, Vice President and Senior Advisor for Corporate Responsibility at Nike (cited in Locke, 2002), this represented a “critical event” for the company in terms of its understanding of globalization, international labor standards and corporate responsibility.



Source: LIFE Magazine – Nike & Child Labor

Source: google.com - Nike & Child Labor

4.1.2.3. *Vietnam*

In November 1997, an Ernst & Young audit of one of Nike's Korean subcontractors, the Tae Kwang Vina Company operating in Vietnam. At that time, Tae Kwang Vina employed over 9.000 workers and produced more than 400.000 pair of Nike shoes per month (Locke, 2002).

As O'Rourke (CorpWatch, 1997) said, Ernst & Young's audit, commissioned by Nike, reported serious health and safety problems at the Tae Kwang Vina plant. Toulene concentrations were said to exceed between 6 and 177 times acceptable standards in certain sections of the plant. The report also claimed that chemical releases in the plant had caused numerous cases of skin and heart diseases, and that respiratory illness, due to excess dust, were uncontrolled in other areas of the factory. According to the report, the lack of control of this substance in other areas of the plant, the lack of personal protective equipment at the factory and overloaded work hours at the plant were in violation of Nike's code of conduct.

This report appeared in leading newspapers, as The New York Times and other leading newspapers, and it caused more damage at Nike's image beyond the events related to working conditions (Locke, 2002). This incident was particularly damaging for Nike since the report came from Ernst and Young, a leading accounting and consulting firm that Nike has hired to audit its suppliers' factories. In his report, of Nike's suppliers, the firm did not mention the serious health and safety issues at the plant. In short, more than simply another example of poor working conditions at one of Nike's supplier's plants, this episode called into question the company's honesty about and commitment to labor and environmental/health standards (O'Rourke, 1997).

O'Rourke (1997) publicized that he visited the Tae Kwang Vina plant three times in 1997. During the visits to the plant, he performed walk-through audits of environmental and working conditions, interviewed management personnel, met with managing director, and with representatives of Nike Inc. in Vietnam. He also interviewed workers confidentially outside the factory. He affirmed that Ernst and Young failed to do interviews in the factory and presented a strong argument against using accounting firms to conduct labor and environmental audits.

Source:
O'Rourke (burning scrap rubbers in a boiler)
http://web.nmsu.edu/~dboje/TDgreenEYaudit.html

Source:
O'Rourke (working on Nike Uppers with glue and solvents and no protective gear")
http://web.nmsu.edu/~dboje/TDgreenEYaudit.ht

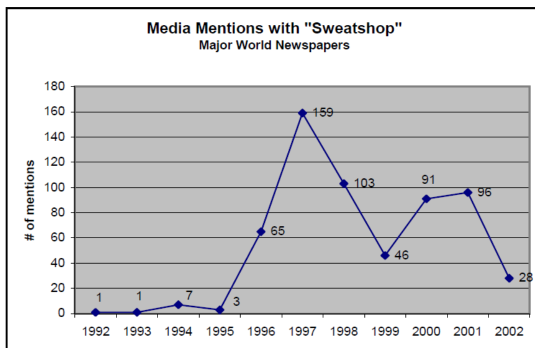
4.1.3. Reputation x media

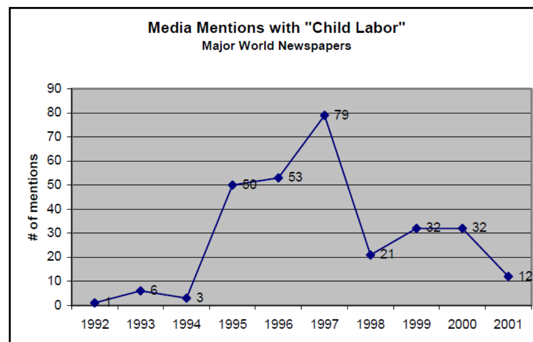
Over the years, Nike increased its product range, moved into other sectors (apparel and sports equipment) and expanded its sales in US, Europe, Latin America and Asia. According to Locke (2002), Nike had a significant impact on the kinds of relationships among various suppliers. In this way, Nike developed long-term relations, as well as short-term contracts with suppliers in many countries. These different levels of relationships influenced the ability of Nike to monitor the working conditions of suppliers' factories.

Combining the events already mentioned, Nike had its reputation completely affected and the scandals fueled anti-globalization movements that started investigating the potential risks and problems related to multinational companies (Locke, 2002). It is possible, at this time, to indicate that these events started evoking changes in corporate governance structures and the need to develop better strategies in monitoring and controlling the supply chain.

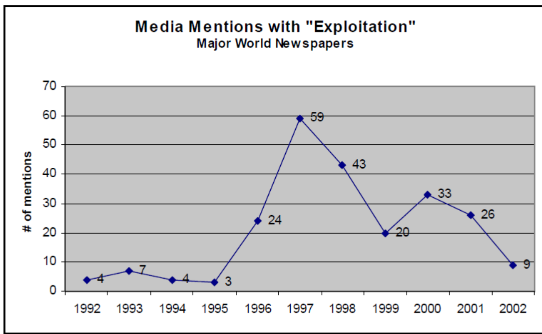
At first, Nike ignored the criticisms responding that the factories were owned and operated by independent contractors and to investigate labor violations was not a part of its responsibility.
In Indonesia and Pakistan, the scandal involved Nike's brand image in a critical event related to international labor standards and child labor. In the case of Ernst & Young, the report didn't mention the problems related to health and safety, it only provided briefly information about poor working conditions (Locke, 2002).

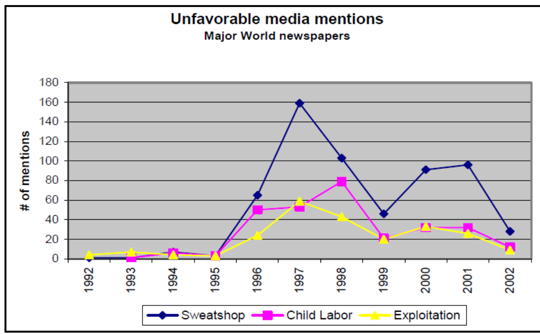
Once more, through newspapers (The Boston Herald, Daily News NY, London Financial Times, The Observer, The Houston Chronicle, USA Today, The Washington Post, Asian Wall Street Journal and others), Nike had its reputation affected by indignation of public opinion, consumers and shareholders. Even the company's honesty was questioned (Locke, 2002). Increasingly, labor and environmental problems at Nike's suppliers' factories were becoming a major problem for Nike itself. But, as a consequence of a bad image publicized through media at the moment, Nike has been hurt by falling stock prices and weak sales even as it has been pummeled in the public relations arena (CorpWatch, 1998). Nike's reputation was unreliable and sales substantially decreased. These events are reflected in the tables below:





Source: Locke, 2002





Sales (Million US$'s)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
US Footwear	69	144	245	399	581	666	640	567	650	510	758	1,058
US Apparel	1	2	8	33	70	107	122	160	165	131	143	208
US Athletic Equipment	-	-	-	-	-	-	-	2	3	1	-	-
Non-US Footwear												
Non US footwear + Non-US Apparel	1	4	17	26	43	94	158	217	252	235	303	348
Non-US Apparel												
Other												96
Total Revenue	71	150	270	458	694	867	920	946	1,070	877	1,204	1,710
Net Income (Million US$'s)	4	10	13	26	49	57	41	10	59	36	102	167

Sales (Million US$'s)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
US Footwear	1,369	1,680	1,744	1,969	1,869	2,309	2,772	3,754	3,499	3,245	3,351	3,209
US Apparel	266	327	369	361	339	424	831	1,407	1,556	1,293	1,154	1,260
US Athletic Equipment												
Non-US Footwear		652	868	1,049	998	1,244	1,682	2,391	2,460	1973.8	2,210	2414.8
Non US footwear + Non-US Apparel	479											
Non-US Apparel		210	268	353	359	473	651	1,087	1,436	1383.7	1392.6	1503.3
Other	121	135	157	199	223	312	534	548	602	881	886.6	1101.5
Total Revenue	2,235	3,004	3,406	3,931	3,788	4,762	6,470	9,187	9,553	8,777	8,995	9,489
Net Income (Million US$'s)	243	287	329	365	299	400	555	796	400	451	579	590

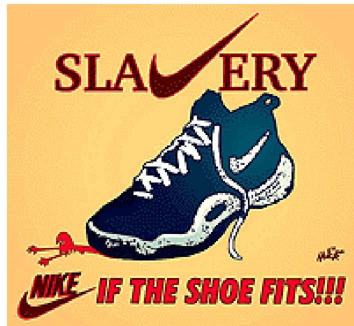
Source: Locke, 2002

These events made Nike a target for the anti-globalization and anti-sweatshop movements. Several NGOs focused their attention on Nike and the problems found among its suppliers. Web sites focusing solely on Nike and its alleged abuses appeared on the worldwide web and were used by NGOs and various activist groups to share information, coordinate protests and further embarrass the company. Numerous organizations have taken it upon themselves to bring such human rights violations to light and to pressure Nike into changing their labor practices (Pittman, 2003).

Among these are the Global Exchange, Oxfam Community Aid Abroad, The Workers' Rights Consortium (WRC) and numerous student groups. These groups staged protests in front of Niketown stores, distributed flyers, organized sit-ins and boycotted Nike products produced in sweatshops in order to raise public awareness. Several universities have also become involved in the fights for workers' rights by joining the WRC. In joining the WRC the universities ensure that merchandize bearing the university's name or logo, a lucrative market, is not produced in sweatshops. Then, some universities cancelled their orders with Nike to produce collegiate athletic products (Pittman, 2003). While the human rights organizations would like Nike to make a number of changes to their manufacturing practices, their main goals were as follow: ensure living wages for workers increase the safety inside of the factories, reduce the number of hours workers need to work and to allow outside organizations to monitor the factories.

Workers have also taken part in the fight for their rights, staging strikes, most notably in Indonesia when 10.000 Nike workers walked off the job in April 1997 (Pittman, 2003).
As a result of these various activities, the company's hard-earned image began to tarnish (Locke, 2002). Some examples are indicated below:

Source: google.com - anti-Nike campaigns



Source: Oxfam Australia web site, 2010

BBC NEWS

You are in: World: Asia-Pacific

Front Page
World
Africa
Americas
Asia-Pacific
Europe
Middle East
South Asia
From Our Own Correspondent
Letter From America
UK
UK Politics
Business
Sci/Tech
Health
Education
Entertainment
Talking Point
In Depth
AudioVideo

Monday, 4 September, 2000, 18:05 GMT 19:05 UK

Athletes urged to rethink Nike ties

JUST STOP IT

Former US soccer pro Jim Keady launching the report

Athletes competing in the upcoming Sydney Olympics should think closely about ties with the sportswear manufacturer Nike, an Australian human rights group has said.

In a report released on Monday Community Aid Abroad-Oxfam (CAAO) said the sports manufacturer was failing to protect workers rights at Indonesian factories contracted to make its training shoes and

Search BBC News Online
GO
Advanced search options
Launch console for latest audio/video
BBC RADIO NEWS
BBC ONE TV NEWS
WORLD NEWS SUMMARY
BBC NEWS 24 BULLETIN
PROGRAMMES GUIDE

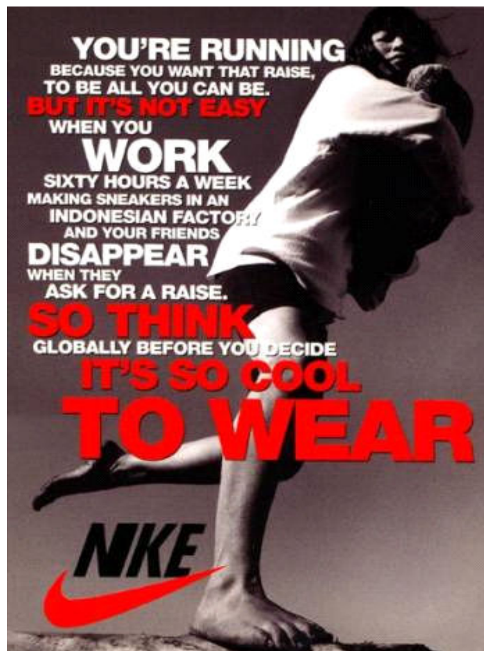
See also:
- 21 Jan 99 | Asia-Pacific Nike slams Vietnam labour critics
- 05 May 00 | Americas Nike cuts university funding
- 19 Oct 99 | Americas Reebok criticises own factories

Internet links:
- CAAO: Just Stop It campaign
- nikewages.org: Jim Keady's Indonesian campaign
- Nike

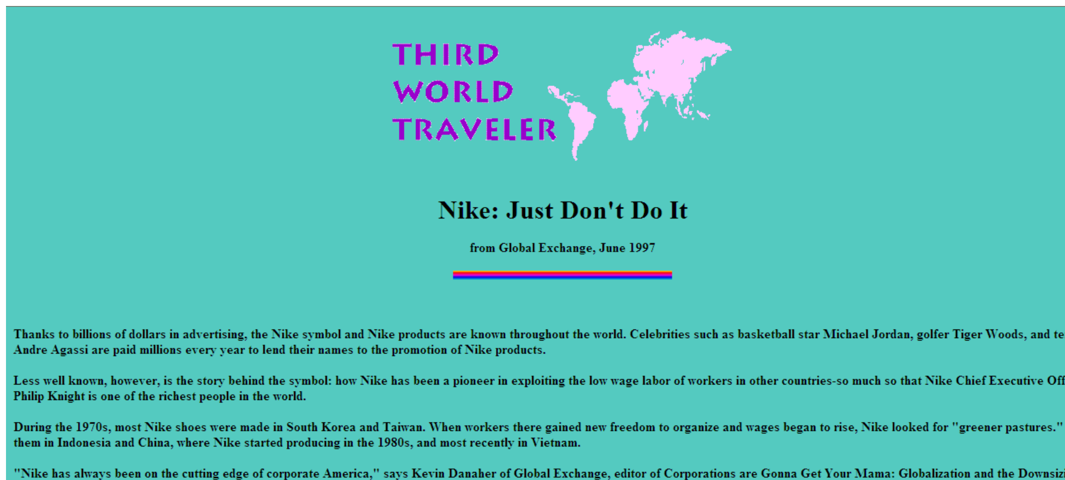
The BBC is not responsible for the content of external internet sites

Top Asia-Pacific stories now:

Source: google.com - anti-Nike campaigns



Source: google.com - anti-Nike campaigns


THIRD WORLD TRAVELER

Nike: Just Don't Do It

from Global Exchange, June 1997

Thanks to billions of dollars in advertising, the Nike symbol and Nike products are known throughout the world. Celebrities such as basketball star Michael Jordan, golfer Tiger Woods, and ten
Andre Agassi are paid millions every year to lend their names to the promotion of Nike products.

Less well known, however, is the story behind the symbol: how Nike has been a pioneer in exploiting the low wage labor of workers in other countries-so much so that Nike Chief Executive Offi
Philip Knight is one of the richest people in the world.

During the 1970s, most Nike shoes were made in South Korea and Taiwan. When workers there gained new freedom to organize and wages began to rise, Nike looked for "greener pastures." I
them in Indonesia and China, where Nike started producing in the 1980s, and most recently in Vietnam.

"Nike has always been on the cutting edge of corporate America," says Kevin Danaher of Global Exchange, editor of Corporations are Gonna Get Your Mama: Globalization and the Downsizir

Source: http://www.thirdworldtraveler.com

Green Wash Accounting: Ernst & Young Audit of Nike Corporate Plant in Vietnam Prompts Positive Steps from Green Wash to Green Initiatives

David M. Boje
23 October, 1999, Last Revision Dec. 8, 1999

Green Wash Accounting is defined as making it appear to the public that green accounting is going on, when it is just a story told to keep customers, investors, and regulators at bay.

GREEN WASH SITES

- *The World of Greenwash By Kenny Bruno (press here)* ***Greenpeace and Corporate Watch*** *team up to give a monthly award to the ultimate in corporate Greenwash.. "Welcome to the world of GREENWASH, where transnational corporations (TNCs) are preserving and expanding their markets by posing as friends of the environment and enemies ofpoverty."*
  - *Earth Day list of Awards (press here)*
  - *GREEN WASH AWARD - Sweatwash The Apparel Industry's Efforts to Co-opt Labor Rights By Julie Light December 1998 (press here).*
  - *McLibel (press here).*
    - *October 12, 1999 MONTREDON JOURNAL French See a Hero in War on 'McDomination' (press here).*
  - *Montanto Corporation - Check out the Roundup ads (press here). Imagine you are an old fashioned "cowboy" who does an annual "round up" of your prize cattle. Monsanto's cutely named poison now can be combined with their seeds genetically engineered to tolerate increased doses of roundup. " Boycott ROUNDUP and all Monsanto products, especially Monsanto Roundup Ready Soybeans. The same company that brought us Agent Orange advertises itself with the GreenWash advertising of "Food, Health, and Hope."*
    - *Greenwash Award of the Month: Monsantoby Kenny Bruno (press here).*
    - *Monsanto dairy hormone may be carcinogenic (press here) From: Thu, Mar 18, 1999, LONDON (Dow Jones)*
    - *Monsanto and Fox TV Unite to Suppress Journalists' Free Speech on Hazards of Genetically Engineered Bovine Growth Hormone (rBGH or rBST) Ronnie Cummins (press here).*
    - *UNITED STATES ENVIRONMENTAL PROTECTION AGENCY WASHINGTON D.C. 20460 OFFICE OF SOLID WASTE AND EMERGENCY RESPONSE.... MEMORANDUM SUBJECT: Criminal Investigation of Monsanto Corporation - Cover-up of Dioxin Contamination in Products - Falsification of Dioxin Health Studies (press here).*
    - *Ethical Investing How To Avoid Monsanto Investments (Mutual Funds, Stocks) (press here).*
    - *List of Monsanto Watch items (press here).*

Source: http://web.nmsu.edu/greenEYaudit

Oxfam Australia (is part of a global movement of dedicated working people hard to fight poverty and injustice) developed in its web page a session dedicated to follow all the Nike's steps to improve its working conditions called Oxfam's NikeWatch Campaign. It also keeps in the front page of Nike's session some comments from the Board of Directors: "In a highly competitive global economy, we do not support wages that are arbitrarily set based on living wage formulas" (Oxfam Australia, web site, 2010).

Source: Oxfam Australia

4.1.4. Activism

According to Burke (2005), "activists come from all backgrounds, races and strata in societies. They may be a neighbor protesting the expansion of a road-way needed for the operation of a company, a colleague volunteering for an organization that wants to expand women's rights, the son or daughter of a colleague who is organizing boycotts against companies that have unsafe labor practices in developing countries, or the aunt or uncle organizing their friends, families, and neighbors to support the Kyoto Protocol. They are the faces of people everywhere in the new activist world."

B.J. Bullert (2000), an anti-Nike activist, wrote a memo on the anti-Nike campaign by various NGOs. She observed that "the political process is increasingly mediated by the press. In a political/media system where press coverage largely filters how and what general publics have an opportunity to know, if groups don't have a voice in the media, they usually don't have a voice at all in public dialogue or in political decision-making. The influence of a corporate perspective has long influenced the media's filter on economic globalization, but over the years, the anti-sweatshop campaign has had an impact on this equation through two effective media strategies that make news by making controversy: one targets a highly visible company, such as Nike, and the other targets a highly visible celebrity as a way to capture the attention of the press and the concerned publics. Data linking producers to consumers have anchored the news in a tangible reality."

She also indicated in its memo that the flow of information is "the life-blood of the anti-sweatshop movement". New communication technologies provide effective means to organize and mobilize supporters with the click of a mouse, circumventing traditional channels of political communication. International list-servers link activists across national boundaries within seconds.

News articles about factory conditions, wages, and strikes in Jakarta newspapers circulate to more than 150 university campuses through the United Students Against Sweatshops network. In this new media environment, linked together by communication technologies, student groups have proved successful in raising the visibility of global concerns.

The main questions that activists like Bullert reinforced in its articles for consumers to ask are: "if a pair of Nike Air Jordan retailed for $130, but cost a fraction of that to make, aren't they overpriced? Where does the rest of the money go?"

And employees in factories producing the shoes must ask: “if the shoes sell for so much more than they cost to make, why can’t the company pay at least a living wage and provide decent, safe working conditions? How about an extra dollar a day?”

Another anti-globalization activist, Naomi Klein (2002), argued that brands, based as they are on the malleable perceptions of consumers, have left the many companies which rely on them highly exposed to public criticism from campaigners. Protestors easily can undermine a brand by associating it, for example, with images of child labor. She assumed that is a broadly beneficial development, however, is ambiguous in its affects. For, if a company such as Nike is genuinely to protect its brand, it needs above all to persuade the public in the west, where most consumers of its products for the time being still reside, that it is dealing responsibly with the “sweatshop” issue; and yet western perceptions often bear only a partial relationship to the reality on the ground.

Klein (2002) accused Nike to use countries like Indonesia and others in favor of low-cost benefits and high sales volume. In her widely read book *No Logo* (the book is focused on branding and makes connections with the anti-globalization movement) deals quite extensively with Nike accusing them of abandoning countries as they developed better pay and employment rights in favor of countries like China, where these are less of a cost. She points to a photo published in 1996 showing children in Pakistan stitching Nike footballs as an example of the use of child labor. Klein (cited in Litvin, 2004) remarked in its book that “many anti-corporate campaigns invite a worker from a Third World country to come visit a First World superstore – with plenty of cameras rolling”. She also suggested that Nike should publicize all of its factories, and allow independent inspection to verify conditions there. Any auditing carried out by Nike should be made public (Klein, 2002).

Nike accused Naomi Klein of peddling inaccurate and old information. They point out that they had not abandoned countries as she claimed, and remained in Taiwan and Korea despite the higher wages and labor rights. They admit that the 1996 photo documented what they describe as a “large mistake” when they began to order soccer balls for the first time from a supplier in Pakistan. Nike now is operating stitching centers where the non-use of child labor can be verified (CorpWatch, 1998).

According to CorpWatch (1998), Nike believed that the sharing with factory locations with independent third parties on a confidential basis enables them to monitor their supply chain properly. They stated that disclosure of the factory names, plus details of audits of those factories, would be used by the NGOs simply to make further attacks rather than as part of dialogue to help the company to address and resolve those problems which exist. As for wage rates, Nike felt that establishing what constitutes a “fair” wage is by no means as easy as its critics would have the public believe – and disparages the constant quoting of wage rates in US dollar equivalents, when these are meaningless given the different cost of living in the countries concerned.

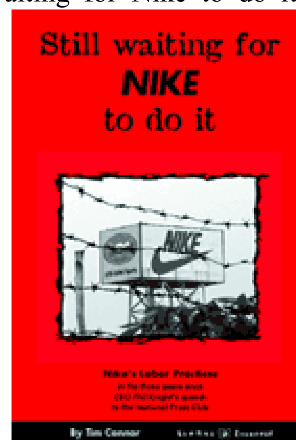
Nike was also visibly dismayed at how they have attained the status of lead focus in this area. They requested that people look towards their competitors and see how many of them have taken the kind of measures the company had over the last years (CorpWatch, 1998).

According to Tim Connor (Global Exchange, 2001), Phillip Knight’s words, the founder and CEO of Nike, at the National Press Club in Washington at May 1998, were "some fairly significant

announcements" regarding Nike's policies on working conditions in its supplier factories. He said that the Knight's announcements received favorable treatment from the press, with a New York Times editorial suggesting that Nike's new reforms "set a standard that other companies should match."

On the other hand, Nike's critics were more cautious, expressing concern that Knight's promises represented an attempt to sideline their demands for decent wages and rigorous factory monitoring and replace them with a significantly weaker reform agenda.

For this reason, Tim Connor developed a report called "Still waiting for Nike to do it" that represented a comprehensive examination of Nike's labor performance in the three years since that speech was made. That performance is first assessed against the commitments Knight announced and is then compared with the human rights standards and independent monitoring practices labor rights organizations have demanded of the company.



Connor also indicated that the inaction of the last three years showed that rights groups were justified in treating the company with suspicion and demanding that factory monitoring be both genuinely independent from Nike's control and publicly reported in full. While Nike advertised itself as an "industry leader" in corporate responsibility, Nike workers were still forced to work excessive hours in high pressure work environments, were not paid enough to meet the most basic needs of their children, and were subject to harassment, dismissal and violent intimidation if they tried to form unions or tell journalists about labor abuses in their factories. He finalized his arguments saying that "it is indefensible that activists, consumers and most importantly Nike factory workers are still waiting for Nike to do it".

4.1.5. Nike's response

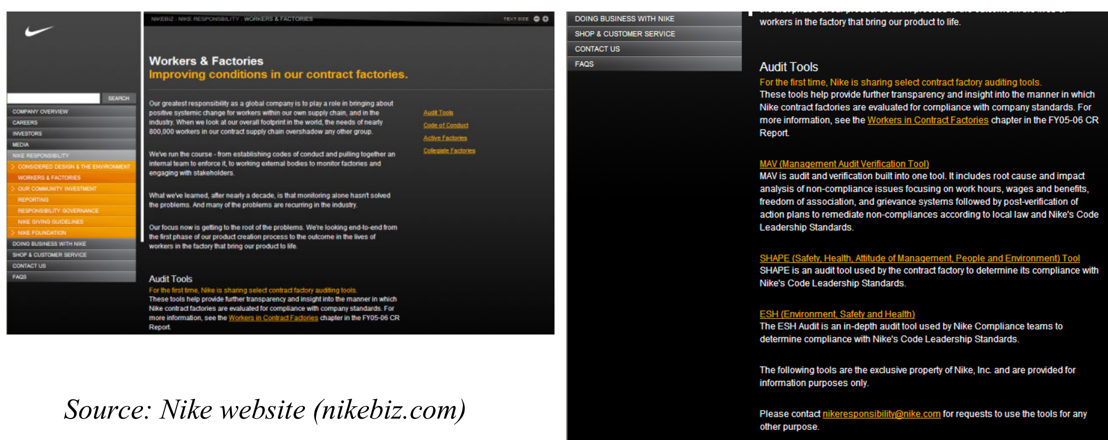
At first, Nike refused to accept any responsibility for the various labor and environmental/health problems found at their suppliers' factories. The major argument was the workers were not its employees, and then Nike had no responsibility for them (Klein, 2002).

The changes started in the behavior of the company in 1992 when Nike formulated a Code of Conduct (Nike's web site, 2010) for its suppliers that required them to observe some basic standards related to labor, environmental and health conditions. Potential suppliers for Nike were obligated to sign this Code of Conduct and post it within their factories. According to Locke (2002), critics have charged that Nike's Code of Conduct was minimalist and not fully enforced. Claiming that posting the Code in factories where most employees are functionally illiterate and/or do not possess the power to insist on its implementation was simply window dressing. Nonetheless, the evolution of this document indicated that Nike was seeking to address several of the most serious problems found in its suppliers' plants.

In 1996, Nike had joined Bill Clinton's "Apparel Industry Partnership", and later it signed up to UN Secretary General Kofi Annan's "Global Compact", both political initiatives aimed at reconciling the demands of multinationals and campaign groups (Litvin, 2004). The company also began to pay more attention to environmental and health problems, insisting on the use of water-based solvents in its factories, for example, so as to reduce fumes inhaled by workers, and also developing shoes from

recycled materials (Litvin, 2004). At the core of the company's strategy, at the moment, was its code of conduct. Among other things, the code proclaimed that children under 16 were prohibited from working week of 60 hours, and expressed support for the right to free association and collective bargaining. Litvin (2004) said that to try to ensure that factory bosses were implementing the Code of Conduct Nike recruited a worldwide team of compliance staff, and hired consultants to undertake factory inspections.

The next step was to answer the criticisms creating several new departments (e.g.: Labor Practices in 1996, Nike Environmental Action Team (NEAT) in 1993) which, by June 2000, were organized under the Corporate Responsibility and Compliance Department. Currently, Nike has a team specifically dedicated to labor and environmental compliance, all located in countries where Nike products are manufactured. These employees visit suppliers' footwear factories on a daily basis. In apparel, given the much larger numbers of suppliers, Nike managers conduct on-site inspections on a weekly or monthly basis, depending upon the size of the firm (Locke, 2002). This team is also formed by production specialists working at/with its various global suppliers. All Nike personnel responsible for either production or compliance receive training in Nike's Code of Conduct, Labor Practices, Cross Cultural Awareness, and in the company's Safety, Health, Attitudes of Management, People Investment and Environment (SHAPE) program. In addition, Nike suppliers are regularly audited by external firms like Ernest & Young, Price Water House Coopers and others specialized in this work (Nike's web site, 2010).



Source: Nike website (nikebiz.com)

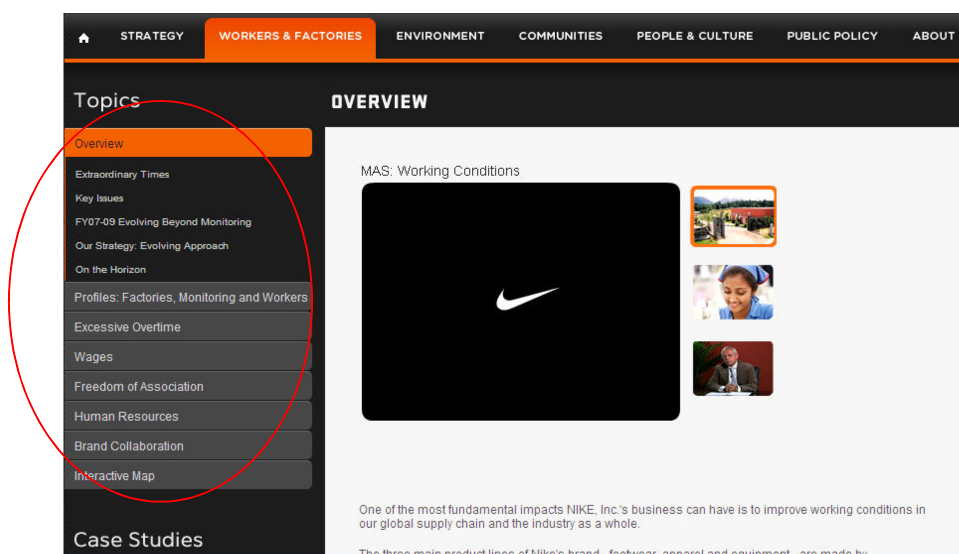
Since 1998, Nike has increased the minimum age of factory workers and insisted that all suppliers adopted US Occupational Safety and Health Administration (OSHA) standards for indoor air quality. Various education programs were established in Sialkot, Pakistan, and Nike also demanded of its contractors worldwide that if any children were found in their employment they should pay for those children to go to school. These facts showed that Nike was going in the right way to manage and control the problems (Locke, 2002).

In 1999, Nike joined the Global Alliance for Workers and Communities (Global Alliance) with a minimum five-year commitment and a $7.8 million investment to better understand what workers think of their jobs and their lives (Nike's web site, 2010).

Another interesting point was the start of active relationship with different NGOs to develop standards for workers in many developing countries (Locke, 2002).

In 2001, Nike published its first Corporate Responsibility Report to communicate how the company ran its business, developed environmental sustainability and managed global labor compliance (Nike's web site, 2010). Maria Eitel, vice president and senior advisor for corporate responsibility, in the launch of the first Corporate Responsibility Report said "admittedly, this report is incomplete. We are just beginning to truly understand what being a sustainable business means. Future reports should reflect issues we have not tackled in this first version, as well as provide updates on the challenges identified in the 2001 report" (Nike's web site, workers & factories, responsibility reporting FY01 CR).

According to Locke (2002), it is important to mention that Nike recognized its responsibility and impacts towards the problems. The next steps happened over the years by corporate governance improvements regarding the working conditions in Nike's supply chain. The company also indicated that to monitor alone would not solve the problems. In the Corporate Responsibility Report 2009, Nike provides details about five-year CR goals (Nike's web site, 2010) indicating responsibility, accountability and transparency. Nike's progress in CSR Reports has culminated in an improved system for monitoring contract factories, as well as the production – the first in the textile industry to include a list of all contract factories.



Source: Nike website (nikebiz.com)

4.1.6. It is not the end…

Obviously, all of Nike's efforts do not convince labor activists, NGO and others. Many continue to complain about poor wages and working conditions at Nike's suppliers. Other argue that Nike's initiatives are simply not enough and that the company could do much more in the areas of wages, working conditions, human rights, and local socio-economic development.

Nike said that "our focus now is getting to the root of the problems. We're looking for end-to-end from the first phase of our product creation process to the outcome in the lives of workers in the factory that bring our product to life" (Nike website, 2010 – nikebiz.com).

Despite this, in July 2008, Oxfam Australia publicized in its web site, under cover videos and workers' interviews, showing a continuous exposition of forced labor and unfair working conditions in a Nike supply factory in Malaysia (Oxfam web site, 2008).

Source: http://www.oxfam.org.au/explore/workers-rights/nike/forced-labour-by-nike-supplier

Perhaps no other company's image has suffered more due to revelations of substandard working conditions than Nike. Repeated scandals during the 1990s involving the use of sweatshop labor in Nike's contract factories in China and elsewhere turned international public perception against the US sports-apparel giant (The Economist, 2010).

Yet the continuing controversy over Nike and its various activities are not in any way particular to Nike. Rather, they are reflective of much broader debates about the definition of corporate citizenship and the process of globalization (Locke, 2002).

In recent years, however, Nike has become a leader in corporate social responsibility in China. With the release of its annual CSR report and the accompanying China 2008 Corporate Responsibility Reporting Supplement in early March 2010, Nike is now at the forefront of a movement towards greater operational transparency (The Economist, 2010).

Nike has set lofty corporate responsibility goals for its operations around the world, not just in China. By 2011 it hopes to eliminate excessive overtime in contract factories, implement human-resources management systems to address worker grievances better, join other companies in the industry to improve factory conditions and apply a lean manufacturing model to 90% of its production.

Moving forward, in order to analyze the environment-social perspective of a business model it will be presented the experience of Shell, a company which has been involved in many scandals in the last decades. Despite of its strong commitment with corporate social sustainability reports and stakeholder engagement, reality shows a lack of commitment and a sort of incongruence between statements and tangible actions.

4.2.SHELL CASE

This project aims to report stories, events, actions and strategic decisions that have characterized the evolution of a long relationship between 2 groups which origins and goals differ from country, culture, needs and perspectives:

- **"The Royal Dutch Shell Group",** worldwide well known as "**Shell".**
- **"The Ogoni's indigenous group"** the greater African ethnic community living in Nigeria, in the Niger Delta area.

On one hand, we have one of the world's six oil company, half British and half Dutch, which since the British colonialism era has been extracting oil and gas from the African country of Nigeria, in particular from the Niger Delta. A company, since ever under the spotlight of many NGO's as Green Peace, Amnesty International, Friends of the Earth mainly, due to its unsustainable business model focused primarily on the maximization of profits in the short term.

On the other hand, the Ogoni, who have seen the fast environmental and social degradation of a beautiful country side, once a "food basket "rich in green vegetation, fresh water and pure air, due to several circumstance related to private economic and political interests; although it is acknowledged that the empowerment of these interests also leans on a weak local governance, the report will not deeply focus on it.

There is a strong economic interdependence between the British/Dutch multinational and the African country of Nigeria, the richest one in natural resources. However, that interdependence will soon start to be unbalanced and not only economically.

Therefore, by using the triple bottom line analysis approach with its interconnected dimensions, it will be proven that due to the famous "trickle-down effect", what was an initial economical disequilibrium, would impact the other two important dimensions: the environmental and the social.

The here analyzed both environment and social scandals occurred in the Niger Delta in the last 50 years, will seek to address the following questions:

- Why Did the Royal Dutch Group decide to start working in Nigeria?
- Is Shell in Nigeria complying with both legal and ethical requirements in a balanced way as stated in its website's pages?
- What are the impacts Shell's operational activities have been causing since the company implementation in Nigeria in 1936?
- Are the millions of indigenous minority's communities in particular, the Ogoni, peacefully accepting Shell's local operations?
- How does Shell react to the allegations of social and environmental violations?

To conclude, the project will provide personal opinions and recommendations about how better **"The Royal Dutch Shell Group"** as a whole, should apply its own General Business Principles to truly mitigate its negative impacts in the Niger Delta which is *in primis*, land of millions of indigenous ethnic groups.

4.2.1. Company description

“Shell is a global group of energy and petrochemical companies. Our aim is to meet the energy needs of society, in ways that are economically, socially and environmentally viable, now and in the future.” (Source: “Shell” web site)

By reading the above latest description provided by Shell, and going through its history steps, I can anticipate how far, in terms of economical point of view and necessities, social and environmental concern this company has gone, since the beginning of the 19th century.

In fact, is in 1833 when a shopkeeper, called Marcus Samuel, become the owner of an import/export business of “shells” used for the textile industry. Later on, the business carried on to be led by his two sons Marcus Junior and Sam, who later became interested in the oil exporting business then based in Baku, Russia.

The Samuel brothers initially called their company The Tank Syndicate but in 1897 renamed it the **“Shell Transport and Trading Company”**, when decided to leave Russia to seek other sources of oil as per the East.

Meanwhile, earlier in the 1890, Petroleum was started to be produced in the East Indies too, a Dutch colony, where a company was built up to develop an oilfield in Sumatra. That new company originates, what is later defined as the **“Royal Dutch Shell Group”**.

The discovery of oil in Texas raised a series of troubles which had affected both **“Shell Transport and Trading Company”** and **“Royal Dutch Shell Group”** as a consequence the two companies joined forces to protect themselves against the might of Standard Oil, forming a sales organization in 1903, the Asiatic Petroleum Company.

Finally, in 1907 with the full merge of the two companies came what is since then defined as **“The Royal Dutch Shell Group”**, worldwide well known as **“Shell”**. To Royal Dutch of the Netherlands, belongs 60% of the Group while the rest 40% is owned by the Shell Transport and Trading Group of Great Britain.

4.2.1.1. Leadership

Royal Dutch Shell has a single-tier Board of Directors chaired by a Non-executive Chairman, Jorma Ollila. The executive management from July 1, 2009, is led by Chief Executive Officer, Peter Voser and other Executive Directors and Directors of businesses and functions. (Source: Shell web-site)

Jorma Ollila, Charmain **Peter Voser, CEO**

Source: Shell website, 2010

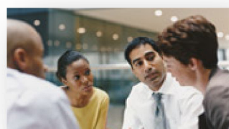
4.2.1.2. Purpose

“The objectives of the Shell group are to engage efficiently, responsibly and profitably in oil, oil products, gas, chemicals and other selected businesses and to participate in the search for and development of other sources of energy to meet evolving customer needs and the world’s growing demand for energy” (Source: Shell website).

Source: Shell website, 2010

4.2.1.3. Values

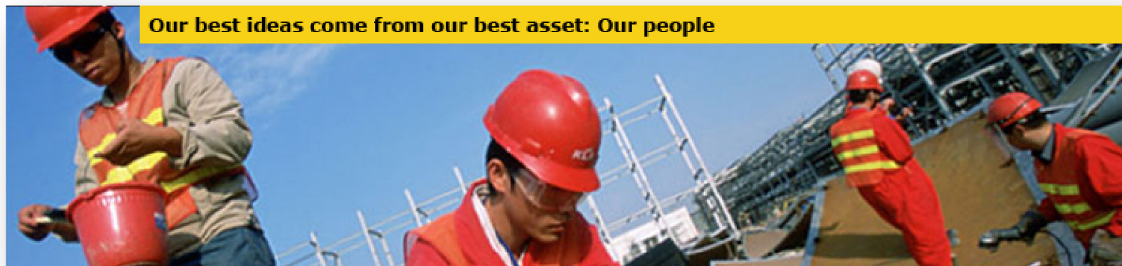
“As a global energy company we set high standards of performance and ethical behaviors. We are judged by how we act - our reputation is upheld by how we live up to our core values honesty, integrity and respect for people. The Shell General Business Principles, Code of Conduct and Code of Ethics help everyone at Shell acts in line with these values and comply with all relevant legislation and regulations” (Source: Shell website).



Source: Shell website, 2010

4.2.1.4. People

“We employ around 101,000 people in more than 90 countries and territories (annex1). Our people are central to the delivery of our strategy and we involve them in the planning and direction of their own work. We create a work environment that values differences and provides channels to report concerns”. (Source: Shell web-site)



Source: Shell website, 2010

4.2.1.5. Business

The group operates all over the 5 continents (Europe, America, Asia, Africa, and Australia/New Zealand)

Shell's business is based on the following activities

Upstream:

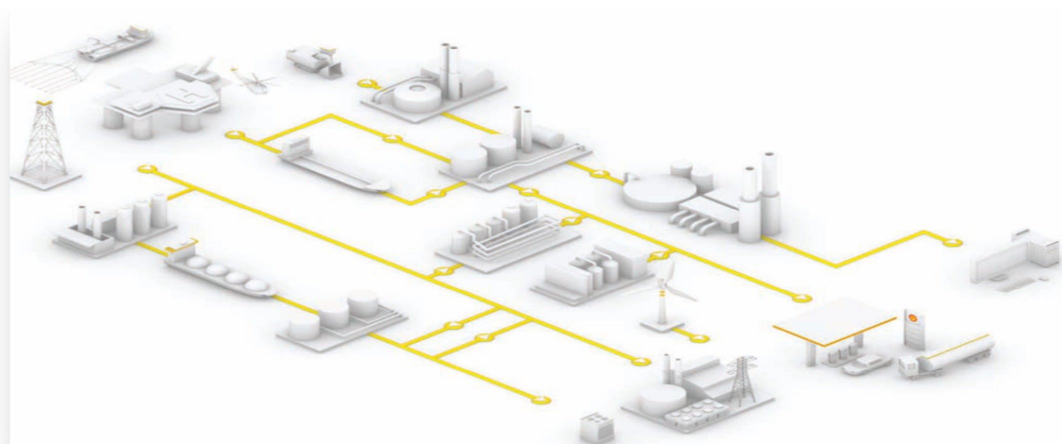
- Exploring and extracting crude oil and natural gas to convert into gas and electricity for domestic and industrial use.

Downstream:

- Turning crude oil into refined oil products (Bio-fuels, Lubrificants, Bitumen, Liquefied petroleum and gas) for domestic, industrial and transport use
- focus on turning crude oil into chemical products (Plastics, Detergents and Coatings production)

Projects and Technology:

- Supporting both upstream and downstream operations in terms of better performance across the company



Source: Shell website, 2010

4.2.2. Shell in Nigeria

4.2.2.1. Purpose

Shell Nigeria represents one of the oldest and largest oil producers in the Royal Dutch/Shell Group. In fact, **Nigeria** joined the league of oil producing nations already on the 3rd August 1956 when oil was discovered in commercial quantities in the **Niger Delta** in Oloibiri (land of indigenous communities) still under the British colonialism, at that time. (Shell NGA homepage. Shell history in Nigeria 1936-1979)

Oloibiri - Nigeria's first producing oil well

Source: Shell Nigeria website, 2010

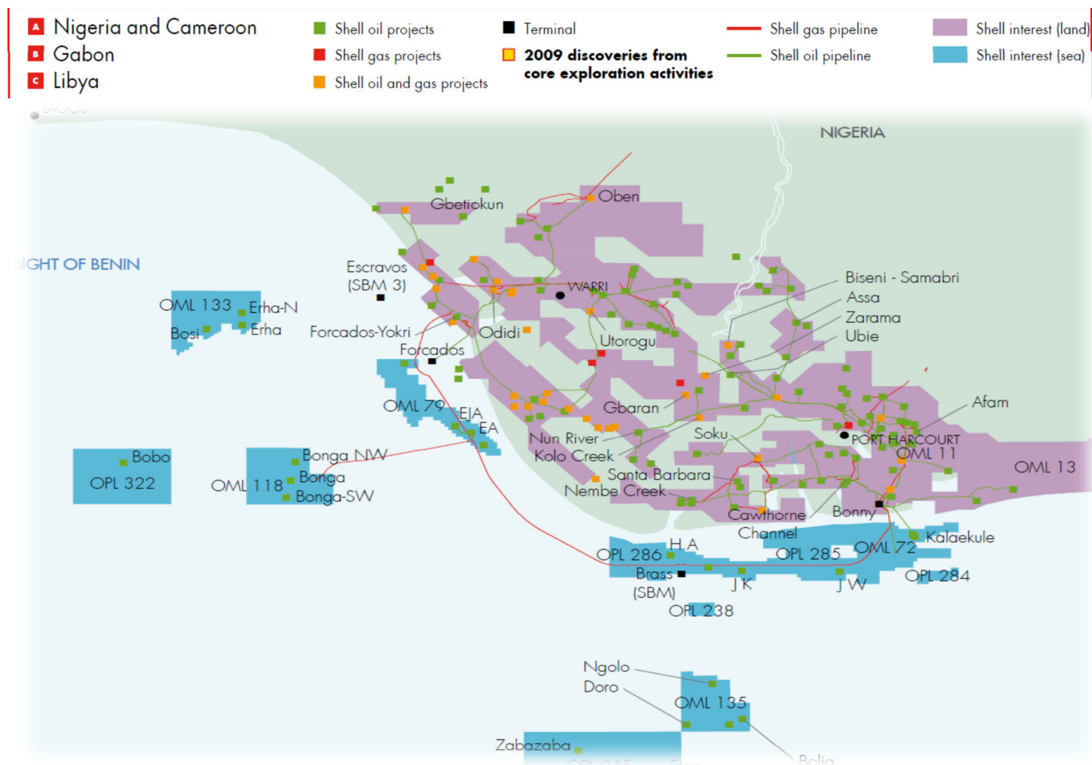
Today, the country is the second leading oil and gas producer in Africa, whose 80% production (annex 3) comes from land and swamps in the **"Niger Delta"** and deep-water reserves some 120 kilometers off the coast.

The company can produce over one million barrels of oil equivalent per day (boe/day) only by using the Nigerian reservoir, which largely contributes to make Shell the eighth largest oil exporter in the world.

Shell also has an interest in Nigeria's largest liquefied natural gas (**LNG**) plant, which exports all over the world. (Shell NGA webpage. Briefing Notes, Shell Interests in Nigeria, pag. 1)

Shell Nigeria's activities represent a source of great revenues accounted for about 40% of Nigeria's national **GDP** and for about the 79.5 % of the total Government revenues (UNDP Nigeria, 2006. Niger Delta Human Development Report, pag.1).

In fact, Nigeria depends on the oil industry for approximately 95% of export earnings and 80% of government revenue.



Source: Shell website, 2010

4.2.2.2. Leadership

In Nigeria, companies are led by one Country Chair Director and other two Managing Directors.

Mutiu Sunmonu, Country Chair, Shell Companies in Nigeria and SPDC MD

Philip Mshelbila - SNG MD

Chike Onyejekwe - SNEPCo MD

Source: Shell in Nigeria website, 2010

4.2.2.3. Business

The Royal Dutch Shell operates through several companies in Nigeria, in particular with Shell Petroleum Development Company (**SPDC**) which represents Nigeria's largest private sector oil and gas operator, Shell Nigeria Exploration and Production Company Limited **(SNEPCo),** Nigeria Liquefied Natural Gas Company **(NLNG)** and Shell Nigeria Gas Limited **(SNG).**

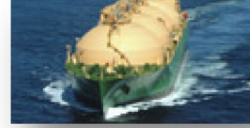
SPDC is a Shell-owned company operating a joint venture agreement in which the state-owned Nigerian National Petroleum Corporation (**NNPC**) holds 55%, Royal Dutch Shell 30%, Elf Petroleum Nigeria Limited **-** a subsidiary of total 10 % and Agip 5%.

SNEPCo, 100% owned by Shell, was formed in 1993; it produces oil and gas in water depths up to 2,500 meters, which capacity is more than 200,000 barrels of oil and 150 million standard cubic feet of gas per day.

NLNG was incorporated as a limited liability company in 1989 to harness Nigeria's vast natural gas resources and to produce LNG and natural gas liquids for export. Shell holds a 25.6% interest in NLNG together with NNPC (49%), Total LNG Nigeria Limited (15%) and Eni (10.4%).

SNG, wholly owned by Shell, was incorporated in March 1998 to promote gas as a more reliable, cleaner and cost effective alternative to liquid fuels for the Nigerian domestic market. SNG currently operates a gas transmission and distribution network of approximately 98 kilometers.

Focusing only on **SPDC's** operations, they are run in shallow water and onshore in the Niger Delta over 30,000 square kilometers. These operations can be run through the use of a network of more than 6,000 kilometers of flow-lines and pipelines, 90 oil fields, 1,000 producing wells, 72 flow-stations, 10 gas plants and two major oil export terminals at **Bonny and Forcados**. (Shell NGA website. Briefing Notes, Shell Interests in Nigeria pag. 1)



Source: Shell in Nigeria website, 2010

Based on the above reported aspects (Purpose, Leadership, Value, People and Business) Nigeria but especially the “Niger Delta”, is considered a gigantic economic reservoir of national and international importance.

In fact, its natural oil and gas resources feed methodically the international economic system in exchange for massive revenues which are aimed to be used by the local Governants to help locals with a sustainable development concerning the economic, social and environmental pillars.

Source: Shell in Nigeria website, 2010

4.2.2.4. Employees

As of December 2009, the two main Shell companies - the Shell Petroleum Development Company and the Shell Nigeria Exploration and Production Company - employ around 6,000 staff and contractors and about 95% of them are Nigerian. Their operations also employ approximately 20,000 indirect third party contractor staff (Shell Sustainability Report, 2010).

Talented young people are also supported with their studies thanks to sponsoring research programs in five Nigerian universities for core technical skills in geosciences.

Sabbaticals and students **internships** in the office of Port Harcourt are offered to introduce them to new concepts in underground evaluation techniques, using the latest technologies. Besides, exists

the **Shell Intensive Training Program** (SITP) for graduate employees (Shell Sustainability Report. 2010)

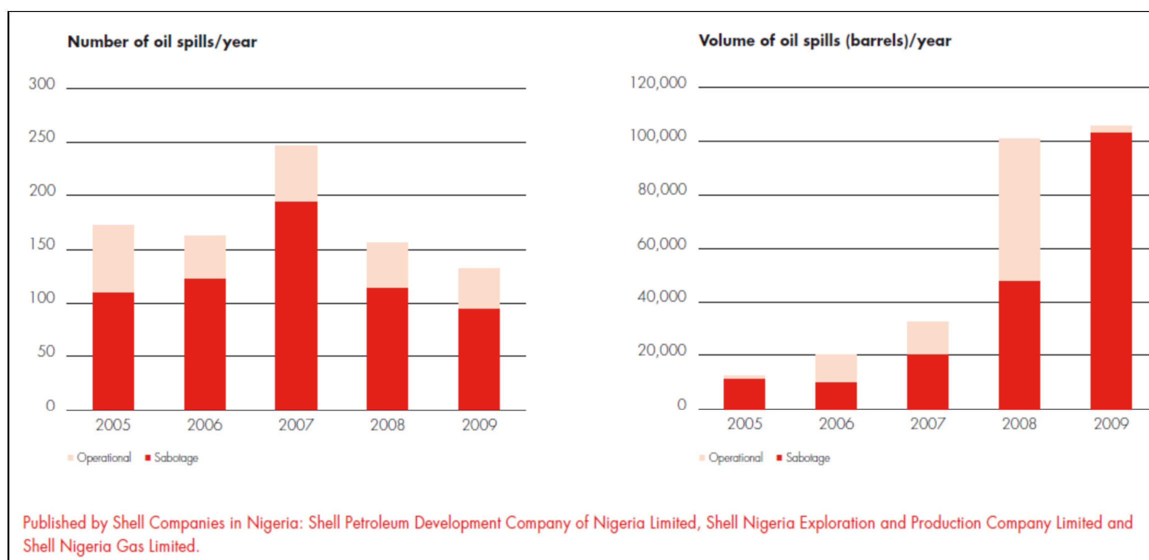
Source: Shell in Nigeria website, 2010

4.2.2.5. Human rights

Shell Business Principles, guides the company in its commitment with human rights issues. In 2000, Shell signed up the Voluntary Principles on Security and Human Rights (VPSHR) to better deal with the security and safety of their operations, while respecting the human rights and the fundamental freedoms of the inhabitants of the surrounding communities (Source: Shell in Nigeria webpage. 2010).

4.2.2.6. Environmental performance

"The Shell Petroleum Development Company of Nigeria Limited (SPDC) is committed to cleaning up all spills when they occur as fast as possible, no matter what their cause. The great majority of spills in the Niger Delta are the result of **sabotage** or due to leaks caused when **thieves** drill into pipelines or open up wellheads to steal oil and natural gas liquids. On average these two causes accounted for more than 70% of all oil spilled from Shell facilities in the delta over the last five years (2005-2009). We regret that the rest of the volume comes from operational failures, sometimes when repairs in sabotaged lines fail" (Shell Sustainability Report, 2010).



Source: Shell in Nigeria website, 2010

"In 2006, the Shell Petroleum Development Company of Nigeria Limited (SPDC) worked with local groups, government, forest communities, other energy companies, regulators and non-profit organizations (NGOs) to develop **biodiversity action plans** to conserve two forest reserves – Gilli-Gilli and Urhonigbe, in Edo State" (Shell Sustainability Report, 2010).

Given the above data, Nigeria could be thought to be a very rich country to live in, where multinationals oil companies as Shell, fully comply with the legal and ethical requirements, provide jobs to locals and respect the environment and the indigenous communities living in the surrounding areas where the activities take place. Unfortunately, the reality is far from reflecting that idealistic scenarios at least willing be optimistic, in the short-medium term.

It will be here reported information, quotes, evidences, figures and different documents extrapolated from civil society organizations, the company's own website and publications, media reports, and company information databases which will help to answer to the questions previously mentioned at the beginning of this report.

4.2.3. The affected indigenous community of the "Ogoni"

The Niger Delta, before to be a rich source of oil and gas is, a landmass of around 75,000 square km, with the third largest mangrove forest in the world of almost 20,000 square km, extensive freshwater swamp, coastal ridges, and fertile dry-land forest and tropical rainforest, characterized by great biological diversity.

It groups, the highest rural population density in the world calculated to be around 31 million of small minority ethnic groups as per the: **Ogoni, Abribas, Andonis, Edos, Effiks, Gokanas, Ibibios, Ejaws, Ika-Ibos, Ikwernes Isekiris, Isokus, Kalaboris and Urhobos.**

The **Ogoni** people are the largest (around 840.000, with a population density of 800 per square km, the highest in any rural area in the world, according the last census of 2009) indigenous community living in the South of the Niger Delta (The Ecumenical Council for Corporate Responsibility – ECCR. 2010). Shell in the Niger Delta: A Framework for Change pag.16)

Before the British colonial rules, as per the most ethnic groups, their social system was based on the "Environment". In fact, they were mostly fishers and farmers, producing not only for their own needs but also for their neighbors. Their agriculture system used to ensure a sustainable management of resources.

According to their traditions, environment and its elements as per land and rivers are not only natural resources and so than existing to be exploited but rather are significant spiritual keepers hence they have to be respected and reverenced. Forests trees bring wealth for the community therefore cannot be cut arbitrarily. As well, some animals, cannot be killed as they are said to be **totems** (animations of the spirit of a person).

The above traditions still existing and practiced, lets us better understand why the Ogoni were in the past, under the British colonialism and today, under the "post colonialism era", considered to be the most independents and overwhelming minor indigenous community struggling for **environmental - economic justice**, and for the recognition of **human rights** (Boycott Shell Essential Action. [Website] Shell in Nigeria: What are the issues?).

4.2.3.1. Beyond the legal license: the social license

As in the most vulnerable so called southern countries, the lack of education, together with the lack of strong local Government support and the consequently high level of corruption involving political and military system, represent the poverty's root causes.

As history teaches, those causes have been challenges for the majority of people in the world but good opportunities for minorities' rich companies with their businesses. In terms of opportunities, we could take into consideration the lack of difficulty in getting licenses for instance.

The **"Royal Dutch Shell Group"** could be considered as an example if bearing in mind the way it got the first and the second legal license to operate in Nigeria as well as what, in the last years, has been defined as the social license.

The first main difference between those licenses is redirected to the institution and or community entitles to issue them.

While for the legal license is required a government approval, for the social license, community is the one expected to decide if a company, corporate or organization can or cannot operate in its area due to the impacts companies operations might cause at an economic, environmental and social level. (Keith Slack, Policy Innovation, November 21, 2008. "Corporate Social license and Community Consent" [on line])

- Why was easy for an oil company as Shell to get the legal and the social license?

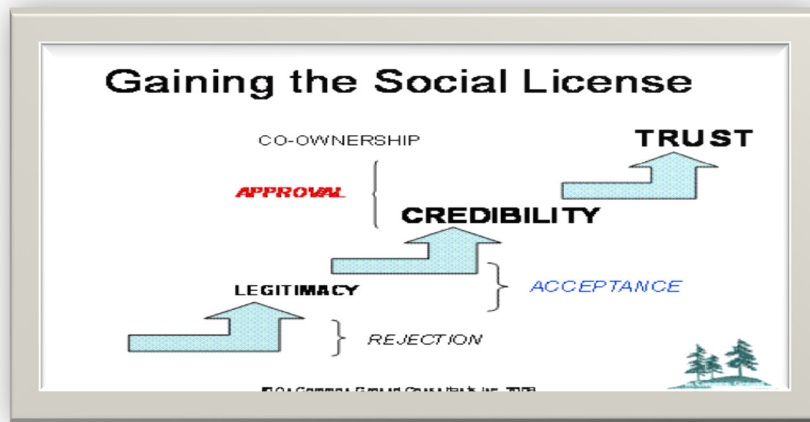
The half British and Dutch company, landed in the African territory in 1936 was first granted, after only 2 years from the first Shell's company foundation (Shell D'Arcy), a legal license to operate in Nigeria in November 1938 by the British colonial government.

Shell will be called to ask a second legal license which will be granted, after the Nigeria's independence in 1960 by the Federal Government. Despite the "Independence status", no participatory communities' involvement was requested (Source: Nigeria Shell History webpage)

Nowadays, the same behavior would not have left room for doubts regarding the results of such tight and low transparent collaboration between Shell and the local governants.

Shell, played well its cards, it got both legal and social license, taking advantages of the British colonialism influence and the little knowledge Ogoni's people used to have about the oil industry at that time. In fact, at the very beginning, the company was welcomed and well accepted, as seen as an agent of socio-economic transformation, a partner to work to improve communities' lifestyle.

- What happened later on? Why did Ogonis' start protesting against Shell?



Source: SocialLicense.com

According the table:

The 3 main requirements to gain a social license are legitimacy, credibility and trust.

Without legitimacy we can reject a project; legitimacy together with credibility leads to the acceptance of a project; a high level of credibility and presence of trust are compulsory to approve a project. The most significant level of Social License, Co-Ownership, can only occur when a high level of trust is present.

To better understand the importance of those 3 elements I will explain what each of them means when referred to a community engagement:

- ***Social Legitimacy:*** It is based on established norms of a community, that may be legal, social and cultural and both formal and informal in nature.

As those norms represent the local "rules of the game", companies must know and understand them and be able to work according to them. They will run the risk to be rejected otherwise.

In practice, the first step to get a social legitimacy is based on the engagement with all members of the community. They need to be informed about the project, the company and what may happen in the future and then answering any and all questions.

- ***Credibility:*** To be credible, companies must always provide true and clear information and comply with all the commitment made to the community.

In order to establish and maintain credibility a framework containing rules, roles, and responsibilities of the two parties should be set.

- ***Trust:*** It is an intangible element of a very high quality of relationship which can be measured on the actions of the parties' involved. It is very difficult to build it up.

The challenge for the company is to go beyond transactions with the community and create opportunities to collaborate, work together and generate the shared experiences within which trust can grow. (Ian Thomson, Robert Boutilier, Common Ground Consultants Inc. [on line])

To conclude, here it is used a statement which alone summarized what deeply disclosed above:

*"You don't get your social license by going to a government ministry and making an application or simply paying a fee… It requires far more than money to truly become part of the communities in which you operate" (*Pierre Lassonde, President of Newmont Mining Corporation [on line]).

4.2.4. Environmental and health impacts

In 40 years, (1957-1993) Shell had 5 major oilfields with 110 oils wells interconnected through pipelines criss-crossing Ogoniland (including, Bomu, Korokoro, Yorla, Bodowest and Ebubu villages). Unfortunately, the results of Shell's economic achievements have been since then causes of massive environmental degradation effects, mostly caused by the constant oil spills and gas flaring.

"Although Shell drills oil in 28 countries, 40% of its oil spills worldwide have occurred in the Niger Delta where, there were 2,976 million barrels of oil spills between 1976 and 1991". (Ellis, Glenn (Director), "The Drilling Fields," 1994, text from film by Catma Films)

"In the 1970s spillages totaled more than four times that of the 1989 Exxon Valdez tragedy" (Watts, M .1997 [on line]).

Exxon claims to have spent over US$2.1billion cleaning up the Exxon Valdez oil spill. There is no cleanup operation in the Niger Delta worth mentioning. No one knows exactly how much oil has been spilt, how much land is polluted, how many people are affected, what species are threatened, what the economic or environmental costs have been.

The spillages are a regular feature of life in the Delta. They are rarely dealt with promptly. In some cases, minor leaks are left for months, resulting in major pollution. Whether caused by industry neglect or otherwise, the cleanup rates are appalling and more and more land in the Delta is being destroyed (Platform. Oil Pollution in the Niger Delta [on-line]).

- What are the consequences?

Leaking pipelines, criss-crossing villages, farms and rivers in the Niger Delta have been causes of pollution, sickness and economic loss for the indigenous communities living in that area.

In fact, after absorbing lot of oil farmlands are not easily rehabilitated, in change they lose biodiversity, contaminate water, kill masses of fish (crabs, periwinkles, mudskippers, cockles, mussels, shrimps and all - are now being gradually replaced by unknown and otherwise useless species) and introduce devastating acid rain. This environmental impact, has directly affected

Ogoni's economy system since based on agriculture and fishing activities. While in the past, that area was considered to be the basket food of Nigeria, now its import demand of food is around 80%.

Furthermore, impacts on health were also detected as per higher rates of respiratory diseases, gastro-enteritis and cancer among the people living in those areas (Boycott Shell Essential Action. [Website] Shell in Nigeria: What are the issues? [on line]). The life expectancy is a key indicator of those consequences. According the *Economist: "Life expectancy, once just below 70 years in the Niger Delta, is now around 45"* (Economist "Nigeria: Another deadline goes up in flames", 3 April 2008 [on line]).

In this scenario, another important and negative role in terms of environmental pollution is played by the gas flaring impacts.

Apparently, the gas which is found with the oil is flared instead of being piped away and used. This flaring emits thirty four million tons of carbon dioxide, the main greenhouse gas a year and the oilfield emits a further twelve million tons of methane, which is up to thirty five times more potent.

In comparison, fuel burning in Britain's homes emits twenty three million tons of carbon dioxide and forty six thousand tons of methane a year (Turnbull, 1996 "Nigeria - The Ogoni Dilemma" [on line]).

Nevertheless, among the key development projects under construction and reported by Shell (Five - Year-Fact-Book, Royal Dutch Shell plc financial and operational information 2005–2009 pag.9 [on line]) there is the following:

Gbaran Ubie

(Shell 30%; Shell Petroleum Development Company operated)

The Gbaran Ubie project is one of Nigeria's largest oil and gas developments.

Project Deadline: 2010-2011

Project Operations:
- Drilling 30 new wells over an area of approximately 650 km2 in Bayelsa State
- Construction of a central processing facility to process both oil and gas
- Laying more than 300 km of flow-lines and pipelines.

Project Scopes:
- Production capacity of one billion scf/d (standard cubic feet) of gas and more than 70,000 b/d of oil.
- The project will help to meet government targets to reduce the flaring of gas.

As per Shell's report, new gas flare furnaces are currently being constructed at a time when the rest of the world is concerned about climate change and proffering ways to curb it.

Furthermore, the Nigerian government has been shifting the deadline for gas flare stoppage in Nigeria because of oil companies' influence. One more example of the terrific Shell's power, allowing it to construct a new gas flare furnace when others existing flare sites have been shut down (Environmental Action, Friends of the earth [on-line]).

In Pictures: Polluting Nigeria
(Source: BBC News)

Living on oil
The production of oil, discovered in the Niger Delta 40 years ago, is having a devastating effect on Nigeria's largest wetland region.
Families live among the oil fields, breathing in methane gas and coping with frequent oil leaks in Africa's largest oil exporter.

Oil giant Shell gets 10% of its oil from the Niger Delta and is failing to invest in its infrastructure to prevent pollution, says Friends of the Earth in a new report Behind the Shine.

Highly flammable
About 10,000 barrels of oil were spilt in the nine states that make up the Niger Delta last year.
A leaking oil head (left) spews oil and gas in Ogoniland. The oil heated by the sun becomes highly flammable.
"Shell must work with local communities to clean up the Niger Delta and make sure communities receive the benefits of their operations there," says Oronto Douglas from Friends of the Earth.
Shell says that it is helping to fund a body set up to develop the area.

Dirty water
Nigeria earns some $10bn every year from oil but Niger Delta residents remain mired in poverty.

Less than 20% of the region is accessible by good roads, even in the dry season, and hospitals and schools are seriously under-funded.

Poor sanitation and pollution means that access to safe drinking water is a major problem facing local community

Gas flares
Flaring natural gas from oil fields is a common sight and dominates the skyline in the Niger Delta.

Gas is a by-product of crude oil production, which needs to be released to produce oil.
It is the most visible impact of the oil industry on daily life.

The flares constantly spew smoke across the surrounding farms.

Global warming

Oil companies choose to burn the gas instead of reinjecting the gas into the ground or selling it, saying this is the most economic option.

The Nigerian government wants flaring to be stopped by 2010, as it wastes energy and contributes to global warming.

Shell is committed to ending its flaring by 2008, but is backsliding on this commitment due to expense, says Friends of the Earth.

Fishing hit

In close proximity to the uninterrupted flames, agricultural life continues.

But the oil operations are affecting the traditional livelihoods of communities living in the Delta.

In Rumuekpe in Rivers State (left) cassava, yams and bananas are grown, but the soil is losing its fertility.

Local residents are also no longer able to fish because the waterways are polluted.

Burst pipe
Local people are compelled to cope with oil spill after oil spill.

A rusting network of pipes and a slow response from oil companies to leaks are blamed.

A high pressure oil pipeline ruptured in December last year in Rukpokwu, an hour's drive from Shell's headquarters in Port Harcourt.

The local community said no action was taken by Shell for a week.

Forest destroyed
The Rukpokwu fires took six weeks to extinguish and destroyed much farmland and a local forest.

"Our only source of drinking water, fishing stream, and farm lands covering over 300 hectares of land with aquatic life, fish nets and traps, farm crops, animals... and trees are completely destroyed," said Paramount Ruler Chief Clifford E Enyinda of the Mgbuchi community.

Pictured left in June, an environmental clean-up of Rukpokwu had still not begun, six months after the spillage.

4.2.5. Ogoni reactions: Ken Saro-Wiwa and the MOSOP

"*In October 1990, a massacre took place in the neighboring Rivers State Community of Umuechem, where 80 unarmed people died, murdered by the military and 495 homes were destroyed after Shell*

had asked to intervene in the face of another community protest" (Umuechem incident documented by Human Rights Watch, The price of Oil: Corporate Responsibility and Human Rights Violations in Nigeria's Oil Producing Communities, 1999).

The "Umuechem incident" was the first to bring the situation in the Niger Delta to international attention but also, the one which pushed Ogoni to start "peaceful reactions" against Shell, under the leadership of ***Ken Saro-Wiwa*** (environmentalist and writer having a passion for the preservation of his people and his land, and by the fervor with which he was targeted by his government) and his organization: ***MOSOP*** (Movement for the Survival of the Ogoni People). After the above *massacre,* MOSOP set up the ***Ogoni Bill of Right**,* (an outline of the major grievances of the Ogoni, applied to the people of many others oil producing area).The bullet points of the Ogoni Bill of Rights are:

- Clean up of oil spills
- Reduction of gas flaring
- Fair compensation for lost land, income, resources, life
- A fair share of profits gained from oil drilled at their expense
- Self-determination (Boycott Shell/Free Nigeria: the main issues [on line])

Saro-Wiwa led a successful campaign based on the ***Ogoni Bill of Rights*** against Shell in his Niger Delta homeland, even forcing the company to quit Ogoniland in 1993, although Ogoni land continues to serve as a transit route for pipelines transporting both SPDC and third-party oil production from other areas.

Source: Google.com

In fact, despite the high revenue calculated around $30 billion in favour of the economy of Nigeria and coming from the oil extracted from the Ogoniland, Ogoni's people see little to nothing from their contribution to Shell's pocketbook.

According Boycott Shell Essential Action, Shell has done next to nothing to help Ogoni: by 1996, Shell employed only 88 Ogoni (0.0002% of the Ogoni population, and only 2% of Shell's employees in Nigeria). (Watts, op.cit revised by Boycott Shell Essential Action. [Website] Shell in Nigeria: What are the issues?)

However, due to the success of the campaign itself, the Ogoni suffered a brutal backlash that left an estimated 2,000 dead and 30,000 homeless. Furthermore, Saro-Wiwa was arrested by the Nigerian dictatorship, subjected to a sham trial and hanged with eight other Ogoni activists the November 10, 1995. Since then, as per the last Saro-Wiwa's words: **"Lord takes my soul but the struggle continues!"**(Stephen Kretzman on June 11th, 2009. CorpWatch: Shell's Settlement Doesn't Hide Unsettling Reality in Nigeria [on line]).

Saro-Wiwa's family and others, after a 14-years battle with Shell Oil, the 8 of June of 2009 won a landmark settlement in U.S. federal court. "The oil giant Shell has agreed to pay $15.5m (£9.7m) in settlement of a legal action in which it was accused of having collaborated in the execution of the writer Ken Saro-Wiwa and eight other leaders of the Ogoni tribe of southern Nigeria" (Pilkington, The Guardian UK, Monday 8 June 2009. Shell pays out $15.5m over Saro-Wiwa killing [on line].)

The settlement was one of the largest agreed by a multinational corporation charged with human rights violations. It represented the first important step towards the beginning of a more sustainable corporative responsibility commitment; it could not compensate for the all individuals and environmental losses but part of it, was used to set up a trust called Kiisi – meaning "progress" in the Ogoni Gokana language – to support educational community and other initiatives in the Niger delta.

"Saro-Wiwa demonstrated that effective grass-roots opposition to corporate power can take a personal toll" (The Guardian UK, 2009[on line]).

"Ken Wiwa, Saro-Wiwa's son said: *"We now have an opportunity to draw a line on the sad past and ... face the future with some hope that what we've done here will have helped to change the way in which businesses regard their operations abroad. ... We need to focus on the development needs of the people. ... We've created evidence, an example, that with enough commitment to nonviolence and dialogue, you can begin to build some kind of creative justice. And we hope that people will take their signals from that and push for similar examples of creative justice, where communities and all the stakeholders where oil production is are able to mutually benefit from oil production, rather than exploitation and degradation of the environment" (*Goodman, 2009 [on line]).

4.2.6. Shell: a responsible corporate member of society?

"Shell has always conducted its business as a responsible corporate member of society which observes the laws of Nigeria and respect the fundamental human rights in line with the United Nations declaration of human rights" (Ebert Imomoh, the company's Deputy Managing Director in Nigeria).

In aligned with the above, Shell agrees to pay $15.5 million but portrays itself innocent in front of the allegations of taking part in human rights abuses in the Niger Delta in the early 1990s and denies any role in the death of both Ken Saro-Wiwa and other eight Ogonis. The company calls the settlement a ***"Humanitarian Gesture"*** to compensate the plaintiffs, including Mr. Saro-Wiwa's family, for their loss and to cover a portion of their legal fees and costs.

Furthermore, confidential internal documents (annex 5), emerged along the trial, claim there was systematic collusion with the military and Mobile Police Force (MPF), known as the "Kill and Go". Shell has always denied this but is believed to have settled in court as a result of the embarrassing contents.

"In one document written in May 1993, the oil company wrote to the local governor asking for the "usual assistance" as the Ogoni expanded their campaign. Nigerian military were called in, resulting in at least one death."

Days later, Shell met the director general of the state security services to "reiterate our request for support from the army and police". In a confidential note Shell suggested: "We will have to encourage follow-through into real action preferably on an industry rather than just Shell basis".

The Nigerian regime responded by sending in the Internal Security Task Force, a military unit led by Colonel Paul Okuntimo, a brutal soldier, widely condemned by human rights groups, whose men allegedly raped pregnant women and girls and who tortured at will. Okuntimo boasted of knowing more than 200 ways to kill a person.

Besides, *"In October 1993, Okuntimo was sent into Ogoni with Shell personnel to inspect equipment. The stand-off that followed left at least one Ogoni protester dead. A hand-written Shell note talked of "entertaining 26 armed forces personnel for lunch" and preparing "normal special duty allowances" for the soldiers. Shell is also accused of involvement with the MPF, which worked with Okuntimo. One witness, Eebu Jackson Nwiyon, claimed they were paid and fed by Shell. Nwiyon also recalls being told by Okuntimo to "leave nobody untouched". When asked what was meant by this, Nwiyon replied: "He meant shoot, kill."*

According the below source, **Military** was not the only support used by Shell to suppress actions against company's operations.

In fact, further internal confidential documents, showed how Shell tried to manipulate **Mass Media** as per the **"*The Guardian*"** newspaper to reduce its support to Saro-Wiwa and to softener that hot topic all over the world.

In an assessment of the political and security situation, a Shell executive noted: *"The Guardian newspaper ran a much more balanced article on the Ogoni issue, with their position moving from apparent support for Saro-Wiwa to the middle ground. There is a slight possibility that this may have been influenced by the meeting we had with The Guardian's editor the week before." Peter Preston, The Guardian's editor from 1975 to 1995, said yesterday that he could not remember a meeting with Shell. "I have absolutely no memory of one. And Nigerian politics was never one of my interests"* (The INDIPENDENT. 2009 [on line])

4.2.7. Strategy and tools applied for the scandal remedial actions

Since the early 1990's the NGO Living Earth and Shell have worked together on projects in nine countries spanning three continents. Living Earth and Shell are currently collaborating in Nigeria, South Africa, Northeast Russia and Alaska.

As stated by the NGO, *"this global relationship has allowed Living Earth to magnify its positive impact on communities and the environment, and has resulted in genuine business benefits for Shell"* (Living Earth's website).

The above statement could sound more likely as a mutual beneficial advantage: the empowerment of a growing NGO on one hand and its softener action power on the allegations against Shell on the other. In other words, we may define it as a "Strategic Partnership" whose environmental and social positive impacts on local indigenous communities could be likely arguable (Living Earth's website).

Besides, by the time that the global warming, human rights concerns and more specifically the fight for the Millennium Development Goals (MDGs) adopted in 2000 by world leaders increases, has been noticed that the oil giant company gradually will start to shape its initial business model to a more sustainable, responsible business practice.

Another strategic decision taken by the company is the one which will commit Shell to start publicly reporting the results and impacts of their activities. *"Since 1998, we have publicly reported on our progress in contributing to sustainable development"* (Shell Nigeria webpage).

It is true, since 1998 Shell has annually published Sustainable reports available to anybody to demonstrate its involvement and interest in good practices. Besides, good improvements have been done every year on qualitative information which have been increased in the number of contents, topics, fundamental dimensions as per the environment- social impacts and the respective action plans to be implemented.

However, those efforts cannot be compared with the quantitative information provided along the last 12 years. In fact, external review committee called by the company to review the Sustainability Report released last May 2010, suggest to enrich the report with additional and specific quantitative data regarding hot topics like GHG and CO2 emissions, climate challenge, low-carbon sources, assessment of environmental risks management**,** social performance learning, communities development to better help anybody to assess the level of real commitment and willingness towards sustainable performances in each operative country (Shell Sustainability Report, 2009).

To conclude, let's compare the following statements extrapolated from the very first and last sustainability report to give an even clearer idea of the "*change"* of the main company vision and/or mission: The Royal Dutch/Shell Group doesn't describe itself anymore as a company which primary responsibility used to be economic - wealth generation, meeting customer needs, providing an acceptable return to investors, and contributing to overall economic development. Today, Shell recognizes to be a corporation judged by its own actions. Therefore, its reputation strongly depends on *the accomplishment of core values - honesty, integrity and respect for people* (Source: Shell webpage).

At the beginning of the project, it was mentioned how ethic is in every single aspect of human lives, and how companies are demanded to be and assessed with more transparency and accountability. If statements like these had been followed in the past, cases as Enron (consequences beyond the economic), might have been avoided.

4.3. ENRON CASE

To understand the whole situation it is necessary to go through the company's history.

4.3.1. The company

In just fifteen years, the Enron Corporation evolved from a small Texan based Gas Company, to rank the seventh most valuable Group in the United States according the *Fortune 500* magazine in 2001 after demonstrating 100 billion dollar revenues. (Cruver. 2002, p.13) It is already complicated to grasp all the facts that paved the success of Enron, but even more delicate is trying to understand how a corporation of its magnitude was able to conceal debts that surpassed the scandalous amounts of six hundred million dollars. Ever since, the fall of Enron has been regarded as one of the worst corporate bankruptcy cases in the history of the United States. Moreover, this event gave rise to several changes in legislation, like the Sarbanes-Oxley law, just as the theme of Good Corporate Governance or business ethics took on a new focus and became matter to be taken more seriously. The lack of integration of moral capital into the corporate culture of Enron, evidenced the fact that "the extraordinary human capital holdings that they possessed – Ivy-league MBAs – (was not) sufficient to prevent them from falling into such gross errors of professional and ethical judgment."

(Sison. 2003, p. x) In 2001, Enron's shares that had peaked just below $90 in 2000, dropped to less than $1, resulting in billion dollar losses for shareholders, and left over 20,000 people unemployed. The tumble down of the 'Crooked E' "exposed the worst of corporate greed, misbehavior and citizenship." (Cruver. 2002, p.xii) Like Bradly K. Googins states in *Newsday, "*Enron betrayed its employees, it betrayed its clients, and, by inflaming the public's widely perceived notion that corporations cannot be trusted to do anything other than serve their own ends and line their own pockets, Enron betrayed all of corporate America." (Cruver. 2002, p.xii)

4.3.1.1. History

Enron was established in 1985 as an interstate pipeline company after the merging of Houston Natural Gas and Omaha-based InterNorth. However, the history of this company dates back to the 1920's when a couple of Houston pipeline companies were formed with the purpose to offer gas along the coast of the Gulf of Mexico. These natural gas pipeline companies went on to merge under the name of Houston Natural Gas (HNG) in 1956. Whilst these companies covered the coastal area, Northern Natural Gas Company was working on creating a pipeline network, connecting the rectangular Texan Panhandle area with Midwestern United States. Northern Natural Gas would later on change its name to InterNorth and become a public Company on the New York Stock Exchange (NYSE) in 1947.

It was not until 1968 that HNG joined the exchange market, and would continue, just as InterNorth, to expand their network of pipelines. It was in the 1980's that regulations for natural gas started changing towards a market-pricing system. This scenario would permit Enron's future success as supplier of natural gas in a deregulated market where gas prices fluctuate according to demand and market volatility.

In 1984 Kenneth Lay left Transcontinental Gas Company (Transco) and joined Houston Natural Gas as Chairman and CEO. At this point, HNG was a considerably a small company, and in this sense, it was a target for other larger companies willing to acquire or merge with others in order expand and dominate the market. To avoid being swallowed up by a bigger fish, Lay convinced the board to purchase two other natural-gas companies, Florida Gas and Transwestern Pipeline. After doubling its size, Lay and his engineers aimed towards a merger with InterNorth, a similar pipeline company from Omaha, Nebraska. It is interesting to note that this deal that Lay was looking for was part of his hidden agenda, given that "InterNorth was itself acquiring Houston Natural Gas, (though) Lay pitched it to his people as a merger. Sure enough, it took only a year for him to wrest control of the new company…". (Fusaro and Miller. 2002, p. 5)

Source: Google

The company's name would be changed to Enron at this point. Lay was able to recover the reins of this company only after buying off a large amount of shares of Irwin Jacobs. Jacobs was a corporate prowler that had accumulated substantial stake in InterNorth before the merger, and was menacing to take over the company. Ridding Jacobs from the picture would have its price: $230 million from excess funds from the

employee stock ownership program (ESOP); in other words, Lay took employees pension funds to buy off Jacob's stock, and then decided to freeze the ESOP for the following seven years, inhibiting employees their right to use their stock. (Fusaro and Miller, 2002). In any case, Enron was being born in 1985, at the precise moment when the Reagan administration had commenced the process of dismantling the price regulations that had been set upon the natural gas industry, retraining its growth. Lay had a way of influencing this achievement of breaking the barriers of federal regulation, as he became Enron's "outside man". As the authors Peter Fusaro and Ross Miller state, "Lay combined considerable charm, homespun roots, and economic expertise in a way that made him natural to make the case for policies that would benefit Enron." (Fusaro and Miller. 2002, p. 9) It is an open fact that Kenneth Lay as well as other 'Enronians' generously contributed to politicians as well as other 'soft money' institutions. Lay, "…was a constant presence not only in both Bush administrations, but in the intervening Clinton administration as well." (Fusaro and Miller. 2002, p.10) This goes to show how Enron's leading man played for both sides of the court, to his convenience.

With the government's decision to let gas prices float with the currents of the market, Ken Lay thought that Enron could take advantage of the market place's situation. As Kevin Phillips, author of *American Dynasty*, and former Republican Strategist, reaffirms, "Ken Lay had a view of deregulation from a standpoint of all the money he thought could be made." A couple of Texas oilmen shared his views on how to get government out of the energy business. "This absolutely has no precedent, this is by far and away the most important major relationship of a presidential family with a single corporation in American History." (The Smartest Guys in the Room, 2006)

In any case, Skilling came up with the idea that would allow Enron to grow to its grandeur, just as it lined the way to Enron's crumbles. This biggest single idea was related to finding a new way to deliver energy, where Enron would become a type of stock market for natural gas. In this sense, it would be as if Enron would transfer natural gas or energy, into financial instruments that could be traded like stocks and bonds. Consequently, with this idea Enron would in fact become the largest buyer and seller of natural gas in the United States.

4.3.1.2. Characteristics – A Risk-E-Business

A few years ago, Enron was America's seventh largest corporation, valued at almost seventy billion dollars. Hundreds praised the company as a new business model. Their trading floors were filled with America's "best and brightest", charting the futures of energy and power. Enron's headquarters in Houston, was regarded as one of the most promising companies to work at, offering "great pay and excellent benefits" for its employees especially for recent MBA graduates. The Enron Company was very good at motivating its employees and creating the façade of making its people believe that this was a trustworthy company. By 2001, Enron had grown to employ twenty-one thousand employees in over forty countries, having property of over thirty thousand miles of pipelines and fifteen thousand miles of fiber-optic cable. (Cruver. 2002, p.15)

The presence of Enron permitted the prices in the market for energy supply could be somewhat predictable. However, Enron decided to move beyond its experience of being an energy broker and "figured that it could expand into buying and selling everything else, such as newsprint, television advertising time, insurance risk and high speed data transmission, in the new virtual marketplace." (Sison. 2003, p. 24) That fact of the matter was, that whoever wanted to participate in the market, in some way or another, had to deal with Enron. The Enron traders had become the major engine of reported profits at the company. They were the impersonation of Ken Lay and Skilling's ideal of free markets to the greatest expression. Enron Online changed the marketplace creating a new space

for trading all sorts of commodities, where "Enron transformed energy supplies into financial instruments or 'derivatives' that could be traded online like stock and bonds." (Sison. 2003, p. 24)

The core values of Enron where referred to as RICE:

"Respect – We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness, and arrogance don't belong here.

Integrity – We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.

Communication – We have an obligation to communicate. Here we take the time to talk with one another…and to listen. We believe that information is meant to move and that information moves people.

Excellence – We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be." (Cruver. 2002, p.43)

This just goes to show how aggressive the Enronian culture was to find people that fit into the objectives of the company. The people who truly reflected this were the traders. Charles Wickmen, an ex-trader for Enron Corp confesses, "If I'm on the way to my boss' office, talking about my compensation, and if I step on somebody's throat, and that doubles it, well I'll stomp on the guys throat…that's how people were!" (The Smartest Guys in the Room, 2006)

4.3.1.3. Faces of the Guilty

Kenneth Lee Lay (April 15, 1942 – July 5, 2006)

Former CEO and Chairman of Enron.

Lay came from a very humble background, born in rural Tyrone, Missouri, and son of a Baptist Minister; his father held a second job managing farm machinery parts, in order to sustain his family of five. He graduated from the University of Missouri and followed to receive, simultaneously, a Masters degree in economics from Missouri and a doctorates degree in the same field in the University of Houston in 1965; He worked for Humble Oil and Refining, a predecessor of Exxon, whilst he took night courses for his Ph.D. Lay served some time in the US Navy, enlisting himself in the naval officer school in Newport, Rhode Island in 1968, just when the Vietnam War had escalated. This career detour led him to Washington, D.C. where he would be offered a position to work for the Federal Energy Regulatory Commission (FERC). He spent the next 6 years in Washington, and rose to the position of deputy undersecretary of Energy at the Interior Department; this is where he first pronounced his arguments in favor of the deregulation of natural gas. (Fusaro and Miller, p. 9) During this time, Lay was in charge of regulating several companies', of which Florida Gas was one of them. In 1973, Jack Bowen, who ran Florida Gas, (which Enron would later acquire) hired Lay from government to become his vice president of new energy ventures. It is a known fact that Lay was friends with both George Bush and Jr. since the early 80's. Kenneth met his second wife Linda working for Florida Gas. In 1981, Bowen became

Chairman of Transcontinental Gas Company (Transco) in Houston, and Kenneth would follow him there. Four years later in 1985, Lay left Transco to run Houston Natural Gas, which he quickly merged with InterNorth (Omaha) to form Enron. For the next fifteen years, Lay worked on building the Enron Empire; bringing a Texas pipeline company to Fortune #7. He lived in Houston most of his life, in a $7 million penthouse apartment in the city's most prestigious areas. They also had other multimillion-dollar properties along the Texas coast as well as in Colorado, putting into evidence one of America's highest paid executives at the time. He suffered coronary artery disease, which was the cause death, suffering a stroke at age 64 in one of his Colorado estates. Moreover, Lay was able to cash in $300 million from stock option of Enron before its collapse.

Jeffrey Skilling (November 25, 1953 -)

Former CEO of Enron. Nickname: "Darth Vader"

Jeff was born in Pittsburg, Pennsylvania, even though he grew both in Aurora, Illinois and in New Jersey. After graduating from High School from a public school in Illinois, he went on receive his Bachelor's in Science in applied science at Southern Methodist University in 1975. Afterwards, Skilling precede his further education and received and MBA in 1979 from Harvard Business School to then start working as a consultant for McKinsey and Company in the area of energy and chemical practices. In 1987, he had the opportunity of working in collaboration with Enron in, and helped the company create a forward market in natural gas. Kenneth Lay was impressed with Skilling's consulting skills, and lured him to start working for Enron in 1990 as Enron's Chairman and Chief Executive Officer of Enron Finance Corp. Only six months after Lay appointed Skilling CEO of the company, Jeff placed his resignation left Enron, he claims, for personal reasons. However, three months later, Enron would file for bankruptcy and Skilling would be called upon to testify for the wrongdoings in Enron's management. Skilling was indicted on 35 counts of fraud, insider trading as well as other crimes associated to Enron's fall. He converted stock worth $66 million six months before Enron's collapse.

Andrew Fastow – (December, 22, 1961)

Former CFO of Enron.

Andy Fastow grew up in New Jersey, and then left to Massachusetts where he obtained he Economics and Chinese degree at Tufts University in Boston. It was during college years that he met and married Lea Weingarten, who came from a very wealthy family that were owners of a prominent chain of Houston supermarkets. Fastow would then proceed to get his M.B.A. at Northwestern's Kellog School of Management, and then both he and his wife began working at the Continental Bank in Chicago, and where he has become senior director. They would later on decide to move back to his wife's hometown, Houston, where they both began to work for Enron. (Fusaro, P., Miller, R., 2002) Fastow was hired by Skilling to at a young age, before he 30's, and was given the leading role of constructing SPEs, that would put more than $40 million into his own pockets. Enron's CFO would become one of the primary responsible of setting the stage for Enron's downfall; he was invicted on 78 counts of securities fraud, money laundering,

wire and mail fraud as well as conspiracy to inflate Enron's profit. Moreover, he was sentenced six years of prison in relation to these charges.

Lou Pai – Enron Energy Services (EES) Executive

Pai helped build the trading business in his earlier years in the Corporation, before moving on to run Enron's doomed effort called Enron Energy Services. His job there involved selling energy services to industrial end users. Max Eberts, an ex-public relations employee for EES describes Pai as "A mysterious figure, kind of like the invisible CEO…but Lou Pai was not a man to trifle with…his exit from Enron was as mysterious as his presence there, just sort of one day, we all learned that Lou Pai was no longer the CEO of EES". (Smartest Guys in the Room) This was just like Jeff Skillings' exit from the company a couple of months ahead. In any case, Lou Pai left Enron in May 2001 after cashing in his stock that was worth over $ 250 million. The reason behind this was that he was divorcing his wife in order to get married to his 'stripper' girlfriend with whom he had an illegitimate child, and needed part of this money for his divorce settlement. Yet despite that he left this outrageous amount of money, the divisions that Pai left behind in EES lost a total of nearly 1 billion, something that Enron managed to disguise. Pai went on to Colorado's second largest landowner, retiring on a seventy-seven thousand acre property in there in addition to his horse-breeding ranch in suburban Houston. In any case, he was one of the few Enron executives that was relieved of criminal prosecutions, as he exercised his rights to the fifth amendment to testify in trials against other Enron executives, and settled out of court with the U.S. Securities and Exchange Commission (SEC), depositing $31.5 into a fund aimed to relieve affected Enron shareholders. Thus, he was one of Enron's executives who left the company with the largest sum of assets untouched.

4.3.2. The scandal of the Crooked "E"

4.3.2.1. The Bare Facts

By the end of the year 2000, Enron became a 'big deal' because by this time, all the Internet companies had already begun to fall as the dot.com bubble began to burst. However, Enron seemed to stride, untouched; its stock price rose ninety percent that very same year, and fifty percent the year before. Enron was regarded as one of the most innovative companies that was constantly creating new economy markets. It all seemed to be going great for Enron, and people could never imagine how it would plummet in matter of months. Investors, traders and stock creditors rated Enron stock as one of the best and most stable. This came to no one as a surprise seen as the stock market was soaring to new record prices each day. It was a time in history where the United States had the biggest bull market, and Enron stock was also reaping the benefits.

Source: Google

At this time, Enron decided to create a campaign to win over the support and admiration of stock analysts. Since, as Lay states, "We're never satisfied, and I

don't want us to ever be satisfied with the stock price. It should always be higher". (The Smartest Guys in the Room, 2006) Furthermore, Enron went one to report a thirty percent increase in their second quarter profits of that very same year, after they had introduced their web-trading system. The fact was that Wall Street had established a game that was called 'pump and dump', where every time that a company met or exceeded the annual projections for quality earnings, the stock price of that company would rise, or fall if the contrary occurred. For this reason, it was not unusual that top executives pushed their stock prices up in order for them to later be able to cash in multi-million-dollar stock options that they owned. Enron was well aware of how the profits of every quarter could affect their stock price, and played with their reported figures accordingly.

The catch at Enron, was that their employees were paid, in a large part, through stock options, also known as the Enron 401(k) Plan. As Brian Cruver, ex-Enron employee, states in his book, "We were handed the Enron 401(k) Plan Details. Page four talked about the company matching 50 percent of whatever I put in my 401(k) –wow! Free money!". (Cruver. 2002, p. 5) Due to this incitement, Enron, and especially its employee's, had a huge stake in seeing the stock price increase. Moreover, Enron employees were constantly being reminded about the health of the company; in other words, on how Enron's stock was doing. They stretched their importance of this to the point were they even posted the stock price in the elevators so that Enron employees were surrounded and completely consumed by what the stock price was doing. Bill Lerach, the attorney for Enron shareholders, states, "This Company was fixated on its stock price and fixated on a massive public relations campaign to convince the investment community that they were new, different, innovative, almost heralding a new era of corporate enterprise". (The Smartest Guys in the Room, 2006) This puts into evidence the primordial interest in Enron's executives to have as many people as possible investing in their stock, even if it really wasn't worth what they led people to think.

Enron executives were so good at acting that they convinced Corporate America that they were smarter than anyone else. Jeff Skilling arrogantly admitted at one point, "You know, when you work for Enron, you'll see the newest thinking, you're going to see the newest markets opening up". (The Smartest Guys in the Room, 2006) Just like this, Enron would 'sell' the company as a stable Corporation that could predictably continue to grow and increase its profits every year. In fact, to reach the objective earning that they were stating, Enron resorted to several questionable processes that implicated taking enormous amounts of risk. This was certainly not an issue for the company's leaders, like Jeff Skilling, who admits "We (Enron), like risk, because you make money by taking risks" and Kenneth Lay that declares, "We encourage people to do new things, try new things, experiment, step out. We begin by attracting people that are more comfortable in an environment of change". (The Smartest Guys in the Room, 2006)

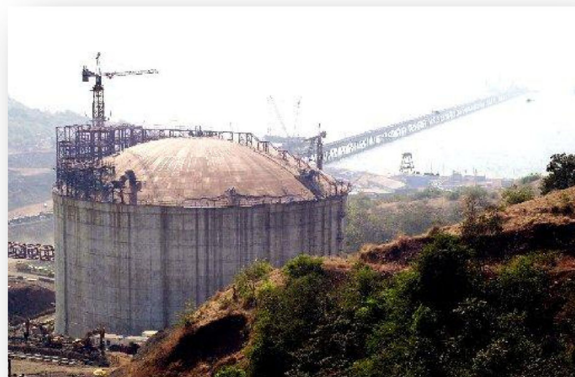
The beginning of a major component for the downfall of Enron had to do with an accounting treatment that the Company was consented. This was all due to Skilling, who had a condition before he signed up to work for Enron, and this condition was that he could be allowed to use a kind of accounting method known as mark-to-market accounting. Enron's consultants from Arthur Anderson agreed and signed it off just as the SEC (Securities and Exchange Commission) also approved, giving Enron full permission to use this accounting method. This news was cause for celebration within the Enron offices, and all for a very beneficial reason for them. The reason for their bliss being that this type of accounting allowed the company to book potential future profits on the very day that a deal was signed. In this sense, deals involving the future delivery of commodities up to three, five or even ten years in the future, were reflected in the current quarterly reports, no matter how much cash actually came in from these deals. This left *a lot* of room for manipulation given that Enron's profits could be whatever they wanted them to be, and this is what the outside world was subjected to believe.

The tricky part about this was that it was extremely difficult for analysts to predict future prices of energy, and "Enron, more than any other "energy" company, dealt in commodities and derivative structures and deal terms that were far too unusual to have an established price. It was an issue of liquidity: if the deal required a price on something that was rarely bought and sold (making it illiquid), and there wasn't much of an established market, then the price had to be made up." (Cruver. 2002, p.80) The problem was that this type of accounting required the expertise of traders on the commodities, which was not the case. Yet, for a person that was working in Enron's RAC (Risk Assessment and Control) department, just as for an Arthur Anderson consultant, the only real thing that they understood from these enigmatic practices was that higher the prices placed on commodities, would favor higher bonuses for them as well as higher earnings for Enron. The RAC department in Enron was responsible for monitoring Enron's credit risk internally. The dilemma was, as Ron Middleton expressed, that "RAC does not have the time to do the right amount of due diligence on deal. We see four hundred major deals a year. It's a joke." (Cruver. 2002, p. 77) Consequently, since Enron linked individual bonuses to this mark-to-market value, their strategy became "less about booking profitable deals or controlling the risk of deals – and more about booking as many of the biggest deals possible." (Cruver. 2002, p. 80)

Source: Google

Therefore, trader's had to rely on instinct to think up a 'credible' price for this commodity. As ex-Enron Executive, Mike Muckleroy affirms, "And they (Enron) were saying that they were going to sell power out of this power plant in ten years for X dollars per kilowatt, and there was no way that anybody could prove that they could to it." (The Smartest Guys in the Room, 2006) It was a fact that energy companies developed price curves as prediction of the long-term price outlook, to then use those curves in valuing deals, despite the uncertainties around this accounting method. Since Skilling was a huge believer of ideas, it made sense for him to be able to book the profits of a good idea right away. Nevertheless, the profits and the financial benefits that would derive from these actions in the short term, would not always result in the future earning that they had prognosticated. Therefore, Enron was booking a lot of deals that would never make any money for them, so the question was, where was the money that they stated they had earned going to come from?

Enron had a vast amount of natural-gas operations all over the world. These operations had cost billions of dollars to build; yet the truth of the situation was that many of these were not operating correctly nor making the profits that Enron executives were proclaiming. The Dabhol Power Plant in India is a clear example of another ill-managed decision of Enron that would end up costing the company billions of dollars in losses. This is due to the fact that Enron decided to build a power plant in India, at a time when no one was



Source: Google

investing in the country for political reasons. Regardless of the malevolent atmosphere in that country, Enron decided to move forth and invest in a very *big* way. Regrettably, there was a basic characteristic of India at the time that Enron Corp. had failed to see, which was the fact that the population there would not be able to afford the electricity that the Dabhol Power plant was aiming to provide. Consequently, nowadays, the Dabhol Power Plant is a ruin. Curiously enough, despite the $1 billion losses in the investment, Enron still paid out multi-million-dollar bonuses to executives based on imaginary profits that never arrived. Once again, Enron faced the problem of trying to figure out where the real money was going to come from to pay off their increasing debt.

This situation logically placed an enormous amount of pressure on the company because they would have to come up with a next bright new idea that would break through to cover up their previous mistakes without anyone else noticing the gaps; admitting failure was simply not an option that Enron considered. Consequently, Enron decided to buy-out another company, seeing the option of merging as an immediate 'cover-up' solution. Portland General Electric (PGE) was the target. Furthermore, acquiring this company would place Enron in the electricity business in addition to natural gas. Just as much, PGE's position in the West Coast allowed Enron to access California's newly deregulated electricity market. This was evidently a strategic move for Enron, given that this merger, as Lay ambitiously states, would position them to "ultimately become the largest marketer of electricity and natural gas at both the wholesale and retail level nationwide." (The Smartest Guys in the Room, 2006) The belief was that in order to confront and survive in deregulated markets, it was necessary to join forces between these newly commoditized services.

Al Kaseweter, PGE Lineman confesses, "I had never heard of Enron until they were going to buy us. They slid in here and when they purchased PGE, all the PGE stock became Enron; just went through and stamped every one of them. I looked around me. Guy's buying all this Enron were doubling their money, and for the whole time since then, I put the maximum I could into my 401 and savings." (The Smartest Guys in the Room, 2006) This type of reaction was one that most employees followed, since traditionally gas-pipeline workers had kept their money in the company since they believed it to be a safe place for investment as it had been for decades. Unfortunately for them, at the present time, this belief was no longer the reality.

One thing that becomes obvious at this moment is that Enron also had had the support of externals professionals to praise on their stock. Otherwise, it would have been more difficult for this corporation to truly reap from the propaganda that it was making in favor of the company's performance. In this sense, stock analysts just as external consultants of Enron played a determining role. Like the Fortune reporter, Bethany McLean says, "One of the things that fascinated me was that almost all of the Wall Street analysts who covered Enron had buy ratings or strong buy ratings on the stock." (The Smartest Guys in the Room, 2006) However, the obvious question that comes to surface is: why were the analysts and consultants blinded by Enron's deceit? These are some of the answers that were given to these questions by some of these persons:

- Curt Launer, analyst from CS First Boston: "We relied on the information available at the time." (The Smartest Guys in the Room)

- Ray Niles, analyst from Salomon Smith Barney: "We trusted the integrity of the Company's certified financial statements and the representation of the Company's management." (The Smartest Guys in the Room, 2006)

Not surprisingly, Jeff Skilling would later respond to this by saying that "We've (Enron) been upfront with the analysts…", just going to show the critical role that he played in creating the Enron illusion in the first place. Jeff Skilling was particularly renitent of admitting that anything was not

right. The worse part of this was the fact that since he would not be frank about what was really going on, everyone else below him had less of clue, and would therefore confide in what he would say, as that which was infallible, and by this, would entirely defy the analysts' job. Jim Chanos, president of Kynikos Associates states, "Time and time again, when we had a question to the sell-side analysts that they (Enron) couldn't answer, the response was: I'll give Jeff a call or I'll run this by Jeff." (The Smartest Guys in the Room, 2006) Thus, it becomes evident that analysts were not doing any analyzing at all, and taking the little information that they got as granted to be true; basically believing in everything that Enron told them. What this led to, was that many analysts were setting target prices for Enron's stock between $100-$115 per share. This was all but inconvenient for Enron. Any analyst that did not back the Company up would simply become an enemy of Enron, as did stock analyst, John Olson from Sanders Morris Harris.

Olson was one of the only analysts' that was publically skeptical about Enron's story. He claimed that "Enron loves analysts' "strong-buy" recommendations" and that the company where he worked, Merrill Lynch, "was informed by Fastow: either you get somebody who's on board with us and has a "strong-buy" recommendation, and loves us at the same time, or we don't do any business with you" and went on to rightfully state that "This is an abuse!" (The Smartest Guys in the Room, 2006) Since that proclamation, only days passed until Olson got the kick in the back and was fired from the company after Enron's CFO, Andy Fastow, had 'rewarded' the bank with $50 million for two investment-banking jobs. This is just one example that evidences the influence that Enron used over other entities, which in theory should have been neutral and assured justice and equality. Instead, analysts would be given large bonuses from the investment banking departments after bringing in investment-banking deals that had been sealed.

Source: Google

The fun for these analysts would soon come to a halt however, because despite the continuous rise in Enron's stock prices, its businesses were continuing to lose money.

Then, Enron decided to go online. It was Skilling's idea to take Enron into cyberspace where he was proposing to create a bandwidth trading market, and in therefore, make bandwidth a commodity. It must also be mentioned that the stocks of the dot.com's were soaring at the time. Therefore, Enron was trying to stay "ahead of the curve." Just after Enron made its move into the world of broadband, they declared their partnership with Blockbuster, the renowned movie rental chain in the United States. These two corporations teamed up with the intention of offering the public the delivery of movies on demand. This initiative received a positive reaction from the stock market, especially from analysts. A confirmation of people's affirmative attitude towards this strategy was the fact that Enron's stock, on January 21, 2000, just two days after the proclamation, rose thirty-four percent.

Furthermore, Enron had announced that they had developed the technology, and that it would be in test markets by the end of the year 2000. Jeff Skilling publically announced, "And the technology works! Quality is great and customers like it, so we've made a lot of progress." (The Smartest Guys in the Room, 2006) Despite this confirmation, the truth was that Enron was struggling with the technology for video on demand. Once again, Enron executives decided to cover up the reality of

things and give a more appealing explanation to the people that needed explanations, instead of admitting that anything was going wrong. In the past, they had gotten away with this type of behavior, but this time things would be different. The fact was that the technology that Enron was developing to bring forth the partnership with Blockbuster, would not work, and therefore the deal that they had established soon collapsed. This did not stop Enron from applying their mark-to-market accounting methods, and thus, use the future projections to book $53 million in earnings into their accounting books for a negotiation that never made a penny. Consequently, by the end of the year when it was time for Enron to put introduce their promised live streaming broadband technology they would face trouble.

Evidently, it came to the point when Enron would start running out of ways to convince others to believe that the broadband business was going to be a success, regardless of all their attempts to create the illusion of a business that in reality did not exist. For obvious reasons, it can be perceived how the Enron insiders that were working on this project, would start to become increasingly desperate. At this point, top executives began to sell their stock in the business, in order to retrieve some of their 'fortune'.

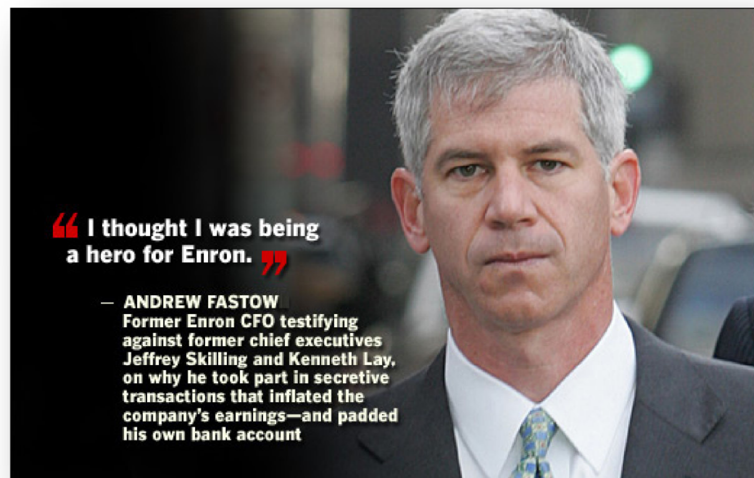
Then, the inevitable happened. On Friday, shares had plummeted thirty-one percent on Wall Street, where high-tech stock was leading the sell-off. This was the first wake-up call for everyone, given that now millions of nervous investors were now following the huge fall that had occurred. As time passed by, it became more difficult for executives like Skilling to admit that things were wrong. Yet, it is difficult to believe that he was not aware of what was coming, and the direction at which Enron was heading at full speed. Unfortunately, despite all the warning that they were made aware of, no sign of a change or intents of making things right was evidenced. Thus, the shining star of new-economies would bound to be doomed.

One investor saw something in Enron's numbers that the stock analysts hadn't noticed. As it was mentioned earlier, the mysterious accounting practices that Enron exercised, with mark-to-market principles, made it difficult for everyone outside Enron to have a clear grasp about the real financial earnings that the company was generating. In this sense, Enron was like a black box, where many external analysts and consultants took a *huge* leap of faith in trusting the company's financial statements, since no one really understood the source of Enron's earnings. Jim Chanos was this investor, and he mentions, "Who knows where the earnings come from? They just pop out and all we know is that they're always good…the numbers will always be good, until they're not." (The Smartest Guys in the Room, 2006) Soon afterwards, Chanos would contact Bethany McLean and suggest she revise Enron's financial statements, so as to confirm his concerns. However, despite the fact that fraud was not evident from just looking at the financial states, some things were left unclear. For this reason, McLean decided to take a step further and called Enron in hopes of clearing her doubts.

Source: Google

Given that the *Fortune Magazine* reporter was not satisfied with the ambiguous answers that she was given, she decided publish an article about Enron; This article was basically stating out the fact that Enron accounting principles are very confusing, and therefore do not promote a clear understanding about how the Company makes its money. In any case, this article would not be able to prove more than the possibility that Enron's stock was overvalued. The article McLean wrote, published March 5, 2001 was entitled, "Is Enron Overpriced?". (Cruver, 2002)

In trial, Skilling recalled the conversation that he'd had with McLean, and admitted, "She called up and started asking some very very specific questions about accounting treatment on things. I am not an accountant, and I could not answer them…If you do that (publish the article) I personally think that's unethical." (The Smartest Guys in the Room, 2006) It is curious how the person who pushed for mark-to-market accounting treatment for Enron, was suddenly unaware of how the Company used these practices to its advantage. Moreover, it is obvious how Skilling's response was aggressive and defensive, demonstrating an attitude of denial. In any case, Skilling sent the CFO, Andy Fastow, as well as the company's Chief Accounting Officer, to New York the day after his telephonic interview with McLean so that they could get together with the reporter and her editor to discuss unanswered questions before the publication of the article. McLean states, "And the next day we sat in this small, dark, windowless conference room for about three hours going through various aspects of the company's business. I'll never forget. When the interview was over, the two other executives packed up their things and left the room, Andy Fastow, turned around looked at my editor and me and said, "I don't car what you write about the Company, just don't make me look bad"." (The Smartest Guys in the Room, 2006)



Source: Google

Yet, the truth of the matter was that Enron's quarterly cash flow statements, did not add up. Nevertheless, the ambition of Enron's leaders would continue to foster the 'anatomy of greed' aiming to become the 'worlds leading company'. Nevertheless, it is difficult to determine the exact moment when Enron scams began, but there is no doubt now that Andy Fastow, played the leading role in the fraudulent practices; it was his job to disguise the fact that Enron's financials were a far-fetched, capricious illusion. The reality was that Enron was yearly losing money on a cash basis, despite the fact that it was reporting profits; a complete paradox of financial laws. Moreover, the way that Enron was doing this through structured finance and using Special Purpose Entities[1] (SPEs). Thus, it was with all reason, the CFO of the company did not want his image to be fiddled with, since he was behind all of this.

In order to please his boss, Fastow had to come up with a way of keeping Enron's stock prices high in order to continue to hide the fact that the company was $30 billion in dept. As attorney Bill Lerach puts it, "People pressured by the need to keep the stock price up begin to cheat a little bit, but then the next quarter comes along and you have to cheat a little more to do the new cheating and to make up for the old cheating, and before long you have created a momentum that now you can't

[1] Thanks to Enron, SPVs/SPEs are household words. These entities aren't all bad though. They were originally (and still are) used to isolate financial risk. A corporation can use such a vehicle to finance a large project without putting the entire firm at risk. Problem is, due to accounting loopholes, these vehicles became a way for CFOs to hide debt. Essentially, it looks like the company doesn't have a liability when they really do. As we saw with the Enron bankruptcy, if things go wrong, the results can be devastating. (Investopedia.com)

stop." (The Smartest Guys in the Room, 2006) Exactly what Fastow did was create different companies that would act as the depositories of Enron's dept. This way, he would make Enron's dept 'disappear', and investors would continue to bolster up the company's stock price. Since Enron had a problem of liquidity, it needed to team up with financial entities that could supply the cash that they were short of. This way, Enron could continue to buy gas at bargain prices. Enron would formalize the deals so that banks would loan the money by creating an SPE, which would get the banks' money to the natural gas producers in exchange for future deliveries of natural gas. Furthermore, Enron "would use natural-gas futures contracts and a variety of interest-rate futures to lay off much of the risk from the pieces of contracts that it was forced to hold on either a either a temporary or a permanent basis." (Fusaro, P. and Miller, R. 2002, p. 37) It was a perfectly legitimate business, except for the fact that natural-gas deals could last up to twenty years to earn back its costs, rather than a just few months. Since Enron was acting according to the law, despite the bending of the rules, technically, it is the legal system that needed to be revised.

In any case, to outside investors, it seemed that cash was going into the company. However, Enron was stashing its dept and or losses into these companies where investors could not see it. Several of the partnerships that were doing business with Enron, were being run by Andy Fastow, just as they were also being disclosed in the Company's financial statements. However, accountants and board members didn't see anything wrong with this. Some of these SPEs had very creative names, like 'Chewco' and 'Raptors'. Nevertheless, it was revealed that one SPE called 'LJM', initials of Fastows' wife and children's' names, was one of the most ambitious that Fastow created, as it would allow Enron to hide millions just as it permitted Fastow to pocket over $45 million for himself. Skilling later confessed in court that, "Arthur Anderson and our lawyers had taken a very hard look at this structure and believed it was appropriate." (The Smartest Guys in the Room, 2006) Go figure!? However, Ken Lay and Skilling also signed off on Fastow's LJM funds, implicating that they knew about its existence, just as they were probably well aware of the purpose it was going to fulfill. So in this sense, these executives saw the benefits of allowing Fastow do deals with himself.

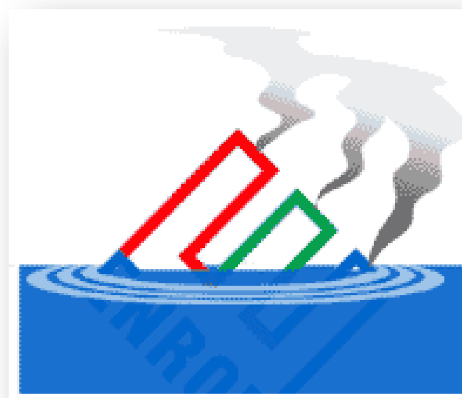
The LJM fund is of particular interest because it was one where 96 individual bankers invested in and where America's major investment banks deposited up to 25 million each; J.P. Morgan Chase & Co., Credit Suisse First Boston, Citi Bank, Merrill Lynch, Deutsche Bank, are some of the premier institutions that participated in the LJM funds. Fastow convinced these banks that it was in their interest to invest in this fund, given that it was one that would only buy assets from Enron.

Additionally, since Fastow was Enron's CFO as well as the general partner of LJM, he had a conflict of interest in seeing the benefits to both sides of the deal even if he claimed that he would side on LJM. The fact of the matter was that Fastow could guarantee profits for LJM just like he would have informational advantages in this dual role. Logically, this was an appealing opportunity for the banks, and they got dove into the deal. As ex-Vice President of Enron Corp., Sherron Watkins confesses, "No human being should be put in a situation where every single transaction they decide whether they're looking after Enron's best interest or their limited partners, because this LJM partnership existed solely to do business with Enron." (The Smartest Guys in the Room, 2006) Nevertheless, banks committed to this deal given it had prospects of returns that would exceed 2,000 percent, and at the same time Enron liked these deals because they would produce money without them having to reflect debt on their balance sheet.

This brings to question the culpability that the financial institutions and Wall Streets greed played in this whole ordeal. As if Enron's own misconduct was not sufficient, leading US financial institutions also played Enron's 'games' seen that they greatly profited from them as well. As Bill Lerach simply puts it, "The Enron fraud is the story of synergistic corruption. There are supposed to

be checks and balances in the system. The lawyers…the accountants…the bankers are supposed to say no. But no one who was supposed to say no said no. They all took their share of the money from the fraud and put it in their pockets…the banks were all knowing participants in this wrongdoing." (The Smartest Guys in the Room, 2006) Since Enron made sure to pay their advisers in a very splendid fashion, everyone kept their mouth's shut; accountants from Arthur Anderson, just like the law firm Vinson & Elkins, were paid large sums of money on a weekly basis. Therefore, as long as the millions kept rolling in for them, they would follow along with Enron's deceptive practices. For this reason, it is hard to believe that they claim themselves to be unaware of what was really going on in the Company. In fact, Arthur Anderson would pay a high price for its permissiveness, once Enron's troubles became public.

The battle of holding two opposed thoughts about Enron's existence would finally take a toll on Jeff Skilling. On one side, there was his belief in Enron as America's leading company, and on the other was the reality that it was all falling to shambles. Even though Skilling was known to be a tempered character, months before Enron's call for bankruptcy, Skillings' moods became increasingly aggressive, to the point where the 'cracks' in his behavior would change his public image. During a conference call in April 2001, analysts were asking Skilling questions about the company. Then halfway into the conference, one analyst raised the fact: "You're the only financial institution that can't produce a balance sheet or cash flow statement with their earnings", to which Skilling responded: "You, you, you…Well uh…thank you very much. We appreciate it…asshole." (The Smartest Guys in the Room, 2006) It can be imagined the type of scandal that this type of public response can get, being that it came from a Fortune 500 Chief Operating Officer (COO). At this point, people in Wall Street really started to question Enron's credibility, and were simply shocked about how it was possible for a high directive to react in that manner. The fact was that the company could not afford to be frank about its numbers being that they were in a massive hole. If they decided to be transparent about their earnings, it would unmask façade that they had strived to uphold in order to try to keep their stock price up, given that this was the only way that Enron could continue to function.



Source: Google

Enron's broadband business was a complete meltdown, and their EES (Enron Energy Services) was also on the same verge, facing $500 million in losses, thus struggling to come up with a way to show profits by the end of the quarter. Lou Pai, who had been head of this department, decided to leave Enron in May, 2001, given he was facing a complicated divorce. However, "When Lou Pai left EES and took his $350 million with him, Delainey (Pai's replacement) had to fix the curves (of EES,)…When Delaine fixed the curves, we found that the deals Pai had built EES on, were losing money." (Cruver. 2002, p.80) Nevertheless, somehow at last minute, EES would be able to reach the targets and have a little left over. So now, the question was asked: How did EES make its numbers? The answer was: "California". (Cruver, 2002)

It all began when blackouts commenced throughout the entire length of the state. The world's sixth largest economy was suffering power shortages for the first time since 1996 when the deregulation of energy bill was passed. Logically, it was still a very new legislation that had room for many mistakes to happen, since no legislator really new how it ought to work. The first notion that there

was something wrong with this picture was that fact that Californians faced this energy crisis in the middle the winter, when they use half of the electricity they would use during summer. As Loretta Lynch, California Public Utilities Commission states, "We only need 28,000-30,000 megawatts in December (and) we have an installed capacity in California of 45,000…plenty of power to meet our electric demand…I knew that there was illegality going on, and there was just no other explanation because the numbers didn't add up…it was *never* about lack of supply." (The Smartest Guys in the Room, 2006) The situation was deteriorating, as the rolling blackouts occurred with more frequency. The relationship of California with Enron was the fact that since the deregulation of electricity, the flux in electricity prices would vary depending on the demand. So these blackouts would essentially give rise to the prices of electricity, and therefore, Enron could make more money for providing the same amount of electricity as they did before.

This was yet another example of how Enron exploited the loopholes available to bring in more profits for the company. As California's State Senator, Joseph Dunn claims, "California was selected by Enron as the prime place to experiment with this concept of deregulated electricity." (The Smartest Guys in the Room, 2006) This was a new playing field for Enron executives, who simple advocated free-market economies. Tapes were later discovered, where Tim Belden, who ran Enron's West Coast trading desk pronounces, "Regulatory's all in a big concern about is we're wheeling power out of California…he steals…uh, he arbitrages the California market to the tune of a million bucks or two a day." At Enron, 'good' traders where recognized as those that were 'creative' in the sense that they could generate returns above and beyond the norm through 'arbitrage' opportunities. One of these 'arbitrage' that surfaces was called "Ricochet"; in this opportunity, Enron traders began to export power out of California, to then bring it back in once the prices of electricity had ascended to their satisfaction.

Enron did not hesitate to play with people's own basic needs. Traders had become so consumed with making money that they disregarded the severe consequences that this could pose on the whole population, and even how would eventually affect the Company itself. The situation reached the point where traders were giving orders to shut down power plants so as to create artificial shortages to push the electricity prices to higher limits. Like the former Californian Governor, Gray David states, "When you see two or three energy companies with 30-35 percent of their entire capacity down for maintenance on a single day, and as a result the prices of electricity is skyrocketing 300-400 percent, and then a week later, someone else does it in northern California, you begin to believe that something is not smelling right here." (The Smartest Guys in the Room, 2006) Indeed, Enron was bringing in more profits thanks to their 'creative' traders, yet even more so by betting on the rise of the price in electricity. Furthermore, by betting that price of electricity would rise, something that they manipulated, Enron traders were able to generate over $2 billion for the Company. This type of behavior was simply foul play, lacking all values except for that of making money; almost like if they had lost all sense of morality.

Nevertheless, to no surprise, Enron's Public Relations department would tell Enron employees before a public presentation in California, that "Enron was not a monopoly; consumers were not *forced* to buy power from Enron," always acting in it's defense since according to them, "Enron has done nothing wrong to manipulate power prices; there's just no evidence of it." (Cruver. 2002, p. 106 and p. 108) It was no surprise that Californians became furious at Enron; many were facing, for the first time, difficulty in paying for a service they had been able to rely on for decades. Despite the fact that top executives denied any relationship to the occurrences of the blackouts, a lot of consumers were not buying it. Jeff Skilling claimed, "Consumers here in California are angry, and they should be. And if we had anything to do with this, then we are the stupidest people in the world." (The Smartest Guys in the Room, 2006)

In the midst of this entire situation, Republican and close friend of Lay, George W. Bush, became president of the United States. At the same time Californian Governor, Davis, appealed to the Federal Government to cap the prices on electricity; in other words to put an end to the deregulation of this service. Since the Federal Government was the entity to regulate the situation by law, it made no sense for the newly elected president to suggest that the Federal Energy Regulatory Commission (FERC) not get involved. This Federal agency, FERC, had the responsibility of regulating energy in America, yet for some reason it refused to intervene. (Cruver, 2002) Coincidently, or not, the chairman of FERC, Pat Wood, was a man whom Ken Lay had personally recommended for the job given his ties with this agency in his earlier years before entering Enron. However, the Democratic-controlled Senate pressured this agency to act, and thus, the FERC imposed regional price limits to electricity, which would finally put an end to California's energy crisis. This would not be good news for Enron, who's entire business revolved around trading commodities such as electricity in a free market, benefitting from those that did not have price controls.

4.3.3. The Reaction

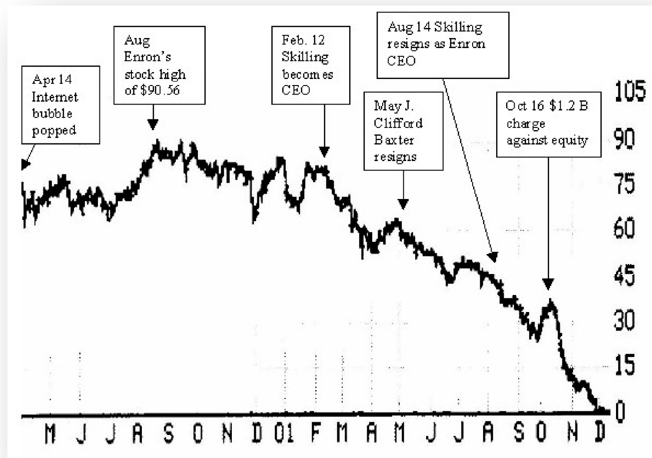
In any case, damage had already been done at Enron, and its traders continued to fervently work in the same manner that they had been encouraged to. Yet, as doubts about the company and its erratic behavior of its CEO began to surface, the Company's stock inevitably began to fall; and throughout the whole summer of the year 2001, Enron's stock continued to decline. Enron insiders were on the verge of news from the directives of the Company, awaiting a change. Some believed that Ken Lay would leave to start working for the Bush administration. Instead, they received the news that Jeff Skilling was resigning his recent position of Enron CEO; news that took everyone by surprise. Jim Chanos, president of Kynikos Associates announces, "CEO's generally don't just resign out of the blue without a well-orchestrated PR campaign beforehand to pave the way so there's no disruptions, there's no questions, there's no front page stories, which of course, is exactly what happened. It was at that point that I knew that the architect of the disaster knows that it's crumbling, and the rat is leaving the sinking ship." (The Smartest guys in the Room, 2006)

Skilling intended to convince people that he was leaving "for personal reasons". Representative Jim Greenwood, during the trial told, "Mr. Skilling, a massive earthquake struck Enron right after your departure, and people in far inferior positions to you could see cracks in the walls, feel the tremors, feel the windows rattling. And you want us to believe that you sat there in your office and had no clue that this place was about to collapse?" to which Skilling responded, "On the day I left, on August 14th, 2001, I believe the company was in strong financial condition." (The Smartest Guys in the Room, 2006) Once again, executives of Enron acted in denial of any responsibility or that they had knowledge of Enron's true standing. However, this did not prevent Enron's stock to be further downgraded after Skilling's decision. This is because analysts were still concerned about the California energy crisis and were doubtful as to whether there was further incidents waiting to come forth that would continue to jeopardize this

Source: Google

Company. The question remains as to weather Skilling decided to leave in belief that he would not get the entire the blame for the Company's downfall, since he never publicly admitted to this. Nevertheless, people that knew this character, declare that Skilling was running away from problems that he created, thinking that he could get with enough time so that people would not suspect of him. (Cruver, 2002)

Given Skilling's resignation, Kenneth Lay, Enron's Chairman at the time, took the reins of the Company into his hands once again, as CEO. At one of his first speeches after retaking this position, Lay states, "Well, I'm delighted to be back. I'm sorry Jeff *did* resign. We are facing a number of challenges, but we're managing them. Indeed I think the worst of that's behind us, and the business is doing great. I'm excited." (The Smartest Guys in the Room, 2006) It is impressive the lengths to which directives would go to comfort those stakeholders which determine the Company's own existence. Still, this attempt to ease the minds of Enron insiders, was not very successful, as most of them were very upset that Skilling had left; as Sherron Watkins affirms, "There was a real sense of betrayal by the employees. You know, this was Jim Jones feeding us the Kool-aid, and then deciding not to drink it himself." (Cruver. 2002, p. 236)



Source: Google

Sherron Watkins, ex-Vice President of Enron, Corp. decided to write an anonymous memo letter to Kenneth Lay, the day after Skilling stepped out of Enron. In this memo, she expressed her concerns about the way that her boss, Andrew Fastow, was handling the finances of the company. Nonetheless, this letter she wrote surfaced five months after it had been given to Lay, and neither shareholders nor Enron employees were able to benefit from its intention of causing 'alarm'. For this reason, she cannot be truthfully defined as the *whitleblower* of the future Enron's collapse, even though she would 'win' this title further ahead; she expressed her concerns to the former Chairman gone CEO of the company, Lay, ask him to be relocate her within the company, *was* relocated, and continued to silently work for the 'crooked E'. It can be easily agreed that despite her efforts to 'alarm' the head executive of the company, whom she might have regarded as the problem fixer of the situation, her actions caused no immediate resound.

In any case, it was in mid-to-late June of 2001, that Cliff Baxter, another Enron executive, placed in his resignation letter. It was at this point that Watkins began working for Andy Fastow. What Sherron discovered from the documents that she received from the new boss, would unravel the complex partnerships that Andy was involved in. She declares, "Andy put me in charge of this asset listing. And there were about a dozen assets that had been hedged with one of Andy's entities, 'The Raptors, and I was looking at the spreadsheets…It didn't make any sense to me. I couldn't believe that Arthur Anderson had signed off on it." (The Smartest Guys in the Room, 2006) The problem was behind Fastow's partnerships, there were enormous guarantees of Enron's stock, and in this sense, Fastow was gambling Enron's future based on the thought that its stock would never fall; unfortunately for Enron, this was exactly what was happening. Sure thing was that this internal

announcement of the horrible fraud that Enron had committed would consequently cause the company to start spinning out of control within a couple of weeks.

By September 2001, the Securities and Exchange Commission (SEC) opened up an investigation of Enron, after the publication of an article on the *Wall Street Journal* that spoke about Fastow's murky deals. The Company's stock price kept falling which was only making investors increasingly nervous about the situation. "Wall Street wanted to know the whole truth and nothing but the truth about Enron's financial statements. The obscure references to "related parties" and "a senior Enron Officer" buried in the back of the notes were no longer going to cut it, especially now that Skilling had made his surprise exit." (Cruver. 2002, p. 99) Enron traders could no longer continue to convince their clients that Enron was a sure bet, especially since the stock had crashed from $80 to $25 per share in a matter of ten months. For the first time, investors began to doubt whether the billion dollar earnings from mark-to-market accounting where really losses.

4.3.4. The counter-reaction:

Enron insiders had sold off billions of dollars worth of converted stock months before the Company's fall. As Bill Lerach, the attorney for Enron shareholders, states, "There was an immediate sense of outrage at Lay and Skilling and Fastow, when people realized how much they profited and how completely artificial the appearance of this company had been." (The Smartest Guys in the Room, 2006) News of shredding at Enron raised even more questions, such as how much information had been lost in torn documents? How many answers simply vanished with all those papers? By October 23rd, 2001, Arthur Anderson had shredded over one ton paper, of Enron files.

Source: Google

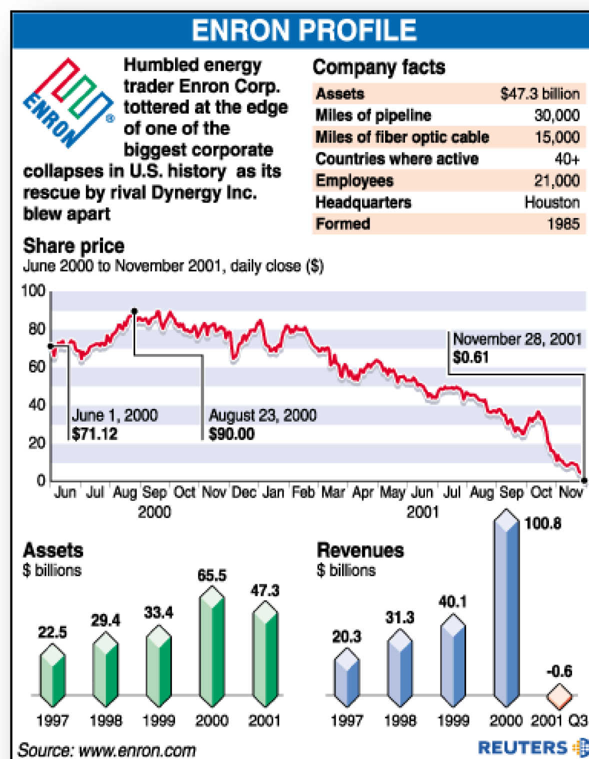
It seems as though denial is the appropriate word to describe the attitude of Enron's executives. These directives drove one of corporate America's largest company's out of existence without an honest attempt to rescue their misshapenness; they completely ignored all the warning signs, of which there were plenty. Lay continued to reassure his employees, and especially the investors claiming that the company was running smoothly, when this was not the reality. The fact was that people had finally opened their eyes to the situation, and to regain the trust of the Company was not going to happen. Especially after Lay announced, "I know there's a lot of speculation about Andy's involvement. I and the board are also sure that Andy has operated in the most ethical and appropriate manner possible." (The Smartest Guys in the Room). However, the following day, the Board fired Andy as they 'discovered' that he had made over $45 million in personal profits from his LJM partnerships. Surprise!

After a final attempt for survival fell apart, given the collapse of the Dynergy-Enron merger arrangement, Enron operations had no future and the company's choices were narrowed down to filing for bankruptcy. At this point, the Corporation had three alternatives of which to choose from that would have to be discussed regarding the United States Bankruptcy Code: Chapter 11 bankruptcy filing, Chapter 7 bankruptcy filing or government intervention. Enron decided to stick with the Chapter 11 file for bankruptcy, as it would allow the current executive to continue to have control over the company until a legal decision intervened. Enron was doomed.

In 2001, Enron's shares that had peaked just below $90 in 2000, dropped to less than $1, resulting in billion dollar losses for shareholders. Additionally, 20,000 people had now been left without jobs and more than $2 billion in workers pensions and retirement funds had simply disappeared. Brian Cruver, ex-Enron employee states in his book: "Considering his salary and his extent two year career at Enron, he was getting screwed out of a *huge* severance payment." (Cruver. 2002, p. 251) Enron employees that had been 'Lay'd' off were sent checks amounting to $4,500 as a bankruptcy payment, regardless of the amount of time that they had worked for Enron. The executives however, had made sure to cash in their stock options long in advance.

By the time that Enron actually collapsed, all tops executives had drained the money that they could from the company, from the selling of their stock options. Rice had sold $53 million worth of stock options; Ken Lay had sold $300 million; Cliff Baxter had sold $35 million; Jeff Skilling had sold $200 million. It gives the impression that they all new that the inevitable was going to surface, and that the perpetuated fraud that they had concealed, would finally be exposed. In any case, it is quite disturbing as to how these reign bearers of the company had convinced themselves that their lies and artifices, and above all, that their perception was the reality. So as long as they could keep the perception a reality, then there was no fraud. Nevertheless, they would face trial where justice would be made for their wrongdoings.

In the end, Enron's collapse happened very quickly, yet "fortunately for the U.S. economy, Enron's death had taken weeks instead of minutes, allowing enough time for trading partners and competitors to prepare for it. El Paso, Williams, Reliant, Duke, Mirant, AEP, and Dynegy would gladly absorb the volume and the market share. These competitors were losing a major trading partner in Enron, but they were also gaining a spectacular opportunity." (Cruver. 2002 p. 188) However, Enron's ending is a tragic occurrence for Corporate America, especially for all the people that lost a so much financially speaking. Logically, many would also be emotionally and psychologically



Source: Google

affected after this; it would change people's view on corporations, and the trust that was once confided, would cease to exist.

4.3.5. Lessons from Enron

Enron, a case of America's largest corporate bankruptcy, is a clear example of a company that had all the makings of a gigantic scandal. Its collapse within a matter of weeks, so quick and so completely into bankruptcy, put this fact into evidence. For this reason, it is imperative to take a deep look into the successions that led to this company's failure, so as to learn from its mistakes. Professor Steve Stalbu from the McCombs School of Business of the University of Texas reminds us that the Enron figures as the prominent case dealing with "executives with the self-dealing, accounting irregularities, debt camouflage, insider trading, and breach of fiduciary duty." (Cruver. 2002, p. xi) Moreover, this scandal leads to the suggestion that the United States legal system and accounting procedures permitted the existence of 'activities' that a majority of people would acknowledge as unethical. Enron, undoubtedly scarred corporate America, and for this reason, it lead to several changes in legislation as well as accounting principles. In any case, the need to learn from Enron's mistakes is undeniable. Therefore, the following paragraphs aim to provide several lessons derived as a result from this event.

Investors need to look further into the management of corporations and their relationships with executives.

In Enron, Skilling promoted the basic instincts of survival of the fittest. He was known to have said in the earlier years of the company, that money was the only thing that motivated people, and this vision of his really trickled down to affect the way that Enron did business. In fact, it was Skilling's idea to implement the Performance Review Committee (PRC), which required people to be graded from the scale of one to five from their peers; where about ten percent of workers had to fall under the five and hence be fired from the company every year. This system was crudely referred to as the 'rank and yank;' a vicious procedure which Jeff believed to be one of the most important processes within the company. As (woman) states, "It was a brutal process. The ability for a 25-year-old to go in and to be reviewed and to be superior, and as a consequence, get a $5 million bonus, I don't think that's repeated many places in corporate America." (The Smartest Guys in the Room, 2006) This just goes to show how aggressive the Enronian culture was to find people that fit into the objectives of the company. The people who truly reflected this were the traders. Charles Wickmen, an ex-trader for Enron Corp confesses, "If I'm on the way to my boss' office, talking about my compensation, and if I step on somebody's throat, and that doubles it, well I'll stomp on the guys throat…that's how people were!" (The Smartest Guys in the Room, 2006)

In any case, this is a clear that Enron's management regarded kindness as a show of weakness. Moreover, "In the process of trying too quickly and efficiently separate from the company those employees who were not carrying their weight, Enron created an environment where most employees were afraid to express their opinions or to question unethical and potentially illegal business practices." (Fusaro and Miller. 2002, p. 52) This rank-and-yank system was evidently very arbitrary as it was subjective, and thus a tool to reward those who demonstrated a blind loyalty. Furthermore, it was this type of environment within Enron's internal operations that would greatly

contribute to its downfall. For this reason, employment practices such as this should be considered reprehensible and intolerable within corporations.

Revision of the education system – ethics material in MBA's

In a statement to shareholders in the 1999 Enron Annual Report, Ken Lay stated, "Individuals are empowered to do what they think best…We do, however, keep a keen eye on how prudent they are…We insist on Results." (Fusaro and Miller. 2002, p. 47) This is how Enron supposedly viewed its employees. Nevertheless, it has been demonstrated that Enron was only really worried about two things: first, making profits and secondly, how to make even more profits. Everything in Enron revolved around money, and the culture that they bred accompanied this thought.

When Enron decided to hire somebody, they would lure him or her with the economical grandeur of the packages that they offered. Ex-Enron employee, Brian Cruver states in his book, that he was given a tempting offer, "A fat salary, plenty of Enron stock options, and the promise of a year-end bonus"; all of which was difficult to reject for any newly MBA graduate. (Cruver. 2002, p. 6) In 2001, Enron offered newly graduates from top MBA programs around the country an average starting salary and signing bonus of $122,000, which did not include stock options or performance bonus. (Cruver. 2002, p. 104) Yet, despite the talent that Enron strategically attracted, graduates from top U.S. universities, with math, engineering or science major, people with a strong ethical background was not in their interest. Only, "in some cases, liberal arts majors where hired if they fit into the Enron model, assuming they graduated at or near the top of their class and came off as being aggressive." (Fusaro and Miller. 2002, p. 49) However, doomsday would not avoid this Company, even if it hosted some of the smartest people in Corporate America.

There were fatal flaws like that of pride, arrogance, intolerance and greed, that lead Enron executives to become blinded by the money to the point where they didn't even realize that they were sinking inside their own ship. It is truly astounding as to how they were able to hide their wrongdoings for so long. Nevertheless, it demonstrates the urgent need of enforcing the creation of well-rounded professionals that have a strong moral compasses, in order to dictate a healthy, transparent and ethical environment within companies and corporations. It is evidently not sufficient to be smart, but also to include values such as honesty and respect. Furthermore, these desired behaviors should be consolidated throughout all levels of a person's education, no matter what field in which they are specialized. This is the only way to recover the trust from the investors that has been lost with all good reason. his Corporation did not care to create long-lasting honest business relationships, as they were only concerned with economical returns, no matter what the cost. In the end, Enron paid the consequences, and the people who trusted the company lost the most unfortunately.

Another factor that led to Enron's collapse was the ethical quality of their executives.

As Fortune Magazine reporter, Bethany McLean, states "People perceive it (Enron) as a story that's about numbers, that it's somehow about all these complicated transactions, but in reality it's a story about people, and it's really a human tragedy" (The Smartest Guys in the Room, 2006).

Ken Lay publicly stated at one point, "Enron is a company that deals with everyone with absolute integrity; we want people to leave a transaction with Enron thinking that they've been dealt with in the highest possible way as far as integrity and truthfulness." (The Smartest Guys in the Room, 2006) This goes to show that Kenneth often wrapped himself in the cloak of moral rectitude. Nonetheless the Enron's Oil Scandal in 1987, also known as the Vahalla scandal, raised questions as to weather Lay was really walking his talk ever since the early stages of Enron's existence.

The issue of the company, Enron Oil Corp, involved the misappropriation of monies by two traders. The fact of the matter was that these two traders were betting on the prices of oil; placing money on their predictions rise or fall of oil prices. As a result, like in gambling, oil trading has its risks given that sometimes there are wins just like there are losses; yet this could represent jeopardizing enormous amounts of money, when ten times of an investment that had been made was at stake. Nevertheless, Enron Corp subsidiary's stakes always seemed to bring in steady high profits, much to Ken Lay's satisfaction. Yet despite the obvious warnings involved, the gambling persisted. There was one person in particular, Ex-Enron executive, Mike Muckleroy, who tried to communicate his reservations on this matter directly to the CEO. Muckleroy states, "I tried to explain to Ken Lay the tremendous risk that you have in that market." (The Smartest Guys in the Room, 2006) This was largely due to the fact that this corporation was making earnings that were suspicious and gave off an impression that something illegal could be happening.

Indeed, something 'strange' *was* going on, and the first insight to this came from an anonymous tip about the president of the company, Louis Borget. It turns out that Borget had taken over $3 million of corporate funds and had placed it in personal accounts. Additionally, other fact would be discovered such as offshore accounts, phony accounting books and several links that were led from the company's treasurer, Thomas Mastroeni, to a mysterious Lebanese speculator whom no one could find, called MR. M. YASS. It is curious, that if you play around with the punctuations related to this un-identifiable person, the words 'MY ASS' could be spelled; talk about the seriousness of these Enron executives. In any case, Mastroeni and Borget were called back to Houston where they initially presented the Board with falsified bank records. Then they finally admitted that they had diverted company profits to personal accounts; auditors where brought in to look into the situation, and declared that "Borget and his traders were manipulating earnings, destroying daily trading records and probably gambling way beyond their limits." (The Smartest Guys in the Room, 2006) John Beard, ex-Enron Accountant affirmed "The next day, we found out that Lay's decision was to basically change *nothing* as far as the operations concerned, and the reason he gave was this was the only part of the combined company that was making any money and that he could not kill the 'golden goose'." (The Smartest Guys in the Room, 2006)

Against all odds, the traders were neither fired nor scolded for their actions; instead, a Telex was sent to Borget insisting him to "Please keep making us (Enron) millions". This puts into evidence how the CEO of the company was more preoccupied with profits rather than with the ethical tissue of his employees; He could overlook unethical behavior so long as it was making money for the company. Thus, Lay encouraged traders from Enron Oil to continue 'gambling'. As luck would have it, the good fortune coming in from Enron Oil Corp would have a twist of fate. Only two months after this incident had occurred, Muckleroy tells us that he received a panic call informing him, "That they (Enron Oil traders) had drawn down $90 million in the previous five days." (The Smartest Guys in the Room, 2006) Since Muckleroy knew that Mastroeni had another set of accounting books, he set off to New York to find them, and the following day, Mastroeni gave in; the real books showed how the traders had gambled away all of Enron's reserves. Fortunately for Enron, Muckleroy acted immediately and was able to bluff the market and thus, save the company. After settling with the Securities and Exchange Commission (SEC), Mastroeni received a suspended sentence whilst Borget was convicted of fraud and sentenced to serve one year in jail for his crimes. That's right, only one year behind bars for Lay's biggest moneymaker!

Interestingly enough, after the Valhalla incident, it is known that Ken Lay responded by saying that he was shocked about the fact that the traders at Enron Oil had been so reckless with their gambling; acting as if he was not aware of what had been taking place right in front of his nose. It is a well known fact nowadays that Ken Lay had seen the reports that were warning him of the traders' behavior and about the high risks that they were undertaking. As senator Peter Fitzgerald

pronounces in court, "The auditors adamantly told Mr. Ken Lay that the two rogue traders should be fired. Lay read the report and he read his budget, and estimated how much they, the two rogue executives, made, and if they were fired, what he could loose. My conclusion is that this guy puts earnings before scruples rather than reacting to the dishonesty in front of him." (The Smartest Guys in the Room, 2006) It can be thought that most people would agree with the senator's words on describing Kenneth Lays moral standards.

Since the fall of Enron, Kenneth Lay has alleged in repeated occasions that he cannot be responsible for things that he did not know about. Funnily enough, this was his same reaction had in relation to the Valhalla scandal. Thus, undermining his credibility to a maximum. Nonetheless, it is hard to believe that he was the sole responsible of Enron's descent. Right after Borget was sent to prison, Lay was confronted with a new problem given the fact that his moneymaker was no longer there. It is at this point that Ken Lay decided to Hire Jeffrey Skilling, the man with the 'big' ideas.

Source: Google

There are references that give insight to Skilling's character when he was a Baker Scholar at Harvard Business School. The Harvard Business Cases are well known to be the method through which MBA students are taught; this way, looking into real problems that companies have undergone, with the purpose that student propose solutions that they have come up with. In one opportunity that Skilling asked to give his opinion about what he would do if his company were manufacturing a harmful or even deadly product for people who used it. Then, according to his professor, former Congressman John LeBoutilliel, Skilling responded the following: "I'd keep making and selling the product. My job as a businessman is to be a profit center and to maximize return to the shareholders. It's the government job to step in if a product is dangerous." (Fusaro and Miller. 2002, p. 28) This goes to show the inexistence of any moral values that a future powerful executive of Enron demonstrate in his earlier days. In fact, Skilling was referred to as, 'Darth Vader' behind his backs, given the ruthlessness behavior that he reflected amongst his colleagues.

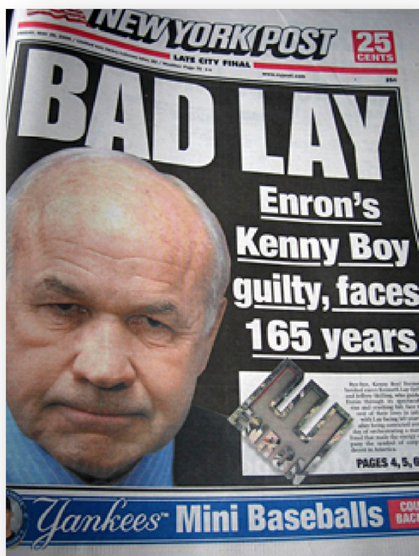
Additionally, there was the tough and intimidating character of Andy Fastow who, "Somehow was able to build an empire of SPEs of dubious legal status without anyone at Enron, including its board of directors, standing in his way. Furthermore, Fastow installed himself as the manager of these SPEs, a role that required a waiver by the company of Enron's own code of ethics. (Fusaro and Miller. 2002, p. 41) Despite that Andy helped executives meet the earnings statements, he did so in unethical matter, and skimming a little bit off each transaction for himself at the same time. It all became very evident in the end, that Fastow was a person that did not have a strong moral compass. Just as Brian Cruver announces in his book, Enron would "sell" their core values to their new employees throughout their orientation period: "These "core values" were being drummed into my head: Respect, Integrity, Communication, Excellence," (Cruver, 2002 p.5), it is clear that Enron executives and Board members were not practicing these values.

State not only successes but failures. Looking at both sides of the coin.

Enron had no problem letting everyone know about their successes, and their future prognostications. Yet when the moment came to admitting that things were not well, it seemed as

though failure was simply not an option. Reasonably speaking, the top executives of Enron had to know that the future of Enron was at stake before the company actually declared bankruptcy. The Enron culture focused tremendously on reminding the people within of just *how* good they actually were. To reaffirm this, the *Fortune Magazine* ranked Enron as one of America's most innovative companies, for six consecutive years, just to continue to feed this belief. Jeff Skilling had a particularly hard time admitting that things at Enron where wrong; it is like as if he had a incessant need to proclaim that Enron was a success.

It can be agreed that Skilling is really a tragic figure in the classic sense of the word. Despite Jeff's intention to portray himself as a person who rigorously monitored risk, he often exposed himself in a radically different way. "Skilling was known to himself and to others as the smartest human ever to walk the face of the earth…he never lost, and he never failed…he was arrogant and ultracompetitive…he was known for taking fellow executives on dangerous, extreme-sports junkets around the world; he loved to take risks." (Cruver. 2002, p. 24) This is because in fact he was a man who liked to gamble, given that to him risk was something glamorous. It has been revealed that at a younger age, before his twenties, he had gambled away large sums of money from making 'wild' bets on the market. Later in Enron, stories about perilous trips that he and other Enron executives and customers engaged in became legend. These trips only fed the macho culture that Enron endorsed; a culture that where they believed themselves to be infallible and unstoppable.


NEW YORK POST
25 CENTS
BAD LAY
Enron's Kenny Boy guilty, faces 165 years
PAGES 4, 5, 6
Yankees Mini Baseballs

Source: Google

Even after McLean's article in *Fortune* was published, Enron's former CEO, Jeff Skilling, completely obliterated any form of responsibility or credibility that the article intended to reveal. Concerning Enron's ambiguities in its financial statement, his words were the following: "It's just difficult for us to show people the specifics of how money flows through, particularly the wholesale business. The entire reason that this analysis was done by *Fortune Magazine* is because *Business Week* had a favorable article about Enron the week before, and there's this competition that news magazines have, where if one says something good, the other one has to come and find something bad. So that was kind of the genesis of it. So the criticism, I think, is kind of ridiculous." (The Smartest Guys in the Room, 2006) This is simple another example of the denial that the 'leaders' of Enron expressed. Despite Skilling's meek intent of recognizing the financials of the company had its mysteries, he fails to acknowledge the reality of the company's health. Kenneth Lay also acted in this mannerly fashion, as he told the world just a couple of months before Enron's official downfall, in an interview with *Businessweek* on August, 20, 2001: "There are no accounting issues, no trading issues, no reserve issues no previously unknown problem issues…There is no other show to fall." (Cruver. 2002, p. 94) The leaders of Enron *never* had the courage to admit their misdeeds, which resulted so closely linked to the Company's fall. How is it possible that things went so wrong? If they had stopped to analyze and possibly correct themselves, maybe there would have been a greater possibility for salvation. The truth is, that unlike Enron, the aim must be to avoid and prevent mistakes like the ones they made. Ken Lay and Jeff Skilling were known as the "smartest guys in the room" that were navigating a ship that was simply unimaginable for it to go down. It turns out, they weren't so *smart* after all.

Enron Scorecard

It has been a little more than two years since Enron collapsed in one of the biggest accounting scandals ever. To date, 14 former executives and employees have been indicted and 6 people have pleaded guilty. Here are the people who have been swept up in the investigation.

CORPORATE EXECUTIVES	FORMER POSITION	STATUS	ACCUSATION
David W. Delainey	Chief executive, energy divisions	*Pleaded guilty*	Sold stock when he knew Enron's financial statements were false
Andrew S. Fastow	Chief financial officer	*Negotiating plea*	Created partnerships to hide Enron's debt and enriched himself in deals between the partnerships and Enron
Lea Fastow	Assistant treasurer	*Negotiating plea*	Aided her husband in hiding kickbacks related to the partnerships
Ben F. Glisan Jr.	Treasurer	*Pleaded guilty*	Manipulated Enron's financial statements
Michael Kopper	Finance executive	*Pleaded guilty*	Aided Mr. Fastow in his conspiracy
Lawrence Lawyer	Finance executive	*Pleaded guilty*	Evaded taxes by failing to report income from one of the Fastow partnerships
Dan Boyle	Finance executive	*Indicted*	Helped disguise a loan by Merrill Lynch as a sale of power barges in Nigeria
Sheila K. Kahanek	Accountant	*Indicted*	Helped disguise the Nigerian barge deal

EXECUTIVES AT ENRON'S BROADBAND DIVISION			
Joe Hirko	Chief executive	*Indicted*	Intentionally misled investors about the division's prospects and performance to drive up Enron's stock price and then sold stock knowing that its value was inflated. All have been charged with insider trading, fraud and conspiracy.
Kenneth Rice	Chief executive	*Indicted*	
Kevin Howard	Chief financial officer	*Indicted*	
Kevin Hannon	Chief operating officer	*Indicted*	
Rex Shelby	Senior vice president	*Indicted*	
Scott Yeager	Senior vice president	*Indicted*	
Michael Krautz	Accounting director	*Indicted*	

ENERGY TRADERS			
Timothy N. Belden	Managing director	*Pleaded guilty*	Manipulated the California energy market during the energy crisis in 2000 and 2001 to drive up prices and reap profits for Enron.
Jeffrey S. Richter	Senior trader	*Pleaded guilty*	
John M. Forney	Senior trader	*Indicted*	

Source: Google.

V.- CONCLUSIONS

A new business model where stakeholders are aware of what each company is doing is emerging; companies are taking into account the consequences of their activities in order to identify new business opportunities and achieve competitive advantages that can differentiate them in the business sector.

Businesses have acknowledged they should respond to issues beyond the mere economic, technical, and legal requirements and face the dilemma of economic and social aspects that are in conflict; considering that social aspects should not necessarily affect or go against the economic aspects. Corporate social responsibility can be implemented as a tool for answer to that.

Even though, it seems that the main barrier that corporate social responsibility have to fight with, it is to the fact that some corporate decision makers typically focus on the demands of shareholders, and fail to consider the impacts of their decisions on stakeholders, as it was the case of Nike at the beginning and the reason for the failure of Enron. This typical approach will carry out dramatic economic consequences and even worst, the damage of the company's reputation. If a company remains in this stage, it may increase its risk exposure, which can cause the removal of its "license to operate". Current managers should realize the power that stakeholders have, especially the power of social networks, campaigns and boycotts.

What emerged from the analyzed cases is that companies are at different stages of corporate social responsibility development; besides, they have been starting their transitions from a defensive behavior to a more active strategic one only when realized the added value brought by the corporate responsibility requirements.

Nike has acknowledged through a corporate social responsible perspective, the added value of been a responsible business. Its sales and reputation are still on the top of the industry, compared with its main competitors. Best practices and products such as "Nike Trash Talk" a new high performance shoe made with recycle material, is trying to prove the company commitment with sustainability. In fact, it is hard to distinguish corporate social responsibility from the core business of the company, both pillars worked together embedded in every single activity and operation of the industry. Nike deeply proves how best practices and real commitment can improve the brand and the image of a corporate, and even increases its profitability.

Despite of it, all of Nike's efforts do not convince labor activists, NGO and others. Many continue to complain about working conditions (the initial point of the scandal) at Nike's suppliers or simply do not consider they have done enough and that the company could do much more related to local socio-economic development. But, until what level a company is responsible of every supplier? This can be an interesting subject for future analysis.

For instance Shell, due to both its work environment context and its huge size, seems to remains in a stage of response where communication through reports represents its best practice to sustainability. Therefore, what Shell should start doing seriously to better improve its relationship with locals and to engage with their activists, as much as possible, in strategic decisions related to land use, in order to be more transparent, credible and accountable. Finally, they should act responsibly and efficiently in its operational activities failures (oil spills and gas flaring), to protect the environment hence showing to communities how much Shell cares about them.

Have the opportunity to analyze the performance of Enron, if they would react before its bankruptcy, could be really interesting. Perhaps it would show the strength and the power that good governance and improvement in transparency can add to a company.

Base on the relevance of each case, we consider valuable to go through every business experience and provide deep understanding of the corporate social responsibility practices' adaptations. Some recommendations are suggested.

6.1. Nike experience

According to Litvin (2004), a basic point to consider in this case is that many of Nike's factories were in countries such as Korea, Taiwan, Indonesia, Vietnam, Pakistan etc, which were undergoing a rapid industrialization. A common policy of these countries was to establish "export processing zones", where government duties and regulations were relaxed, in order to attract foreign companies.

The experience of employees in these factories defies simple characterization. They often find the "work grueling, hard, poorly paid, but they usually say it is better than any alternative". It is a sign of the degree of poverty in developing countries that jobs involving exhausting hours, at say $ 2 a day, are sometimes considered an improvement on existing conditions, which may involve even harsher toil in the fields (Litvin, 2004).

Nike's team of over 30 labor compliance staff is large by the standards of most multinationals and yet, even swelled by an array of consultants and local charities, is small compared with the challenge it faces: monitoring some 700 factories across the world that employ over 500.000 people in total. As an example, "monitoring the age of workers can be a difficult process. Checking their birth certificates is often assumed to provide some assurance, but such documents may be unreliable in countries where all sorts of forms can be procured with a bribe" (Litvin, 2004).

Nike's case studies shows different problems related to supply chain for transnational companies. In 90s, corporate governance, transparency, responsibility and accountability referred to financial outcomes. The concept of CSR was understood as a concern surrounding the company issues, and problems in the supply chain were not considered the company's responsibility.

After these big events that affected Nike's reputation and, consequently, its position in the market, many actions were taken to try to solve the problems. Currently, Nike has been promoting different channels and plans to improve its CSR performance in supply chain through training, audits, inspections etc.

Despite Nike's efforts, the problems continue for different reasons. But the point is: what are the boundaries of companies' responsibility? Is it completely acceptable for a company to be responsible for all direct and indirect acts in business? And what about weak governance in developing countries which do not provide basic needs and fair living conditions for their populations? How can suppliers be reliable and responsible in a competitive world? How companies can ensure effective monitoring of its suppliers?

A great recommendation in a globalized world is to define what actors are responsible for transnational issues, to share the responsibilities and to work in partnership with transparency, accountability and ethic. Corporate governance with transparency, accountability and responsibility will ensure an internal control and risk management. These points also ensure that social issues and

CSR has been taken into account in an audit, it minimizes damages caused by scandals and it improves or recuperates reputation's company.

6.2. Shell experience

It has been hard to write this report without transmitting feelings of anger, disappointment and hope which have been felt and showed since the "second colonialism era", led by the Royal Dutch Shell Group, by the minority indigenous communities, specifically here, the Ogoni's as whole and by the killed activist Ken Saro-Wiwa more personally.

Going through the reported environmental and social events, occurred in Nigeria from 1956 until the latest days, it is evident how far the Human's power hunger has get. In fact, the here analyzed case, "Shell vs Ogoni" it is an example. Although the "efforts" of the multinational giant oil company, what everybody can see, by going into the details provided with the report, are the high discrepancies between these two "stakeholders".

If Shell is behaving and acting in a real responsible way, strictly following the good business principles, code of conduct and code of ethic, all in line with the core values of integrity, honesty and respect for people, why then Ogoni and the rest of the local communities are carry on their struggle? Why a gigantic economic reservoir of national and international importance as the "Niger Delta" still does not have electricity to light its peoples 'homes at night or even worse, no enough jobs to put food on their tables' families?

- Doesn't sound like a quite contradiction? Does it?

Based on that, Shell behaviour really let's think to be as one of those minor powerful companies belonging to the leader's countries, looking for profitable businesses despite the environmental and social risk's impacts.

Along the 50 years of "forced" relationship with the ethnic groups of the Niger Delta, especially with the Ogoni, Shell has been implementing as almost entitled to do it, its own "good policies and principles" in Nigeria, taking advantages of the high level of poverty, ignorance, military and political corruption hence lack of laws, still, nowadays, characteristics of the major populations, living in this world.

It is time to change, to address any economic actions to a real sustainable development, not to the theoretical one, available in reports and used by companies as tool to build up profitable reputation to cover wrongdoing actions but the one, which can be a tangible asset to be considered by decision makers as an opportunity rather than a challenge.

Furthermore, it is importance to value environmental and social aspects as a must to provide a better future to the current, and above all, to the future generations.

It is time for made some recommendations:

- In view of Shell's loss of social licence in Ogoniland, the terrific environmental impacts, the violent military actions, the death of who is today the inspiring example of activist, Ken Saro-Wiwa recommendations can help the company to avoid a similar future occurrence:

- Improve its relationship with locals to engage in primis, their representants or activists (as per Celestine AkpoBari, the national coordinator of the "Ogoni Social Development

Integrated Centre" met last 26th of April at the EOI Business School during a conference had the pleasure to talk to) as much as possible in strategic decisions concerning the land use, in order to be more transparent, credible and countable.

- Work with the Federal Government in setting aside a proportion of oil revenue to address community priorities.

- Act responsibly and efficiently in its operational activities failures (oil spills and gas flaring), to protect the environment hence showing to communities how much Shell cares about them.

- Operate with transparency and allow independent monitoring of activities. Support and arrange independently funded verification, by national and international NGOs and other appropriate bodies, of company compliance with international human rights and environmental standards.

- To support the outcry against the culture of graft as a primary concern not second to production and/or profits.

Focus more on renewable energies projects and plans rather than exploring more lands to increase gas productions as currently doing.

To conclude, we would suggest that it is already the time for global companies and especially the most risky as per the oil's ones, to do good by doing well, to stop benefiting from the weakest but try to cooperate to the achievement of both interests instead.

6.3. Enron experience

Enron, a case of America's largest corporate bankruptcy, is a clear example of a company that had all the makings of a gigantic scandal. Its collapse within a matter of weeks, so quick and so completely into bankruptcy, put this fact into evidence. For this reason, it is imperative to take a deep look into the successions that led to this company's failure, so as to learn from its mistakes. Professor Steve Stalbu from the McCombs School of Business of the University of Texas reminds us that the Enron figures as the prominent case dealing with "executives with the self-dealing, accounting irregularities, debt camouflage, insider trading, and breach of fiduciary duty." (Cruver. 2002, p.xi) Moreover, this scandal leads to the suggestion that the United States legal system and accounting procedures permitted the existence of 'activities' that a majority of people would acknowledge as unethical.

Enron, undoubtedly scarred corporate America, and for this reason, it lead to several changes in legislation as well as accounting principles. In any case, the need to learn from Enron's mistakes is undeniable.

These facts proves how organizations have led corporate social responsibility as a way to respond to their corporate needs, they have endorsed it in their business cores which mean: to go beyond best practices, align the main activities of the business with the main concerns of the operative context and establish a Win-Win strategy.

Somehow, corporate social responsibility can be used as a tool to manage risk. The development of environmental products, protection of human rights, and commitment to values and principles has strong impacts on the organization´s asset which are exposed to short-term and long-term risks

which may be avoided when companies promote responsible activities from the triple bottom perspective.

But, why does a company care about sustainability? Because it is a continual improvement process that will guarantee:

- Efficient utilization of land, water, energy and other resources which make business more productive.

- Safe products and working conditions that will attract customers, it will retain employees and will decrease the possibility of internal accidents.

- At the end, the biggest reward is that companies will create a healthy society and this means that will create an expanding demand for business; hence, their product's demands will always increase (they will stay at business).

Managers need to be prepared for the unexpected and corporate social responsibility can be the flagship for this.

But, in this sense, what should be the goal? Managers should pursuit their target groups, engage with them and build a strong company with precious intangibles around them. Moreover, they need to translate corporate strategies into a competitive identification offer: inside, corporations should provide a mutual understanding of the strategy and its implementation where all activities are focused on a common goal with the intention of creating strong identity. On the outside, should provide guidance, create awareness, confidence, loyalty, influence buying behavior, and thus boost demand.

Even more, it seems there is an interest on the corporate side to act ethically correct and become a good citizen. Furthermore, companies have accepted that they are publicly accountable for their operations and have developed programs to communicate what they are doing in order to respond to stakeholder pressures.

Of course, social issues are costly but at the end they can represent considerable future savings. As it was mentioned before, there is not a unique recipe to embed corporate social responsibility into a company's strategy. The fact is that when this new approach is truly felt throughout all the organizational levels of a company, top to bottom, it will become part of the day-to-day activities of the company.

Finally, it can be argued that Corporate Social Responsibility is starting to be considered as a business concern and managers have proven the efficiency of having ethical principles within the company, the importance to evaluate and mitigate the impacts, and to manage reputation into the business scorecard. The motivators to start working in this initiate are as diverse as the recipes to implement.

Sustainability cannot assure success but at least it can improve organizations chances to achieve it. And at this point, the success of a company and of its community will become mutually reinforced.

V.- GLOSSARY

As follow, main definitions and information about terms and institutions will be presented in order to provide the lector with concrete and accurate definitions.

5.1. ACRONYMS

- **Bpd, b/d:** barrels per day.

- **ECC:** Ecumenical Council for Corporate Responsibility.

- **GDP:** the gross domestic product or gross domestic income (GDI) is a measure of a country's overall economic output.

- **LNG:** liquefied natural gas.

- **NLNG:** Nigeria Liquefied Natural Gas Company.

- **Scf/d:** standard Cubic Feet.

- **SNEPCo:** Shell Nigeria Exploration and Production Company Limited.

- **SNG:** Shell Nigeria Gas Limited.

- **SPDC:** Shell Petroleum Development Company.

5.2. WHAT IS WHAT?

- **Accountability:** three main characteristics need to be identified: transparency, responsiveness and compliance. An organization can be considered as accountable when it accounts to its stakeholders regarding material issues (transparency), responds to stakeholders regarding these issues (responsiveness) on an ongoing basis, and complies with standards to which it is voluntarily committed, and with rules and regulations that it must comply with for statutory reasons (compliance). This information was taken from the Institute of Social and Ethical AccountAbility.

- **Anti-globalization movement:** is a criticism of the globalization of corporate capitalism. Participants base their criticisms on a number of related ideas. What is shared is that participants stand in opposition to large, multi-national corporations having unregulated political power and to the powers exercised through trade agreements and deregulated financial markets. Specifically, corporations are accused of seeking to maximize profit at the expense of sabotaging work safety conditions and standards, labor hiring and compensation standards, environmental conservation principles, and the integrity of national legislative authority, independence and sovereignty. Many anti-globalization activists generally call for forms of global integration that better provide democratic representation, advancement of human rights, fair trade and sustainable development.

- **Anti-sweatshop movement:** it has much in common with the anti-globalization movement. The anti-globalization movement has arisen in opposition to corporate globalization, a process by which multinational corporations move their operations overseas in order to lower their costs and increase profits. Both consider sweatshops harmful, and both have accused many companies of using sweatshops. The movement charges that neoliberal globalization is similar to the sweating system. Furthermore, they argue that there tends to be a "race to the bottom", as multinationals leap from one low-wage country to another searching for lower production costs, in the same way that sweaters would have steered production to the lowest cost sub-contractor.

- **Bull market:** a prolonged period in which investment prices rise faster than their historical average. Bull markets can happen as a result of an economic recovery, an economic boom, or investor psychology. The longest and most famous bull market is the one that began in the early 1990s in which the U.S. equity markets grew at their fastest pace ever. (InvestorWords.com)

- **Corporate campaigns**: unified and coordinated actions led by stakeholders against or in pro organizations with the purpose to inform about some operations or to demand a change in the company's behavior.

- **Engagement**: the establishment of commitment between two or more entities through a variety of approaches (consultation, communication, participation, empowerment) in order to improve participation and involve people of surroundings.

- **Global Alliance:** is an organization uniting private, public and non-profit organizations that seek to improve workplace conditions and improve training opportunities for young workers in developing countries. Agencies such as the World Bank began to undertake research of its own into the views of workers in Nike, and other company, contract factories. It operates in Vietnam, Thailand and Indonesia investing in programs that directly address the needs and concerns that workers themselves have brought forward.

- **Global Compact:** launched in 2000, the Global Compact seeks to promote corporate citizenship among multinational companies. Companies seeking to join the Global Compact adhere to a set of core standards in human rights, labor rights and environmental sustainability. They engage in a variety of activities aimed at improving these standards in the countries where the multinational companies operate.

- **Intangibles:** are defined as identifiable non-monetary assets that cannot be seen, touched or physically measured, which are created through time and/or effort and that are identifiable as a separate asset.

- **License to operate:** the simple approval from social groups that goes beyond legal frameworks.

- **Ogoni:** refers both to the Ogoni people and to their lands, sometimes called Ogoniland**.**

- **Partnership**: an association or relationship between people where the risk and benefits are shared. It is a voluntary agreement between two or more organizations which seeks to improve the entity performance and in many cases, to reduce the impacts they are causing.

- **Reputation:** a company intangible asset influenced by people's perceptions and future expectations.

- Scandal: a widely publicized allegation or set of allegations that damages the reputation of an institution or entity in a certain period of time.

- Social License: at the level of an individual project the Social License is rooted in the beliefs, perceptions and opinions held by the local population and other stakeholders about the project. It is therefore 'granted' by the community.

- The Sarbanes-Oxley Act (2002): is one of the most important resolutions that have been created, in response to the prevention the repetition of corporate scandals like that of Enron. This law stresses the need to maintain a keener eye on the financial reporting duties of companies by having a stricter regulation so as to restore investors' confidence in the statements and financial reports of companies, with the verification of the accuracy and truthfulness of information given. Consequently, this law subjects member of the board just like financial leaders for those companies registered in the Stock Exchange as personally responsible and or liable for the correctness of the yearly audits to which they are submitted to by the Securities and Exchange Commission (SEC). Furthermore all domestic and foreign companies which securities are traded in the US stock exchange are legally bound under this law. The law was named after its drafters: Paul Sarbanes (Democrat), chairman of the Senate Committee on Banking, Housing and Urban Affairs; and Michael Oxley (Republican), chairman of the House Committee on Financial Services.

- Transparency: given an account. Firms must provide accessible information and documentation on decisions and related actions, performance and expected outcomes.

- Triple Bottom Line: the idea that the overall performance of a company should be measured based on its combined contribution to economic prosperity, environmental quality and social capital.

- Toulene: chemical solvent that is known to cause central nervous system depression, damage to some internal organs and skins and eyes irritations if the individual is exposed above of acceptable standards.

5.3. WHO IS WHO?

- Ballinger, Jeff: Director of Press for Change, a consumer information organization monitoring labor rights issues in developing nations (www.nikeworkers.org).

He is a veteran anti-sweatshop campaigner whose writing has been published in Harper's, NY Daily News, The Wall Street Journal, Dissent, Brown Economic Review and the Los Angeles Times. He is currently on a research fellowship in the political science department of McMaster University, in Hamilton, Ontario.

- Bendell, Jen: over 10 years Dr. Bendell has been involved in, advised on, analyzed and written about corporate and NGO responses to the challenges of globalization. An Adjunct Professor of Management, with two books on cross-sector relations, and a column in the 'Journal of Corporate Citizenship', he is a leading commentator on business and sustainable development and has produced 3 programme papers for UNRISD. His research interests are currently i) trends in responsible business and finance ii) social movement influence on the governance of markets, public-private partnerships and iii) consciousness, leadership and social change. His theoretical contributions are civil regulation theory, partnering theory, stakeholder democracy theory, and

capital accountability theory, which are described on his website with links to publications, at http://www.jembendell.com. In addition to his work for UNRISD. Additionally Bendell is a Senior Strategic Advisor to the World Wide Fund for Nature (WWF).

- Boston College Center: created in the early 1980s in response to the shift that companies had due to a changing in the community expectations from checkbook philanthropy to a principle about the way a company should behave in a community. The Boston College Center for Corporate Citizenship offers a broad and objective perspective on the role of business in the 21st century. The business insights and practical management tools are provided in a context and a community that shares the highest standards.

- Bowerman, Bill: (February 19, 1911 – December 24, 1999) was an American track and field coach and co-founder of Nike, Inc. Over his career, he trained 31 Olympic athletes, 51 All-Americans, 12 American record-holders, 24 NCAA champions and 16 sub-4 minute milers. During his 24 years as coach at the University of Oregon, the track and field team had a winning season every season.

In 1964, Bowerman entered into a handshake agreement with Phil Knight, who had been a miler under him in the 1950s, to start an athletic footwear distribution company called Blue Ribbon Sports, later known as Nike, Inc.. Knight managed the business end of the partnership, while Bowerman experimented with improvements in athletic footwear design.

Bowerman’s design ideas led to the creation of a running shoe in 1966 that would ultimately be named "Cortez" in 1968, which quickly became a top-seller and remains one of Nike's most iconic footwear designs. Bowerman designed several Nike shoes, but is best known for ruining his wife's waffle iron in 1970 or 1971, experimenting with the idea of using waffle-ironed rubber to create a new sole for footwear that would grip but be lightweight.

Bowerman was obsessed with shaving weight off his athletes’ running shoes. He believed that custom-made shoes would weigh less on the feet of his runners and cut down on blisters, as well as reduce the overall drag on their energy for every ounce he could remove from the shoe. Bowerman died at his home, Oregon at the age of 88.

- Bullert, B. J: is a communication scholar, a documentary filmmaker and an oral historian. She is a senior research fellow at the Center for Communication and Civic Engagement at the University of Washington and an Adjunct Professor in the University of Washington's Masters in Digital Media program.

In Fall 1999, she was a Fellow at the Joan Shorenstein Center on the Press, Politics and Public Policy at the Kennedy School of Government, Harvard University. Her fellowship research focused on the integral role of public relations professionals in the shaping of the sweatshop awareness movement in the United States.

- Cisco IOS, Internetwork Operating System: is the software used on the vast majority of Cisco Systems routers and current Cisco network switches. IOS is a package of routing, switching, internetworking and telecommunications functions tightly integrated with a multitasking operating system.

- Connor, Tim: He worked for Oxfam Australia for 15 years, coordinating research and advocacy regarding workers' rights in global corporate supply chains. He works involved frequent trips to Indonesia, Thailand and other Asian countries to conduct field research and to consult with workers

and company representatives. He completed a PhD in Economic Geography in 2008. His research focuses on the relationship between voluntary and state-sanctioned forms of governance, particularly the relationship between international labor law and the participation by Transnational Corporations in Multi-Stakeholder Initiatives aiming to enhance respect for labor standards in global supply chains

- Corporate Reputation Forum (FRC as its name in Spanish): it is encounter place of analysis and communication of new trends in the reputational field. It was founded in Spain in 2002. The motivation to assess organizational reputation becomes from the impact that nowadays this intangible it is creating within firms and stakeholders.

- Fastow, Andrew (December, 22, 1961): former CFO of Enron.

Andy Fastow grew up in New Jearsey, and then left to Massachusetts where he obtained he Economics and Chinese degree at Tufts University in Boston. It was during college years that he met and married Lea Weingarten, who came from a very wealthy family that were owners of a prominent chain of Houston supermarkets. Fastow would then proceed to get his M.B.A. at Northwestern's Kellog School of Management, and then both he and his wife began working at the Continental Bank in Chicago, and where he has become senior director. They would later on decide to move back to his wife's hometown, Houston, where they both began to work for Enron. (Fusaro, P., Miller, R., 2002) Fastow was hired by Skilling to at a young age, before he 30's, and was given the leading role of constructing SPEs, that would put more than $40 million into his own pockets. Enron's CFO would become one of the primary responsible of setting the stage for Enron's downfall; he was invicted on 78 counts of securities fraud, money laundering, wire and mail fraud as well as conspiracy to inflate Enron's profit. Moreover, he was sentenced six years of prison in relation to these charges.

- Foretica: is the association of companies and professionals in Spain for corporate social responsibility leaders whose mission is fostering a culture of ethical management and social responsibility to the organizations providing knowledge and tools to successfully develop a business model and sustainable competitive.

- Freeman, Edward: an American philosopher and professor of business administration at the Darden School of the University of Virginia. He has also taught at the University of Minnesota and the Wharton School. Freeman is particularly known for his work on stakeholder theory (1984) and on business works.

- Global Reporting Initiative: is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. In order to ensure the highest degree of technical quality, credibility, and relevance, the reporting framework is developed through a consensus-seeking process with participants drawn globally from business, civil society, labor, and professional institutions. The idea of a disclosure framework for sustainability information was conceived by the Boston-based non-profit CERES which started a "Global Reporting Initiative" project division and staffing in 2002.

- Journal of Business Ethics: publishes only original articles from a wide variety of methodological and disciplinary perspectives concerning ethical issues related to business that bring something new or unique to the discourse in their field. Contributors examine moral aspects of systems of production, consumption, marketing, advertising, social and economic accounting, labor relations, public relations and organizational behavior. In order to promote a dialogue between the

various interested groups as much as possible, papers are presented in a style relatively free of specialist jargon.

- Klein, Naomi: is an award-winning journalist and bestselling author. She was born in Montreal in 1970 and currently lives in Toronto. Her articles have appeared in numerous publications including the Nation, New Statesman, Newsweek International, Village Voice, New York Times, and Globe & Mail. Following several years of research, she completed a book No Logo in 2000 that criticizes the business practices of large multinational corporations as well as the policies of international organizations like the World Trade Organization (WTO). The book was published after the 1999 WTO summit in Seattle, where a mass protest rally by anti-globalization activists turned into a riot. No Logo expresses powerfully the anger that anti-globalization protesters feel about what is going on in the world. This book immediately became a bestseller and it has been very influential. As a consequence, Naomi Klein has emerged as an intellectual leader in the anti-globalization movement.

- Knight, Philip: he is the co-founder and Chairman of Nike, Inc. He was born on February 24, 1938 in Portland, Oregon, the son of a lawyer and future newspaper publisher. Knight attended Cleveland High School in Portland and then the University of Oregon in Eugene, where he was a member of Phi Gamma Delta ("FIJI") fraternity and earned a journalism degree in 1959. He was a middle-distance runner at the school under track coach Bill Bowerman and ran a personal best 4:10 mile, winning varsity letters for track in 1957, 1958, and 1959.

Knight resigned as the company's CEO November 18, 2004, while retaining the position of chairman of the board. As of 2010, Knight's stake in Nike gives him an estimated net worth of US$10.2 billion, making him the 62nd richest person in the world.

- Lee Lay, Kenneth (April 15, 1942 – July 5, 2006): Former CEO and Chairman of Enron.

Lay came from a very humble background, born in rural Tyrone, Missouri, and son of a Baptist Minister; his father held a second job managing farm machinery parts, in order to sustain his family of five. He graduated from the University of Missouri and followed to receive, simultaneously, a Masters degree in economics from Missouri and a doctorates degree in the same field in the University of Houston in 1965; He worked for Humble Oil and Refining, a predecessor of Exxon, whilst he took night courses for his Ph.D.. Lay served some time in the US Navy, enlisting himself in the naval officer school in Newport, Rhode Island in 1968, just when the Vietnam War had escalated. This career detour led him to Washington, D.C., where he would be offered a position to work for the Federal Energy Regulatory Commission (FERC). He spent the next 6 years in Washington, and rose to the position of deputy undersecretary of Energy at the Interior Department; this is where he first pronounced his arguments in favor of the deregulation of natural gas. (Fusaro and Miller, p. 9) During this time, Lay was in charge of regulating several companies', of which Florida Gas was one of them. In 1973, Jack Bowen, who ran Florida Gas, (which Enron would later acquire) hired Lay from government to become his vice president of new energy ventures. It is a known fact that Lay was friends with both George Bush and Jr. since the early 80's. Kenneth met his second wife Linda working for Florida Gas. In 1981, Bowen became Chairman of Transcontinental Gas Company (Transco) in Houston, and Kenneth would follow him there. Four years later in 1985, Lay left Transco to run Houston Natural Gas, which he quickly merged with InterNorth (Omaha) to form Enron. For the next fifteen years, Lay worked on building the Enron Empire; bringing a Texas pipeline company to Fortune #7. He lived in Houston most of his life, in a $7 million penthouse apartment in the city's most prestigious areas. They also had other multimillion-dollar properties along the Texas coast as well as in Colorado, putting into evidence one of America's highest paid executives at the time. He suffered coronary artery disease, which

was the cause death, suffering a stroke at age 64 in one of his Colorado estates; $300 million in stocks from.

- MPF: the Mobile Police Force is a paramilitary arm of the Nigeria Police Force and operates under orders from Nigeria's federal government.

- MOSOP: the Movement for the Survival of the Ogoni People is a campaigning organization representing the Ogoni people of the Niger Delta and their ethnic and environmental rights. Its mandate is to campaign non-violentlyto: promote democratic awareness; protect the environment of the Ogoni people; seek social, economic and physical development for the region; protect the cultural rights and practices of the Ogoni people; and seek appropriate rights of self-determination for the Ogoni people.

- Non- governmental organizations: is a legally constituted organization created by natural or legal person that operates independently from any government. In the cases in which NGOs are funded totally or partially by governments, the NGO maintains its non-governmental status by excluding government representatives from membership in the organization. The term is usually applied only to organizations that pursue some wider social aim that has political aspects.

- Olibiri: is a small community in Ogbia LGA located in Bayelsa State, in the eastern Niger Delta region of Nigeria. Oloibiri is a historic town to the oil and gas industry in Nigeria. Nigeria first commercial oil discovery was made at (Otuabagi/Otuogadi) in Oloibiri district by Shell Darcy on Sunday 15 January 1956.

- O'Rourke, Dara: is a research associate at the Transnational Resource and Action Center (TRAC), and a consultant to the United Nations Industrial Development Organization (UNIDO) and has conducted research in over 50 factories in Vietnam. One of them was the Tae Kwang Vina factory, a Nike subcontractor in the Dong Nai province of Vietnam, and the subject of the Ernst and Young audit. Mr. O'Rourke visited this factory three times in 1997. During the visits to the plant, he performed walk-through audits of environmental and working conditions, interviewed management personnel, met with Tae Kwang Vina's managing director, and with representatives of Nike Inc. in Vietnam. He also interviewed workers confidentially outside the factory.
His research focuses on strategies for preventing adverse environmental and social impacts of industrial activities. He has worked as a consultant to the United Nations Environment Program, the World Bank, and the U.S. Environmental Protection Agency.

- Pai, Lou: Enron Energy Services (EES) Executive.

Pai helped build the trading business in his earlier years in the Corporation, before moving on to run Enron's doomed effort called Enron Energy Services. His job there involved selling energy services to industrial end users. Max Eberts, an ex-public relations employee for EES describes Pai as "A mysterious figure, kind of like the invisible CEO…but Lou Pai was not a man to trifle with…his exit from Enron was as mysterious as his presence there, just sort of one day, we all learned that Lou Pai was no longer the CEO of EES". (Smartest Guys in the Room) This was just like Jeff Skillings' exit from the company a couple of months ahead. In any case, Lou Pai left Enron in May 2001 after cashing in his stock that was worth over $ 250 million. The reason behind this was that he was divorcing his wife in order to get married to his 'stripper' girlfriend with whom he had an illegitimate child, and needed part of this money for his divorce settlement. Yet despite that he left this outrageous amount of money, the divisions that Pai left behind in EES lost a total of nearly 1 billion, something that Enron managed to disguise. Pai went on to Colorado's second largest landowner, retiring on a seventy-seven thousand acre property in there in addition to his horse-

breeding ranch in suburban Houston. In any case, he was one of the few Enron executives that was relieved of criminal prosecutions, as he exercised his rights to the fifth amendment to testify in trials against other Enron executives, and settled out of court with the U.S. Securities and Exchange Commission (SEC), depositing $31.5 into a fund aimed to relieve affected Enron shareholders. Thus, he was one of Enron's executives who left the company with the largest sum of assets untouched

- **Reputation Institute**: it is a private advisory and research specialized in corporate reputation management. The institute works with many of the world's leading organizations, and regularly helps clients create value from their reputations. In order to create value from their activities, Reputation Institute's analysts work with rigorous models to make reputations tangible.

- **Skilling, Jeffrey** (November 25, 1953 -): Former CEO of Enron. Nickname: "Darth Vader"

Jeff was born in Pittsburg, Pennsylvania, even though he grew both in Aurora, Illinois and in New Jersey. After graduating from High School from a public school in Illinois, he went on receive his Bachelor's in Science in applied science at Southern Methodist University in 1975. Afterwards, Skilling precede his further education and received and MBA in 1979 from Harvard Business School to then start working as a consultant for McKinsey and Company in the area of energy and chemical practices. In 1987, he had the opportunity of working in collaboration with Enron in, and helped the company create a forward market in natural gas. Kenneth Lay was impressed with Skilling's consulting skills, and lured him to start working for Enron in 1990 as Enron's Chairman and Chief Executive Officer of Enron Finance Corp. Only six months after Lay appointed Skilling CEO of the company, Jeff placed his resignation left Enron, he claimes, for personal reasons. However, three months later, Enron would file for bankruptcy and Skilling would be called upon to testify for the wrongdoings in Enron's management. Skilling was indicted on 35 counts of fraud, insider trading as well as other crimes associated to Enron's fall. He converted stock worth $66 million six months before Enron's collapse

VI.- ANNEX

Annex 1

EUROPE	Upstream	Downstream
Austria	■	■
Belgium		■
Bulgaria		■
Czech Republic		■
Denmark	■	■
Finland		■
France		■
Germany	■	■
Gibraltar		■
Greece	■	■
Hungary	■	■
Ireland	■	■
Italy	■	■
Luxembourg		■
The Netherlands	■	■
Norway	■	■
Poland		■
Portugal		■
Slovakia	■	■
Slovenia		■
Spain	■	■
Sweden	■	■
Switzerland		■
UK	■	■
Ukraine	■	■

AFRICA	Upstream	Downstream
Algeria	■	■
Benin		■
Botswana		■
Burkina Faso		■
Cameroon	■	
Cape Verde Islands		■
Côte d'Ivoire		■
Egypt	■	■
Gabon	■	
Ghana	■	■
Guinea		■
Kenya		■
Libya	■	
Madagascar		■
Mali		■
Mauritius		■
Morocco	■	■
Namibia		■
Nigeria	■	
La Réunion		■
Senegal		■
South Africa	■	■
Tanzania		■
Togo		■
Tunisia	■	■
Uganda		■

ASIA [A]	Upstream	Downstream
Brunei	■	■
China	■	■
Guam		■
India	■	■
Indonesia		■
Iran	■	■
Iraq	■	
Japan	■	■
Jordan	■	
Kazakhstan	■	
Laos		■
Malaysia	■	■
Oman	■	■
Pakistan	■	■
Papua New Guinea		■
Philippines	■	■
Qatar	■	
Russia	■	■
Saudi Arabia	■	■
Singapore	■	■
South Korea	■	■
Sri Lanka		■
Syria	■	
Taiwan		■
Thailand		■
Turkey	■	■
United Arab Emirates	■	■
Vietnam		■

[A] Including Middle East and Russia.

AUSTRALIA/OCEANIA	Upstream	Downstream
Australia	■	■
New Zealand	■	■

NORTH AMERICA	Upstream	Downstream
Barbados		■
Canada	■	■
Costa Rica		■
Dominican Republic		■
El Salvador		■
Mexico	■	■
Panama		■
Puerto Rico		■
Trinidad & Tobago		■
USA	■	■

SOUTH AMERICA	Upstream	Downstream
Argentina	■	■
Brazil	■	■
Chile		■
Colombia	■	■
French Guiana	■	
Guyana	■	
Peru		■
Venezuela	■	■

Source: Shell web-site, 2010

Annex 2

EMPLOYEES BY COUNTRY (AVERAGE NUMBERS)				THOUSANDS	
	2009	2008	2007	2006	2005
Argentina	3	3	3	3	3
Australia	3	3	3	3	3
Brazil	2	2	2	2	2
Canada	6	6	6	5	5
China/Hong Kong	4	4	4	3	2
France	1	2	3	4	4
Germany	5	5	6	6	6
India	2	1	1	[A]	[A]
Malaysia	7	7	7	6	5
Morocco	1	1	1	1	1
The Netherlands	9	9	10	10	10
Nigeria	2	2	2	2	2
Norway	1	1	1	1	1
Philippines	3	3	1	1	1
Poland	2	1	1	1	1
Qatar	1	1	[A]	[A]	[A]
Russia	[A]	[A]	1	3	2
Singapore	2	3	2	2	2
South Africa	2	2	1	2	2
Thailand	1	1	2	3	4
UK	8	8	8	8	7
USA	22	23	24	23	24
	88	88	89	89	87
As percentage of total	87%	86%	85%	82%	80%
Total	101	102	104	108	109

[A] Fewer than 500 employees.

Source: Shell web-site, 2010

Annex 3

OIL, GAS, SYNTHETIC CRUDE OIL AND BITUMEN PRODUCTION

OIL PRODUCTION AVAILABLE FOR SALE [A] — THOUSAND B/D

	2009		2008		2007		2006		2005	
	SUBS	EAI	SUBS	EAI	SUBS	EAI	SUBS	EAI	SUBS	EAI
Europe										
UK	110		154		183		223		250	
Denmark	107		114		126		134		143	
Norway	62		67		69		85		107	
Italy	30		32		35		44		30	
The Netherlands		5		5		6		6		7
Germany	3		3		4		4		4	
Total Europe	312	5	370	5	417	6	490	6	534	7
Asia										
Oman	195		192		191		202		214	
United Arab Emirates		127		146		146		147		134
Russia		106		70		51	32	20	33	2
Brunei	2	76	1	80	2	90	2	102	2	93
Malaysia	39		38		42		42		41	
Syria	22		22		24		30		36	
China	11		14		17		20		20	
Iran	5		10		10		11		8	
Philippines	4		5		5		5		4	
Others		1		1		1		2		2
Total Asia	278	310	282	297	291	288	344	271	358	231
Australia/Oceania										
Australia	18	35	17	39	25	33	27	30	31	22
New Zealand	12		12		13		14		15	
Total Australia/Oceania	30	35	29	39	38	33	41	30	46	22
Africa										
Nigeria	231		266		287		293		324	
Gabon	29		30		31		32		36	
Cameroon	12		13		14		14		13	
Egypt	12		9		10		11		14	
Total Africa	284		318		342		350		387	
North America										
USA	195	78	190	82	238	86	230	92	236	97
Canada	20		46[B]		47[B]		38[B]		39[B]	
Total North America	215	78	236	82	285	86	268	92	275	97
South America										
Brazil	24		23		22		25		26	
Others	1	9	1	11	1	9	23	8	15	
Total South America	25	9	24	11	23	9	48	8	41	
Total oil production	1,144	437	1,259	434	1,396	422	1,541	407	1,641	357

[A] Includes natural gas liquids. Royalty purchases are excluded. In those countries where PSCs operate, the figures shown represent the entitlement of the subsidiaries concerned under those contracts.

[B] Includes bitumen production.

Annex 4

ENVIRONMENTAL DATA	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Greenhouse gas emissions (GHGs)										
Total GHGs (millions tonnes CO_2 equivalent) [A]	67	75	82	88	93	101	102	96	93	91
Carbon dioxide (CO_2) (million tonnes)	64	72	79	85	89	96	97	92	87	84
Methane (CH_4) (thousand tonnes)	123	126	119	124	173	192	187	196	261	325
Nitrous oxide (N_2O) (thousand tonnes)	2	2	2	2	2	2	3	4	3	3
Hydrofluorocarbons (HFCs) (tonnes)	24	23	28	24	20	13	9	11	4	8
Flaring										
Flaring (Upstream only) (million tonnes CO_2 equivalent)	7.5	8.8	9.7	14.3	20.8	24.6	24.1	20.6	28.9	26.3
Flaring (Upstream only) (million tonnes hydrocarbon flared)	2.5	2.8	3.4	4.8	7.0	8.1	8.1	6.8	9.5	8.8
Energy intensity										
Upstream excluding Oil Sands (gigajoule per tonne production) [B]	0.79	0.80	0.81	0.80	0.73	0.71	0.72	0.75	0.69	0.66
Oil Sands (gigajoule per tonne production)	7.0	7.0	6.0	5.6	5.2	5.8	10.0	N/C	N/C	N/C
Refineries: Energy Intensity Index	100.5	97.2	96.9	96.7	96.3	95.1	96.1	98.3	N/C	N/C
Chemical plants: Chemicals Energy Index	92.0	93.0	92.6	92.5	95.8	93.3	98.3	99.7	101.4	100.0
Acid gases and VOCs										
Sulphur dioxide (SO_2) (thousand tonnes)	141	175	212	233	226	247	257	240	236	250
Nitrogen oxides (NO_x) (thousand tonnes)	142	150	145	154	157	172	193	195	191	184
Volatile organic compounds (VOCs) (thousand tonnes) [C]	126	130	148	185	199	213	226	324	309	442
Ozone-depleting emissions										
CFCs/halons/trichloroethane (tonnes)	0.4	1.4	0.6	0.3	0.8	2.3	3.0	7.7	4.5	5.1
Hydrochlorofluorocarbons (HCFCs) (tonnes)	24	26	27	35	35	42	44	57	45	55
Spills and discharges										
Oil in effluents to surface environment (thousand tonnes)	1.5	1.7	1.6	1.8	2.3	2.1	2.3	2.4	2.8	2.6
Sabotage spills (thousand tonnes) [D]	13.9	6.5	3.4	1.9	1.5	1.1	0.9	2.5	5.2	2.4
Operational spills (thousand tonnes) [E]	1.3	8.8	3.5	3.9	3.4	3.4	5.0	4.2	9.6	6.1
Hurricane spills (thousand tonnes)	0.0	0.0	0.0	0.0	2.9	1.0	0.0	0.0	0.0	0.0
Number of sabotage spills	95	115	197	123	111	101	105	128	114	102
Number of operational and hurricane spills	264	275	392	465	560	711	678	784	N/C	N/C
Fresh water use										
Fresh water use (million cubic metres)	198	224	315	N/C	N/C	N/C	N/C	N/C	N/C	N/C
Waste disposal										
Hazardous (thousand tonnes) [F]	962	688	907	716	631	714	675	781	N/C	N/C
Non-hazardous (thousand tonnes)	1,139	996	1,899	1,154	632	421	443	480	N/C	N/C
Total waste (thousand tonnes)	2,101	1,684	2,806	1,870	1,263	1,135	1,118	1,261	N/C	N/C

[A] Petroleum Industry Guidelines for Greenhouse Gas Estimate, December 2003, (API, IPIECA, OGP) indicate that uncertainty in greenhouse gas measurements can be significant depending on the methods used. In 1998 we set a voluntary target for 2010 of 5% lower GHG emissions than our comparable 1990 level.

[B] The 2008 energy intensity figure has been restated following recalculation of the data.

[C] The 2008 and 2007 VOC figures have been restated following recalculation of the data.

[D] We have re-estimated our 2008 and 2007 sabotage and theft-related spills following completion of investigations to confirm spill volumes.

[E] We have re-estimated our 2008 operational spills volume following completion of investigations to confirm spill volumes.

[F] Increase in 2009 due to waste water containing selenium being temporarily disposed of as hazardous waste. From late 2009 this waste water was disposed of as non-hazardous material.

N/C = Not calculated.

Annex 5

SECE / For Vetting Pse. [handwritten]

SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

INTER OFFICE MEMO

FROM: SECE/3
TO: SECE

DATE: 25/2/94

SUBJECT**

SECE/3 — As discussed 1/3/94 [handwritten]

HONOURARIUM FOR ARMED FORCES PERSONNEL ON SPECIAL ASSIGNMENT

On 25th October 1993, a joint unit of the armed forces made up of 26 officers and men on a reconnaissance of the State of oil installations in Ogoni/Andoni area, embarked on a rescue mission to retrieve an S.P.D.C fire truck seized by the Korokoro Community.

The operation resulted in a bloody clash, which the very hostile community triggered off by their mob action on the team. This led some members of the team to sustain varied degrees of injury. While many were treated and discharged same day at the Shell I.A. clinic, one severely injured, was admitted and discharged several days later.

In view of the above incident, it is the intent of this memo to therefore recommend that the entire team be paid some form of honourarium as a show of gratitude and motivation for a sustained favourable disposition towards SPDC in future assignments.

Under listed are the names of the officers and men;

1.	MAJOR	P.O. OKUNTIMO	-	N.A. (TEAM LEADER)
2.	CAPT.	L.U. AKPAGU	-	N.A.
3.	CPL.	ALAO	-	N.A
4.	CPL.	W. MUSA	-	N.A
5.	CPL.	MOHAMMED	-	N.A
6.	CPL.	A. VINCENT	-	N.A
7.	CPL.	O. SHAMALI	-	N.A
8.	CPL.	J. EDEGBANYA	-	N.A
9.	CPL.	J. MULINE	-	N.A
10.	CPL.	G. ACHUKU	-	N.A
11.	CPL.	GODWIN	-	N.A
12.	CPL.	PAUL EDET	-	N.A
13.	L/CPL.	SHIRSHD	-	N.A
14.	LT.	M.A. BABATUNDE	-	NAVY

Confidential

C 002292

VII.- REFERENCES

- Amsden, A. (1989) *"Asia's Next Giant"*. USA, Oxford University Press.

- Bajo, A. & Fernandez, J. (2009) *La Responsabilidad Social y la Ética Empresarial en un Paradigma de Empresa Sostenible*. Spain: Cátedra Javier Benjumea, Series Monografía, 2.

- Bendell, J. (2010) *"Capitalism in Question: The Lifeworth Annual Review of 2009"* [on line] Available at: http://www.lifeworth.com/capitalisminquestion.pdf.[Accessed 13 May 2010].

- Beynetez, B. (2007) "Estado de la Implementación de la Responsabilidad Corporativa en la Empresa Espanola". Spain: Fundación EOI. Gráficas Muriel.

- Blackburn, William R. (2007) *Sustainability Handbook: The Complete Management Guide to Achieving Social Economic and Environmental Responsibility*. London: Earths can Publications, Limited.

- Bullert, B. (2000) *"Strategic Public Relations, Sweatshops and the Making of a Global Movement"* The Joan Shorenstein Center on the Press, Politics and Public Policy, Harvard University.

- Burke, E. (2005) *"Managing a Company in an Activism World"* UK: Praeger Publishers.

- Cera, R (2003). *Hacia dónde camina la empresa del siglo XXI. Baquia:* Knowledge Center [on line] Available at: http://www.baquia.com/noticias.php?id=6640. [Accessed 23 March 2010]

- CEDISE (2008). *RSE: El Balance Social y la Comunidad de la Empresa con la Sociedad*. Caracas, Venezuela.

- Connor, T. (2001) *"Still waiting for Nike to do it"* [on line]. Available at: http://www.globalexchange.org/campaigns/sweatshops/nike/stillwaiting [Accessed 16 May 2010]

- CorpWatch 1998 [on line]. Available at: http://www.corpwatch.org/article.php?id=12965 [Accessed 16 May 2010]

- Cruver, B. (2002) "*Enron – Anatomy of Greed – The Unshredded Truth from an Enron Insider"*. London, UK: Arrow Books.

- Deigendesch, T. (2010). *Corporate Social Responsibility: Brand Leadership or Green washing?* Interbrand [on line]. Available at: http://www.interbrand.com/paper.aspx?paperid=69&langid=1000. [Accessed 15 March 2010]

- Environmental Action, Friends of the Earth [on-line]. Available at: http://www.eraction.org/component/content/article/5/200-shell-is-not-quitting-flaring [Accessed 03 April 2010].

- Fombrun, C. & Cees Van Riel. (n. p.). The Reputational Landscape. Corporate Reputation Review, Volume 1 Numbers 1 and 2, p. 1-9.

- Footwear News, 2000 [on line]. Available at: http://www.wwd.com/footwear-news. [Accessed 30 April 2010]

- Fusaro, P. & Miller, R. (2002) *"What went wrong at Enron – Everyone's Guide to the Largest Bankruptcy in U.S. History*". USA: John Wiley & Sons.

- Grayson, D. (2009).*Corporate Responsibility and the Media*. UK: Cranfield School of Management, UK [on line]. Available on: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure/swedish-presidency/files/media-csr/corporate_responsibilty_and_the_media,_david_grayson_en.pdf. [Accessed 15 March 2010]

- InvestorWords.com. Definition of: Bull Market [on line]. Available at: http://www.investorwords.com/616/bull_market.html. [Accessed 23 June 2010]

- Jackson, C; Partridge, K; Wheeler, D; Zohar, A. (2005) *"From Words to Actions: The Stakeholder Engagement Manual. Volume 1: The Guide to Practitioners' Perspectives on Stakeholder Engagement"* CANADA: Stakeholder Research Associates Canada Inc.

- John, S. & Thomson, S. (2003) *New Activism and the Corporate Response.*UK: Creative Print & Design (Wales), Ebbw Vale.

- Kaptein, M. (2010). *The Ethics of Organizations: A Longitudinal Study of the U.S. Working Population*. Journal of Business Ethics, 92:601–618.

- Keith S. (2008) "*Corporate Social license and Community Consent*" [on line]. Available at: http://www.policyinnovations.org/ideas/commentary/data/000094 [Accessed 21June 2010]

- Klein, N. (2002) *"Naomi Responds to The Economist"* [on line]. Available at: http://www.naomiklein.org/articles/2002/11/naomi-responds-economist [Accessed 24 March 2010]

- Knight, P. Shell Report 1998: Profits and Principles – does there have to be a choice? [on line] Available at: http://sustainabilityreport.shell.com/2008/servicepages/downloads/files/shell_report_1998.pdf) [Accessed 04 April 2010]

- Kretzman, S on June 11th, 2009. CorpWatch: Shell's Settlement Doesn't Hide Unsettling Reality in Nigeria [on line] Available at: http://www.corpwatch.org/article.php?id=15385&printsafe=1 [Accessed 03 April 2010].

- Lemonche, P. (2010) Los Límites de la Denuncia [on line]. Available at: http://www.diarioresponsable.com/component/idoblog/10747-los-limites-de-ladenuncia?task=viewpost.[Accessed 13 May 2010].

- Living Earth website. Available at: http://www.livingearth.org.uk/working_in_partnership/shell_partnership.html [Accessed 03 April 2010].

- Litvin, D. (2004) *"Empires of Profit Commerce, Conquest, and Corporate Responsibility"*. USA: Thomson

- Locke, R. & Siteman, A. (2002) *"The Promise and Perils of Globalization: The Case of Nike"*. Massachusetts, USA: MIT Working Paper.

- Locke, R. & Schmittlein, D. (2010) *"Sustainability and Companies"*. USA: Sloan Business School". Rafael del Pino Foundation. Spain.

- Montero, D. (2006) *"Nike's dilemma: Is doing the right thing wrong? A child labor dispute could eliminate 4,000 Pakistani jobs"* [online]. Available at: http://www.csmonitor.com/2006/1222/p01s03-wosc.html. [Accessed 10 May 2010]

- New Media and Corporate Responsibility Study 2009.USA: CONE [on line]. Available at: http://www.csrinternational.org/?p=5374. [Accessed 15 March]

- Nike, 2010. Company Overview [on line] (updated 2010). Available at: www.nikebiz.com/company_overview. [Accessed 18 March 2010]

- Nike, 2010. "Workers & Factories" [on line] (updated 2010). Available at: http://www.nikebiz.com/responsibility/workers_and_factories.html [Accessed 25 March 2010]

- O'Rourke, D. (1997) *"Smoke from A Hired Gun: A Critique of Nike's Labor and Environmental Auditing in Vietnam as performed by Ernst and Young"* [on line]. Available at: http://www.corpwatch.org/article.php?id=966. [Accessed 11 May 2010]

- Oxfam Australia. (2010) "*So what's the problem with Nike?*" [on line]. Available at: http://www.oxfam.org.au/explore/workers-rights/nike [Accessed 24 March 2010]

- Pierre, L. President of Newmont Mining Corporation [on line]. Available at: http://socialicense.com/ [Accessed 21 June 2010].

- Pilkington, E. The Guardian UK, Monday 8 June 2009: "*Shell pays out $15.5m over Saro-Wiwa killing"* [on line]. Available at: http://www.shellguilty.com/shell-pays-out-155m-over-saro-wiwa-killing [Accessed 21 March 2010]

- Pittman, B. (2003) "*American Labor Crises: The Social Ethical of Work in America*". USA: Mercyhurst College [on line]. Available at: http://homepage.mac.com/barbarap2/home/laborcrises/Nike.htm [Accessed 16 May 2010]

- Platform Oil Pollution in the Niger Delta [on line]. Available at: http://www.platformlondon.org/carbonweb/showitem.asp?article=73&parent=7&link=Y&gp=3 [Accessed 20 June 2010].

- Porter, M. & Kramer, M. (2006) *"Strategy and Society: The Link between Competitive Advantage and CSR"*. USA: HBS Spotlight.

- Reputation Institute, 2010. [On line] Available at: http://www.reputationinstitute.com/advisory-services/. [Accesed 01 July 2010}

- Roach, B. (2008) *Social and Environmental Responsibility of Corporations* [on line] Available at: http://www.eoearth.org/article/Social_and_environmental_responsibility_of_corporations. [Accessed 15 March 2010]

- Rosenzweig, P. (2005) *"International Sourcing in Athletic Footwear: Nike and Reebok"* USA: Harvard Business School Publishing

- Shell web site:
http://www.shell.com/home/content/aboutshell/ [Accessed 19 March 2010]
http://www.shell.com/home/content/aboutshell/who_we_are/leadership/ [Accessed 10t June 2010]
http://www.shell.com/home/content/aboutshell/who_we_are/our_values/dir_our_values_09112006.html [Accessed 10 June 2010]
http://www.shell.com/home/content/aboutshell/who_we_are/our_purpose/our_purpose_30032008.html [Accessed 10 June 2010]
http://www.shell.com/home/content/aboutshell/who_we_are/our_people/our_people_14042008.html [Accessed 10 June 2010]
http://www.shell.com/home/content/aboutshell/our_business/ [accessed 10th June 2010]
http://www.shell.com/home/content/nga/environment_society/working_safely/upholding_human_rights/ [Accessed 10 June 2010].

- Shell in Nigeria, Content. Shell Sustainability Report, May 2010 [on-line]. Available at: http://www-static.shell.com/static/nga/downloads/pdfs/briefing_notes/nigerian_content.pdf [Accessed 10 June 2010].

Shell in Nigeria, Environment. Shell Sustainability Report, May 2010 [on-line]. Available at: http://www-static.shell.com/static/nga/downloads/pdfs/briefing_notes/environment.pdf [Accessed 13 May 2010].

- Shell in Nigeria, Biodiversity. Shell Sustainability Report, May 2010 [on-line]. Available at: http://www-static.shell.com/static/nga/downloads/pdfs/briefing_notes/biodiversity.pdf [Accessed 20 June 2010]

- Shell NGA website. Briefing Notes [on-line]. Available at: http://www-static.shell.com/static/nga/downloads/pdfs/briefing_notes/shell_interests.pdf [Accessed 13 May 2010].

- Sison, A. (2003) *"The Moral Capital of Leaders*". Cheltenham, UK: Edward Elgar Publishing Limited.

- Stakeholder Theory with R. Edward Freeman by Business Roundtable Institute for Corporate Ethics, 2009. [Video]Business Ethics Video Series,13 May 2009 49.18 [on line]. Available at: http://www.youtube.com/watch?v=Ih5IBe1cnQw. [Accessed 09 April 2010]

- The Dictionary of Sustainable Management. *Triple Bottom Line* [on line]. Available at: http://www.sustainabilitydictionary.com/t/triple_bottom_line.php. [Accessed 09 April 2010]

- The INDIPENDENT, Andy Rowell, 14 Jun 2009. Secret papers 'show Shell targeted Nigeria oil protests'[on line] Available at: http://www.independent.co.uk/news/world/americas/secret-papers-show-how-shell-targeted-nigeria-oil-protests-1704812.html) Internal doc. Website http://www.corpwatch.org/article.php?list=class&class=21&all=1 [Accessed 03 April 2010]

- The Ecumenical Council for Corporate Responsibility (ECCR) 2010. Shell in the Niger Delta: A Framework for Change [on-line]. Available at: http://www.eccr.org.uk/module-htmlpages-display-pid-78.html [Accessed 20 March 2010].

- The Economist, Economist Intelligence Unit research (related articles): Just doing it: Nike [on line]. Available at: http://sponsor.sap.manufacturingcentre.eiu.com/articles/12. [Accessed 21 April 2010]

-The New York Times, 1997-98. New York Times Article Archive [on line]. Available at: http://www.nytimes.com/ref/membercenter/nytarchive.html [Accessed 23 March 2010].

- The Smartest Guys in the Room. (2006). Alex Gibney: Magnolia Home Entertainment (Documentary).

- Thomson, I. & Boutilier, R. (n. p.). Common Ground Consultants Inc. [on-line] Available at: http://socialicense.com/ [Accessed 21 June 2010].

- Thompson, R. (n.d.) *Stakeholder Analysis: Winning Support for your Projects* [on line]. Available at: http://www.mindtools.com/pages/article/newPPM_07.htm [Accessed 09 April 2010]

- Turnbull, B. (1996) *"Nigeria - The Ogoni Dilemma"* [on-line]. Available at: http://dspace.dial.pipex.com/suttonlink/327ni.html)[Accessed 21 March 2010].

- Umuechem Incident Documented by Human Rights Watch, The price of Oil: Corporate Responsibility and Human Rights Violations in Nigeria's Oil Producing Communities, 1999 [on line] Available at: http://www.hrw.org/en/reports/1999/02/23/price-oil [Accessed 21 March 2010]

- UNDP Nigeria, Niger Delta Human Development report, pag.1, 2006 [on line] Available at: http://www.hdr.undp.org/en/reports/nationalreports/africa/nigeria/nigeria_hdr_report.pdf [Accessed 20 March 2010]

- Visser, W. Matten, D. & Pohl, M. (2008) *A to Z of Corporate Social Responsibility: A Complete Reference Guide to Concepts, Codes and Organizations.* S.L: John Wiley & Sons, Ltd

- What is Corporate Citizenship? USA: Boston College Center [on line]. Available at: http://www.bcccc.net/index.cfm?pageId=2007. [Accessed 23 March 2010]

- Watts, M. *"Black Gold, White Heat"* in Geographies of Resistance, Steve Pile, Michael Keith, eds., London: Routledge, 1997 revised by Boycott.

EOI. Escuela de Organización Industrial
International Master of Sustainable Development
Master Degree 2009-10
Executive Summary
Final Project

"How Corporate Social Responsibility has gained strength through corporate scandals: case studies of social, environmental and economic dimensions"

Francesca Culcasi
Jocelina Valle
HeleneRuozzi
Claudia C. Sandia

Madrid, July 1st. 2010

I.-INTRODUCTION..3

II.- THEORY APPROACH..3

1. Business at Century XXI..3

2. Sustainability from business perspective and the triple bottom line....................3

3. Corporate Social Responsibility: CSR a punctual strategy?....................4

4. Stakeholders: from impacts to engagement..5

III.-BUSINESS CASES..7

1) NIKE'S CASE..8

1.1. What happened: a corporate scandal..8

1.1.1. Indonesia..8

1.1.2. Pakistan..8

1.1.3. Vietnam..8

1.2. Nike's response: starting Corporate Social Responsibility....................9

1.3. Conclusions: It is not the end…..9

2) Shell vs. Ogoni's case..9

2.1. What happened: an ongoing struggle scandal....................................10

2.2. How does Shell respond to the above scandals?....................................11

2.3. Conclusions..11

3) Enron case: the big failure..12

3.1. What happened: the bankruptcy scandal..12

3.2. Too late for a response: a business without CSR....................................13

3.3. Final Thoughts..14

IV.- CONCLUSIONS..14

V.- REFERENCES..16

I.-INTRODUCTION

The purpose of this work is to analyze how nowadays Corporate Social Responsibility has gained strength in organizations, as a tool to maintain their operations and to engage with the society, no matter the size or the sector where they develop their activities.

In order to have an accurate approach, the triple bottom line analysis will be implemented given its advantages to provide an assessment of the impacts that operations can cause from an environmental, social and economic perspective.

Research from internet, newspaper, books and documents will be used as main sources of information. Finally, business cases from multinational organizations with important implications in the triple bottom line will be implemented as a way to approach the theory field within reality, and compare the appraisals made by business about the new business tendencies.

Conclusions will provide a starting point to future students from the International Master of Sustainable Development and Social Corporate Responsibility at EOI, for future analysis about business arena, especially from the Corporate Social Responsible field.

This executive summary contains the main ideas, aspects and data of the final project. In case the reader requires detailed information, would be recommendable for him to go through the final document.

II.- THEORY APPROACH

The following sentences will provide a guideline of the main theories and tendencies in the business arena, especially in the Corporate Social Responsibility field, that will help readers to understand the concepts used by corporations these days, and that will be used during the work.

1. Business at Century XXI

Thanks to the development of technology, the world is more connected than twenty years ago. As a result, a new world of relationships have been created affecting many field as economic, financial and political from local to global levels.

Businesses are immersed in this dynamic and they have achieved new ways to respond and adapt to world's demands, shaping their traditional structures to a more flexible scheme.

2. Sustainability from business perspective and the triple bottom line

Nowadays consumers are more exigent given that they are demanding better quality on products and services. Sadly, the resources have not been used in a proper way causing the depletion of them.

Statistics and analysis show that around two thirds of American new media users feel they can influence business practices by voicing their opinions online and 23% of them recognized that they have switched brands or boycotted a company based on negative information learned about a product, company or brand (Cone, 2009). Consequently, both businesses and consumers are concerned about the power they have and moreover about their future, which has forced them to consider if current business models would be able to respond to future challenges.

From a business perspective, sustainability means the wise use and management of natural and economic resources, respecting people and other living things. It is a continual improvement system that looks for increase natural, social and economic human well-being (Blackburn. 2007, p.5). This means that the long-term success and survival of organizations may dependent upon the long-term success and survival of the communities in which they operate.

Therefore, in current days, companies and business leaders, at the moment of analyze and implement their organization strategy, take into account the answers they received from the consideration of the following aspects (Blackburn.2007, p.42):

- Economic success (the wise use of financial resources): Do our business activities promote sustainable economic health for the company and the global community?

- Social responsibility (respect for people): Do we conduct our business in a manner that contributes to the well-being of our employees and the global community?

- Environmental responsibility (respect for life and the wise use and management of natural resources): Do we manage our operations in a way that is protective of the environment to help ensure the earth can sustain future generations and company's ability to meet future necessities.

Consequently, businesses are working to identify the impacts of their production process in the social, economic and environmental field (triple bottom line); and it seems that many concerns about sustainability have awakened. But what should be more important, business leaders may have discovered a necessity to act ethically correct, considering the consequences of their actions and identifying every group affected or involved in the business dynamic. Furthermore, society itself has gained a big impact through their demands to organizations, which look to respond to these challenges and also to embed ethical behaviors into the business pillars.

The business examples in the next pages will assess these statements, and will try to demonstrate if companies address sustainability as a tool to increase their profitability, taking into account the impacts they are causing in others actors. Therefore, it is interesting that they might be considering ethical principles: Do they are behaving in a wrong way or in a right way?

3. Corporate Social Responsibility: CSR a punctual strategy?

According to Foretica (Forum for the Ethical Performance Assessment) "corporate social responsibility goes beyond legal framework and endorses the voluntary integration of governance, strategy, policies and procedures of social concerns, labor conditions, environmental impacts and respect for human rights, as a consequence of the relationship and transparent dialogue with its stakeholder, assuming the responsibility of the impacts that every firm can cause in its daily operations" (Beneytez. 2007, p.20).

Moreover, corporate social responsibility can be seen as a business perspective to address sustainability, which means to take responsibility of the impacts that a company caused on the environment, society and economical field, considering their compliance with law regulations and standards (Blackburn, W. 2007). Again, the triple bottom line appears, due to its advantages on the triple perspective analysis.

Nowadays, it does not exist in the academic field any agreement between the different terminologies implemented in the Corporate Social Responsibility field: which one is the most accurate, corporate social responsibility or corporate responsibility? To some academics and

business leaders the most adequate term is corporate responsibility because it is not only a matter of social impact, it is a matter of economic and environmental aspects. Nonetheless, corporate responsibility involves a new business model, a new way of thinking and analysis, which need to be embedded in the business core. At the end, the adding value of this process will be an increase of the business transparency.

For the purpose of this work, the term corporate social responsibility is the most accurate because normally a firm in its daily operations considers the economic and environmental impacts, but sometimes forgets the social dimension, and a way to avoid this dissemination is to include the social term in the definition.

Corporations have different maturity levels of corporate social responsibility, and many recipes exist in the business arena, to endorse it into organizations. Each of them will depend of the commitment that top managers have and the importance they give to the impacts they have on their surroundings. Despite, many companies have started to implement “Code of Conducts”, a principle of guidelines to fight against dilemmas and to clarify what is ethically correct or not, and this can be associated to an initial approach for the establishment of a corporate social responsibility culture and to assure that ethical behaviors are followed within all organization. Even though, it can be argue that when is not possible to distinguish within a company what is sustainability and corporate social responsibility, is when a company can be catalogued as responsible business.

4. Stakeholders: from impacts to engagement

Organizational interests include high levels of productivity, efficiency, market share, reputation, and profit; and in order to have an accurate approach in the field, companies need to identify the networks where they are involved.

It is interesting how reputation it is mentioned within this group and is identified as a company concern, where all indicators are measurable and accountable to managers. Reputation is the perception of people of a company and it is constructed by expectations. Obviously, people’s perception is not an objective target and can be manipulate in many ways. But the main impact of this indicator lays on the consequences it can produce: a company can disappear thanks to a bad reputation and that is the reason why managers are considering in their balanced score card.

The companies’ networks are formed by many actors: people who can affect or are affected by the organization's objectives. These groups are best known as stakeholder.

Every stakeholder shares a common goal given the fact that each one has something on play which depends on the company’s performance; there is something they expect to win, not to lose or just maintain in this dynamic. However, the motivators or drivers can be completely different and can be distinguish on political interest, economic interest and even symbolic interest. But at the end, what the companies are looking for it is their “license to operate”, the simple approval from the social groups that goes beyond the legal frameworks.

Society as consumers want companies to tell them what is in products and how they are made and provide additional details about information, labels and claims shared offline in the store, on the package, in an advertisement, etc.

Consumers, non-governmental organizations, workers and other stakeholders can make their preferences known through boycotts, protests, social media and networks; and in some cases they have been instrumental in leading to corporate change in many instances thanks to their pressures

over firms and even governments. Nike, Shell and Enron are examples of that, as it will be presented in the next pages. In this sense, stakeholders can influence corporations from many perspectives, perhaps the most tangible is through people's investment decisions.

Non-governmental organizations (NGOs) are true stars in the identification and communication of negative impacts that may cause a company and are agents in the complaint, the solutions or trade boycott. The number of international NGOs that scrutinize the ethics and behavior of organizations has increased worldwide from 30,000 in 2000 to over 60,000 in 2007 according to Union of International Associations in 2008 (Kapteing. 2010, p.601).

But, what is the power that they have to affect companies' strategies?

- **Customers and consumer:** power in purchasing decisions and to affect the reputation and loyalty of the communities. They have the power to suspend the "license to operate".

- **Employees:** nowadays companies move also in a knowledge economy where innovation is a competitive advantage. To retain and attract human talent have become a huge challenge for organizations. Employees have the power to leave a company and move to competitors whenever they consider necessary, taking the knowledge with them**.** This means a loss of a source of innovation that could increase the competitive advantage of its main competitors on the sector.

- **Investors:** they have the power to decide when, how and where to invest their money. Companies need resources and in somehow depend on them.

- **Governments:** stricter in terms of social and environmental regulations, making the production process more expensive and time consuming.

- **Community activists, media and NGOs:** the power to make audiences aware of companies' actions and to change customer decisions and customs. Also, they have the power to start unfair boycotts that can have important economic impacts.

Relationships with stakeholders are not static or uniform, and due to the power of social networks and internet, new stakeholders can emerge on the scene unexpectedly; monitoring the context is essential. In this sense, companies usually need to draw their stakeholder map, but most important, they need to build relationships around them based on loyalty, commitment and transparency.

Companies need to go beyond listening to stakeholders, they need to prove a real commitment in actions and in their way they behave, if the purpose is to engage and improve their transparency. Hence, it may be create a continuous feedback process, where engagement can help organizations meet strategic needs and gathering information, and trends that may impact their activities. Some companies have established partnership with stakeholders, as a manner to improve the way the work on, thus they can minimize the impacts of their operations, demonstrate real commitment and identify new business opportunities.

At the end, the goal that companies should pursuit is the balance between each stakeholder interest; what the company need is to improve one of its most important intangible: its reputation.

Firms cannot deny these facts and in contrast, they should acknowledge them and in order to give a proper response; they should enforce Corporate Social Responsibility as strategy that adds value to

organizations. As a consequence, this new approach may be seen as a business perspective to address sustainability and to respond to stakeholders.

Furthermore, many academics recommend that business leaders ascribe these statements in the core value of every actor involved, in a way to assure a win-win relationship.

Following this recommendation is how Corporate Social Responsibility has been embed into the business core of each company, as considered to be more a strategy rather than another business activity. And in order to confirm this business appraisal, the case of Nike, Shell and Enron will be analyzed.

However, each company can adopt this formula at its own as we will see.

III.-BUSINESS CASES

As it was mentioned before, sustainability should be considered as a part of the core business of each organization: if a company analyzes its impacts, it analyzes sustainability. Basically, sustainability has three dimensions and businesses have acknowledged it through the triple bottom line.

Following this theory, we will here analyze some of the most notorious business cases to offer a better example, starting from the social perspective (case of Nike), moving forward with the environmental perspective through the analysis of Shell and finally with an economic perspective considering the case of Enron. Although it is important to highlight that none of these perspectives can be isolated from each other.

It is evident how stakeholders are aware that organizations have responsibilities and developed activities to improve the society. In fact, they demand on organizations to commit with the environment: around 47% of American thinks companies in these days are transparent and honest, but 30% of them assure they have changed their buying behavior thanks to the information obtained in blogs about products and companies (Cone, 2009).

People know they can influence business practices by voicing their opinions online. Consequently, the regulation of corporate business practices has received increased attention in response to a wave of corporate scandals in the last few years. While the specific circumstances vary in each scandal, the primary issue has been the exaggeration of profits, and consequently stock prices, using unethical or illegal accounting practices.

Considering the previous statements, the business cases chose are well known due to the impacts they had, that gone beyond economic barriers. Some of them have respond through a change of structure and the way to make business, but others still remaining the same.

Even though, it will be presented how corporate social responsibility can be tailor-made depending on the business sector, manager's commitment, business maturity and the context where it is involved. Some actions have been successful and have proven how this new approach can add value to organizations.

As following, it will be presented the case of Nike, from the social perspective.

1) NIKE'S CASE

The athletic footwear industry is dominated by a few large companies. In fact, ten main companies control over 70% of the global athletic market. These main companies are Nike, Reebok, Adidas, Fila, New Balance, Asics, Puma, Converse and others (Footwear News, 2000). In the 1990s, Nike became the largest and most important athletic footwear company in the world (Locke, 2002).

Nike's business model grew by investing in design, development, marketing and sales and then contract with other companies to manufacture its products. At this moment, corporate social responsibility didn't make part of the strategy of the company.

Following this model, Nike been increasing its sales mainly through low-cost manufacturing (suppliers, shippers, retailers and other service providers) and employing directly or indirectly one million people across six continents and manufactured in more than 700 factories worldwide.

1.1. What happened: a corporate scandal

In 1990s Nike faced widespread criticism from anti-sweatshop groups because its suppliers in different countries did not comply with labor condition standards. Initially, Nike declared was not responsible for how the products were made. Based on this declaration, Nike faced many problems related to labor rights led by anti-corporate campaigns, strikes and boycotts. These problems forced the company to concern about CSR's issues and its three pillars: social, environmental and economic. The following three cases shows how corporate scandals related to social issues affected economic aspects of the company beyond reputation and image.

1.1.1. Indonesia

In the beginning of 90s, Nike worked with Korean suppliers employing more than 25.000 workers. A variety of reports were publicized claiming that in these factories were common exploitation, poor working conditions, and a range of human rights and labor abuses.

1.1.2. Pakistan

In 1996, Life magazine published an article on child labor in Pakistan, which a 12-year-old boy was stitching a Nike soccer ball. This article and its accompanying photo unleashed another wave of criticism against Nike and a call by various consumers groups, trade unions and NGOs boycotted the Nike's soccer balls producer (Locke, 2002).

1.1.3. Vietnam

In 1997, an Ernst & Young auditing one of Nike's Korean subcontractors reported serious health and safety problems at the factory. The lack of control of chemical substances in areas of the plant, the lack of personal protective equipment at the factory and overloaded work hours were also reported. This report appeared in leading newspapers, and it caused more damage at Nike's image beyond the events related to working conditions (Locke, 2002).

Combining the events already mentioned, Nike had its reputation completely affected and sales substantially decreased. These scandals fueled anti-globalization and anti-sweatshop movements started investigating the potential risks and problems related to multinational companies. Several NGOs focused their attention on Nike and the problems found among its suppliers. Web sites

focusing solely on Nike and its alleged abuses appeared on the internet and were used by NGOs and various activist groups to share information, coordinate protests and further embarrass the company. Numerous organizations have taken it upon themselves to bring such human rights violations to light and to pressure Nike into changing their labor practices (Pittman, 2003).

These events but mainly the community awaken, forced industries to consider changes in corporate governance structures and the need to reconsider and develop better strategies which may include controlling the supply chain.

1.2. Nike's response: starting Corporate Social Responsibility

Changes in the behavior of the company started when Nike formulates a Code of Conduct for its suppliers. This code had many changes over the years tracked of monitor and different tools to check if the suppliers were following the standards and rules. The company also created new departments working in Labor Practices, Environmental and other under the Corporate Responsibility and Compliance Department. In 1999, Nike joined the Global Alliance for Workers and Communities and started active relationship with different NGOs to develop standards for workers in many developing countries. In 2001, Nike published its first Corporate Responsibility Report to communicate how the company ran its business, developed environmental sustainability and managed global labor compliance.

It is important to mention that Nike recognized its responsibility and impacts towards the problems. The next steps happened over the years by corporate governance improvements regarding the working conditions in Nike's supply chain.

In the Corporate Responsibility Report 2009, Nike provides details about five-year CR goals. Nike's progress in CSR Reports has culminated in an improved system for monitoring contract factories, as well as the production – the first in the textile industry to include a list of all contract factories. Nike has become a leader in corporate social responsibility in China with the release of its annual CSR report and the accompanying China 2008 Corporate Responsibility Reporting Supplement in early March 2010, Nike is now at the forefront of a movement towards greater operational transparency (The Economist, 2010).

1.3. Conclusions: It is not the end…

Yet the continuing controversy over Nike and its various activities are not in any way particular to Nike. Rather, they are the reflection of much broader debates about the definition of corporate citizenship and the process of globalization. Social conditions will always be in the public arena where people will press for better conditions, for a better quality of life.

Moving forward, in order to analyze the environment-social perspective of a business model it will be presented the experience of Shell, a company which has been involved in many scandals in the last decades. Despite of its strong commitment with corporate social sustainability reports and stakeholder engagement, reality shows a lack of commitment and a sort of incongruence between statements and tangible actions.

2) Shell vs. Ogoni's case

It was in 1907 when two European oil companies, one British and the other Dutch, merged to become what is today, one of the sixth most important giant oil

companies in the world: “The Royal Dutch Shell Group” worldwide well known as “Shell”.

The group produces 2% and 3% of world’s oil and gas amount, 3.1 million barrels of oil and gas everyday of which, 1 million comes from one of the 5 continents it operates, Africa, Nigeria. (Shell web site [on-line]

The oldest and largest oil producers in the Royal Dutch/Shell Group is represented by “Shell Nigeria” which joined the league of oil producing nations already on the 3rd August 1956 when oil was discovered in commercial quantities in the Niger Delta in Oloibiri (land of indigenous communities) still under the British colonialism, at that time. (Shell NGA homepage. Shell history in Nigeria 1936-1979).

2.1. What happened: an ongoing struggle scandal

A total 80% of oil and gas production of the above companies comes from land and swamps in the **“Niger Delta”** and deep-water reserves some 120 kilometers off the coast. The Nigerian reservoir represents a source of great revenues accounted for about 40% of Nigeria’s national **GDP** and for about the 79.5 % of the total Government revenues. (UNDP Nigeria, 2006. Niger Delta Human Development report, pag.1)

Given the above data, there is a strong economic interdependence between the British/Dutch multinational and the African country of Nigeria, the richest one in natural resources. However, that interdependence will soon start to be unbalanced and not only economically.

To better understand and by using the triple bottom line and its interconnected dimensions, due to the famous “trickle-down effect”, what was an initial economical disequilibrium, will impact the other two important dimensions: the environmental and the social.

In fact, the now 50 years of “relationship”, have being characterized by continues acts of violence, struggle, and drastic measures tightly related to environmental and social scandals whose occurrence might found its root causes in the protection of two interests:

- The ones of a company which starts its business led by the old capitalist model totally focused on the maximization of profits in the short term, mainly to payback shareholders investments but which will change its strategy along the years

- The ones of the inhabitants of the Niger Delta, once a beautiful country side rich in green vegetation, fresh water and air, a land of millions of indigenous’ communities, in particular, the greatest in numbers and per its land-rights recognition’s actions, represented by the **“Ogoni”**.

Here 4 bullet points deeply analyzed in the report that we found might help readers to understand the reasons of the ongoing struggle between Shell and the Ogoni:

- Doubtful social license recognition.
- Environmental and health impacts mainly caused by Shell’s business management: deforestation, land and air pollution results of oil spills and gas flaring.
- Suspicious collaboration between Shell and Mobil Police Forces (MPF) to stop uncomfortable activist’s actions, to carry on with its operational activities. (The INDIPENDENT, Andy Rowell, 14 Jun 2009. Secret papers 'show Shell targeted Nigeria oil protests'[on-line])

- The death of the environmental activist and writer Ken Saro-Wiwa.

2.2. How does Shell respond to the above scandals?

The bullet points above mentioned are not considered being isolated cases; they actually represent cases of continuing environmental and social violations, important both per the extension and impacts caused. The reason to be not isolated cases might depend on Shell's response behavior.

A part from the Saro-Wiwa's death case for which, after 14-years of legal battle Shell has agreed to pay $15.5m (£9.7m) as accused of having collaborated in the execution of the writer, (Ed Pilkington, The Guardian UK, Monday 8 June 2009. Shell pays out $15.5m over Saro-Wiwa killing [on-line]) and even this was defined by the company as an **"Humanitarian Gesture"**, the company has been responding to the above violations in a more generic rather than specific approach, a more theoretical rather than practical actions and in a more strategic rather than volunteer performances.

In fact, Shell will start in the 90s building up strategic partnership with NGOs as per the first one set with Living Earth. Besides, by the time that the global warming, human rights concerns and more specifically the fight for the Millennium Development Goals (MDGs) adopted in 2000 by world leaders increases, the oil giant company gradually will start to shape its initial business model to a more sustainable, responsible business practice.

Since 1998, voluntary sustainability reports will be published to be available to anybody interested in knowing the level of the companies' involvement and commitment with social and environmentally friendly programs and actions but still, the same contents have been found highly qualitative rather than quantitative. (Shell web-site. Shell Sustainability report 2009. *Our Performance* [on-line])

2.3. Conclusions

Although the "efforts" of the multinational giant oil company, what everybody can see, by going into details provided with the report, are the high discrepancies between these two "stakeholders".

If Shell is behaving and acting in a real responsible way, strictly following the good business principles, code of conduct and code of ethic, all in line with the core values of integrity, honesty and respect for people, why then the Ogoni and the rest of the local communities are carry on their struggle? Why a gigantic economic reservoir of national and international importance as the "Niger Delta" still does not have electricity to light its peoples 'homes at night or even worse, no enough jobs to put food on their tables' families?

Along the 50 years of "forced" relationship with the ethnic groups of the Niger Delta, especially with the Ogoni, Shell has been implementing as almost entitled to do it, its own "good policies and principles" in Nigeria, taking advantages of the high level of poverty, ignorance, military and political corruption hence lack of laws, still, nowadays, characteristics of the major populations, living in this world.

It is time to change, to address any economic actions to a real sustainable development, not to the theoretical one, available in reports and used by companies as tool to build up profitable reputation to cover wrongdoing actions but the one, which can be a tangible asset to be considered by decision makers as an opportunity rather than a challenge.

Furthermore, if it is importance to value environmental and social aspects as a must to provide a better future to the current, and above all, to the future generations, on the other hand, economic perspectives cannot be avoided from public scrutiny.

Ethic is in every single aspect of human life, and something as simple as numbers need to be demanded and assessed with more transparency. In this sense, cases as Enron with consequences beyond the economic boundaries could be avoided.

3) Enron case: the big failure

In just fifteen years, the Enron Corporation evolved from a small Texan based Gas Company, to rank the seventh most valuable Group in the United States according the Fortune 500 magazine in 2001 after demonstrating 100 billion dollar revenues. (Cruver. 2002, p.13) It is already complicated to grasp all the facts that paved the success of Enron, but even more delicate is trying to understand how a corporation of its magnitude was able to conceal debts that surpassed the scandalous amounts of six hundred million dollars. Ever since, the fall of Enron has been regarded as one of the worst corporate bankruptcy cases in the history of the United States.

Moreover, this event gave rise to several changes in legislation, like the Sarbanes- Oxley law, just as the theme of Good Corporate Governance or business ethics took on a new focus and became matter to be taken more seriously. The lack of integration of moral capital into the corporate culture of Enron, evidenced the fact that "the extraordinary human capital holdings that they possessed – Ivy-league MBAs – (was not) sufficient to prevent them from falling into such gross errors of professional and ethical judgment." (Sison. p. x, 2003)

In 2001, Enron's shares that had peaked just below $90 in 2000, dropped to less than $1, resulting in billion dollar losses for shareholders, and left over 20,000 people unemployed. The tumble down of the 'Crooked E' "exposed the worst of corporate greed, misbehavior and citizenship."(Cruver. 2002, p.xii) Like Bradly K. Googins states in Newsday, "Enron betrayed its employees, it betrayed its clients, and, by inflaming the public's widely perceived notion that corporations cannot be trusted to do anything other than serve their own ends and line their own pockets, Enron betrayed all of corporate America" (Cruver. 2002, p.xii).

3.1. What happened: the bankruptcy scandal

By the end of the year 2000, Enron became a 'big deal' because by this time, all the Internet companies had already begun to fall as the dot.com bubble began to burst. However, Enron seemed to stride, untouched; since its stock price rose ninety percent that very same year, and fifty percent the year before. In fact, Enron was regarded as one of the most innovative company that was constantly creating new economy markets. It all seemed to be going great for Enron, and people could never imagine how it would plummet in matter of months.

Investors, traders and stock creditors rated Enron stock as one of the best and most stable. Yet the time came when Enron could no longer come up with a new bright idea that would generate enough profits to cover up their gaps. Operations such as the Dabhol Power Plant in India, and the Enron Energy Services (EES), represented billion dollar losses for Enron, that the company had managed to keep secret from the public. Then Jeff Skilling, six months after being appointed CEO of the company quit unexpectedly, and the company's CFO, Andy Fastow, would do the same just a couple of months before Enron filed for bankruptcy.

These acts aroused suspicion from many stock analysts and from Wall Street, only to commence investigations into the Enron's financial books that would reveal the truth about the company's health. One investor saw something in Enron's numbers that the stock analysts hadn't noticed. The mysterious accounting practices that Enron exercised, with mark-to-market principles, made it difficult for everyone outside Enron to have a clear grasp about the real financial earnings that the company was generating. In this sense, Enron was like a black box, where many external analysts and consultants took a *huge* leap of faith in trusting the company's financial statements, since no one really understood where their money came from. Suddenly, "Wall Street wanted to know the whole truth and nothing but the truth about Enron's financial statements. The obscure references to "related parties" and "a senior Enron Officer" buried in the back of the notes were no longer going to cut it, especially now that Skilling had made his surprise exit." (Cruver. 2002, p. 99) Enron's only option at this point was to file for Bankruptcy on Chapter 11 under the United States Bankruptcy Code.

Enron was well aware of how the profits of every quarter could affect their stock price, and played with their reported figures accordingly. The catch at Enron was that their employees were paid, in a large part, through stock options, also known as the Enron 401(k) Plan. Bill Lerach, the attorney for Enron shareholders, states, "This company was fixated on its stock price and fixated on a massive public relations campaign to convince the investment community that they were new, different, innovative, almost heralding a new era of corporate enterprise". (The Smartest Guys in the Room) This puts into evidence the primordial interest in Enron's executives to have as many people as possible investing in their stock, even if it really wasn't worth what they led people to think.

The insiders of Enron had sold off billions of dollars' worth of converted stock months before Enron's fall. As Bill Lerach, the attorney for Enron shareholders, states, "There was an immediate sense of outrage at Lay and Skilling and Fastow, when people realized how much they profited and how completely artificial the appearance of this company had been" (The Smartest Guys in the Room). News of shredding at Enron raised even more questions; how much information had been lost in torn documents? How many answers simply vanished with all those papers? The facts were that 20,000 people had been left without jobs and more than $2 billion in workers' pensions and retirement funds had simply disappear

3.2. Too late for a response: a business without CSR

The beginning of a major component for the downfall of Enron had to do with the consent that they were given to use a kind of accounting method known as mark-to-market accounting. This type of accounting allowed the company to book potential future profits on the very day that a deal was signed. In this sense, deals involving the future delivery of commodities up to three, five or even ten years in the future, were reflected in the current quarterly reports, no matter how much cash actually came in from these deals. This left a lot of room for manipulation given that Enron's profits could be whatever they wanted them to be, and this is what the outside world was subjected to believe.

The problem was that this type of accounting required the expertise of traders on the commodities, which was not the case. Yet, for a person that was working in the RAC (Risk Assessment and Control) department, just as for an Arthur Anderson consultant, the only real thing that they understood from these enigmatic practices was that higher the prices placed on commodities, would favor higher bonuses for them as well as higher earnings for Enron. Consequently, since Enron linked individual bonuses to this mark-to-market value, their strategy became "less about booking profitable deals or controlling the risk of deals – and more about booking as many of the biggest deals possible." (Cruver. 2002, p. 80)

3.3. Final Thoughts

There are different factors that led to Enron's collapse, all of which could have been remedied or at least reduced if the effect of good Corporate Social Responsibility had been in place. The first one is being that investors need to look further into the management of corporations and their relationships with executives. Secondly, a thorough revision of the education system should take place, making sure that material on business ethics is part of all financially related masters. Thirdly, the Enron scandal put into evidence the greedy ethical tissue of its executives just as their inability to admit their wrongdoings.

Enron, a case of America's largest corporate bankruptcy, is a clear example of a company that had all the makings of a gigantic scandal. Its collapse within a matter of weeks, so quick and so completely into bankruptcy, put this fact into evidence. For this reason, it is imperative to take a deep look into the successions that led to this company's failure, so as to learn from its mistakes. Professor Steve Stalbu from the McCombs School of Business of the University of Texas reminds us that the Enron figures as the prominent case dealing with "executives with the self-dealing, accounting irregularities, debt camouflage, insider trading, and breach of fiduciary duty." (Cruver. 2002, p.xi) Moreover, this scandal leads to the suggestion that the United States legal system and accounting procedures permitted the existence of 'activities' that a majority of people would acknowledge as unethical.

Enron, undoubtedly scarred corporate America, and for this reason, it lead to several changes in legislation as well as accounting principles. In any case, the need to learn from Enron's mistakes is undeniable.

IV.- CONCLUSIONS

A new business model where stakeholders are aware of what each company is doing is emerging; companies are taking into account the consequences of their activities in order to identify new business opportunities and achieve competitive advantages that can differentiate them in the business sector.

Businesses have acknowledged they should respond to issues beyond the mere economic, technical, and legal requirements and face the dilemma of economic and social aspects that are in conflict; considering that social aspects should not necessarily affect or go against the economic aspects. Corporate social responsibility can be implemented as a tool for answer to that.

Even though, it seems that the main barrier that corporate social responsibility have to fight with, it is to the fact that some corporate decision makers typically focus on the demands of shareholders, and fail to consider the impacts of their decisions on stakeholders, as it was the case of Nike at the beginning and the reason for the failure of Enron. This typical approach will carry out dramatic economic consequences and even worst, the damage of the company's reputation. If a company remains in this stage, it may increase its risk exposure, which can cause the removal of its "license to operate". Current managers should realize the power that stakeholders have, especially the power of social networks, campaigns and boycotts.

What emerged from the analyzed cases is that companies are at different stages of corporate social responsibility development; besides, they have been starting their transitions from a defensive behavior to a more active strategic one only when realized the added value brought by the corporate responsibility requirements.

Nike has acknowledged through a corporate social responsible perspective, the added value of been a responsible business. Its sales and reputation are still on the top of the industry, compared with its main competitors. Best practices and products such as “Nike Trash Talk” a new high performance shoe made with recycle material, is trying to prove the company commitment with sustainability. In fact, it is hard to distinguish corporate social responsibility from the core business of the company, both pillars worked together embedded in every single activity and operation of the industry. Nike deeply proves how best practices and real commitment can improve the brand and the image of a corporate, and even increases its profitability.

Despite of it, all of Nike’s efforts do not convince labor activists, NGO and others. Many continue to complain about working conditions (the initial point of the scandal) at Nike’s suppliers or simply do not consider they have done enough and that the company could do much more related to local socio-economic development. But, until what level a company is responsible of every supplier? This can be an interesting subject for future analysis.

For instance Shell, due to both its work environment context and its huge size, seems to remains in a stage of response where communication through reports represents its best practice to sustainability. Therefore, what Shell should start doing seriously to better improve its relationship with locals and to engage with their activists, as much as possible, in strategic decisions related to land use, in order to be more transparent, credible and accountable. Finally, they should act responsibly and efficiently in its operational activities failures (oil spills and gas flaring), to protect the environment hence showing to communities how much Shell cares about them.

It would be interesting to analyze the performance of Enron if they would react before its bankruptcy. Perhaps it would show the strength and the power that good governance and improvement in transparency can add to a company.

These facts proves how organizations have led corporate social responsibility as a way to respond to their corporate needs, they have endorsed it in their business cores which mean: to go beyond best practices, align the main activities of the business with the main concerns of the operative context and establish a Win-Win strategy.

Somehow, corporate social responsibility can be used as a tool to manage risk. The development of environmental products, protection of human rights, and commitment to values and principles has strong impacts on the organization´s asset which are exposed to short-term and long-term risks which may be avoided when companies promote responsible activities from the triple bottom perspective.

But, why does a company care about sustainability? Because it is a continual improvement process that will guarantee:

- Efficient utilization of land, water, energy and other resources which make business more productive.
- Safe products and working conditions that will attract customers, it will retain employees and will decrease the possibility of internal accidents.
- At the end, the biggest reward is that companies will create a healthy society and this means that will create an expanding demand for business; hence, their product’s demands will always increase (they will stay at business).

In this sense, it seems there is an interest on the corporate side to act ethically correct and become a good citizen. Furthermore, companies have accepted that they are publicly accountable for their

operations and have developed programs to communicate what they are doing in order to respond to stakeholder pressures.

Of course, social issues are costly but at the end they can represent considerable future savings. As it was mentioned before, there is not a unique recipe to embed corporate social responsibility into a company's strategy. The fact is that when this new approach is truly felt throughout all the organizational levels of a company, top to bottom, it will become part of the day-to-day activities of the company.

Finally, it can be argued that Corporate Social Responsibility is starting to be considered as a business concern and managers have proven the efficiency of having ethical principles within the company, the importance to evaluate and mitigate the impacts and to manage reputation into the business scorecard. The reasons to start endorsing CSR value as a new business concern is several as well as the recipes for its implementation.

Sustainability principles might not assure success but at least they can improve organizations chances which will allow companies together with the surrounding communities to benefit of a reinforced relationship mutually profitable.

V.- REFERENCES

- Amsden, A. (1989) *"Asia's Next Giant"*. USA, Oxford University Press.

- Bajo, A. & Fernandez, J. (2009) *La Responsabilidad Social y la Ética Empresarial en un Paradigma de Empresa Sostenible*. Spain: Cátedra Javier Benjumea, Series Monografía, 2.

- Bendell, J. (2010) *"Capitalism in Question: The Lifeworth Annual Review of 2009"* [on line] Available at: http://www.lifeworth.com/capitalisminquestion.pdf.[Accessed 13 May 2010].

- Beynetez, B. (2007) "Estado de la Implementación de la Responsabilidad Corporativa en la Empresa Espanola". Spain: Fundación EOI. Gráficas Muriel.

- Blackburn, William R. (2007) *Sustainability Handbook: The Complete Management Guide to Achieving Social Economic and Environmental Responsibility*. London: Earths can Publications, Limited.

- Bullert, B. (2000) *"Strategic Public Relations, Sweatshops and the Making of a Global Movement"* The Joan Shorenstein Center on the Press, Politics and Public Policy, Harvard University.

- Cera, R (2003). *Hacia dónde camina la empresa del siglo XXI. Baquia:* Knowledge Center [on line] Available at: http://www.baquia.com/noticias.php?id=6640. [Accessed 23 March 2010]

- CEDISE (2008). *RSE: El Balance Social y la Comunidad de la Empresa con la Sociedad*. Caracas, Venezuela.

- Connor, T. (2001) *"Still waiting for Nike to do it"* [on line]. Available at: http://www.globalexchange.org/campaigns/sweatshops/nike/stillwaiting [Accessed 16 May 2010]

- CorpWatch 1998 [on line]. Available at: http://www.corpwatch.org/article.php?id=12965 [Accessed 16 May 2010]

- Cruver, B. (2002) "*Enron – Anatomy of Greed – The Unshredded Truth from an Enron Insider"*. London, UK: Arrow Books.

- Deigendesch, T. (2010). *Corporate Social Responsibility: Brand Leadership or Green washing?* Interbrand [on line]. Available at: http://www.interbrand.com/paper.aspx?paperid=69&langid=1000. [Accessed 15 March 2010]

- Footwear News, 2000 [on line]. Available at: http://www.wwd.com/footwear-news. [Accessed 30 April 2010]

- Fusaro, P. & Miller, R. (2002) *"What went wrong at Enron – Everyone's Guide to the Largest Bankruptcy in U.S. History*". USA: John Wiley & Sons.

- Grayson, D. (2009).*Corporate Responsibility and the Media*. UK: Cranfield School of Management, UK [on line]. Available on: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure/swedish-presidency/files/media-csr/corporate_responsibilty_and_the_media,_david_grayson_en.pdf. [Accessed 15 March 2010]

- InvestorWords.com. Definition of: Bull Market [on line]. Available at: http://www.investorwords.com/616/bull_market.html. [Accessed 23 June 2010]

- Jackson, C; Partridge, K; Wheeler, D; Zohar, A. (2005) *"From Words to Actions: The Stakeholder Engagement Manual. Volume 1: The Guide to Practitioners' Perspectives on Stakeholder Engagement"* CANADA: Stakeholder Research Associates Canada Inc.

- John, S. & Thomson, S. (2003) *New Activism and the Corporate Response.*UK: Creative Print & Design (Wales), Ebbw Vale.

- Kaptein, M. (2010). *The Ethics of Organizations: A Longitudinal Study of the U.S. Working Population*. Journal of Business Ethics, 92:601–618.

- Klein, N. (2002) *"Naomi Responds to The Economist"* [on line]. Available at: http://www.naomiklein.org/articles/2002/11/naomi-responds-economist [Accessed 24 March 2010]

- Lemonche, P. (2010) Los Límites de la Denuncia [on line]. Available at: http://www.diarioresponsable.com/component/idoblog/10747-los-limites-de-ladenuncia?task=viewpost.[Accessed 13 May 2010].

- Litvin, D. (2004) *"Empires of Profit Commerce, Conquest, and Corporate Responsibility"*. USA: Thomson

- Locke, R. & Siteman, A. (2002) *"The Promise and Perils of Globalization: The Case of Nike"*. Massachusetts, USA: MIT Working Paper.

- Locke, R. & Schmittlein, D. (2010) *"Sustainability and Companies"*. USA: Sloan Business School". Rafael del Pino Foundation. Spain.

- Montero, D. (2006) *"Nike's dilemma: Is doing the right thing wrong? A child labor dispute could eliminate 4,000 Pakistani jobs"* [online]. Available at: http://www.csmonitor.com/2006/1222/p01s03-wosc.html. [Accessed 10 May 2010]

- New Media and Corporate Responsibility Study 2009.USA: CONE [on line]. Available at: http://www.csrinternational.org/?p=5374. [Accessed 15 March]

- Nike, 2010. Company Overview [on line] (updated 2010). Available at: www.nikebiz.com/company_overview. [Accessed 18 March 2010]

- Nike, 2010. "Workers & Factories" [on line] (updated 2010). Available at: http://www.nikebiz.com/responsibility/workers_and_factories.html [Accessed 25 March 2010]

- O'Rourke, D. (1997) *"Smoke from A Hired Gun: A Critique of Nike's Labor and Environmental Auditing in Vietnam as performed by Ernst and Young"* [on line]. Available at: http://www.corpwatch.org/article.php?id=966. [Accessed 11 May 2010]

- Oxfam Australia. (2010) "*So what's the problem with Nike?*" [on line]. Available at: http://www.oxfam.org.au/explore/workers-rights/nike [Accessed 24 March 2010]

- Pilkington, E. The Guardian UK, Monday 8 June 2009: "*Shell pays out $15.5m over Saro-Wiwa killing"* [on line]. Available at: http://www.shellguilty.com/shell-pays-out-155m-over-saro-wiwa-killing [Accessed 21 March 2010]

- Pittman, B. (2003) "*American Labor Crises: The Social Ethical of Work in America*". USA: Mercyhurst College [on line]. Available at: http://homepage.mac.com/barbarap2/home/laborcrises/Nike.htm [Accessed 16 May 2010]

- Roach, B. (2008) *Social and Environmental Responsibility of Corporations* [on line] Available at: http://www.eoearth.org/article/Social_and_environmental_responsibility_of_corporations. [Accessed 15 March 2010]

- Rosenzweig, P. (2005) *"International Sourcing in Athletic Footwear: Nike and Reebok"* USA: Harvard Business School Publishing

- Shell web-site. Shell Sustainability report 2009. *Our Performance* [on line]. Available at: http://sustainabilityreport.shell.com/2009/ourperformance/externalreviewcommittee.html?cat=m [Accessed 23 June 2010]

- Shell web site: Available at: http://www.shell.com/home/content/aboutshell/ [Accessed 19 March 2010]

- Shell NGA homepage. Shell history in Nigeria 1936-1979[online]. Available at: http://www.shell.com/home/content/nga/aboutshell/who_we_are/history/country/first_steps.html [Accessed 20 March 2010]

- Sison, A. (2003) *"The Moral Capital of Leaders*". Cheltenham, UK: Edward Elgar Publishing Limited.

- Stakeholder Theory with R. Edward Freeman by Business Roundtable Institute for Corporate Ethics, 2009. [Video]Business Ethics Video Series,13 May 2009 49.18 [on line]. Available at: http://www.youtube.com/watch?v=Ih5IBe1cnQw. [Accessed 09 April 2010]

- The Dictionary of Sustainable Management. *Triple Bottom Line* [on line]. Available at: http://www.sustainabilitydictionary.com/t/triple_bottom_line.php. [Accessed 09 April 2010]

- The INDIPENDENT, Andy Rowell, 14 Jun 2009. Secret papers 'show Shell targeted Nigeria oil protests'[on line] Available at: http://www.independent.co.uk/news/world/americas/secret-papers-show-how-shell-targeted-nigeria-oil-protests-1704812.html) Internal doc. Website http://www.corpwatch.org/article.php?list=class&class=21&all=1 [Accessed 03 April 2010]

- The Economist, Economist Intelligence Unit research (related articles): Just doing it: Nike [on line]. Available at: http://sponsor.sap.manufacturingcentre.eiu.com/articles/12. [Accessed 21 April 2010]

-The New York Times, 1997-98. New York Times Article Archive [on line]. Available at: http://www.nytimes.com/ref/membercenter/nytarchive.html [Accessed 23 March 2010].

- The Smartest Guys in the Room. (2006). Alex Gibney: Magnolia Home Entertainment (Documentary).

- Thompson, R. (n.d.) *Stakeholder Analysis: Winning Support for your Projects* [on line]. Available at: http://www.mindtools.com/pages/article/newPPM_07.htm.[Accessed 09 April 2010]

- UNDP Nigeria, Niger Delta Human Development report, pag.1, 2006 [on line] Available at: http://www.hdr.undp.org/en/reports/nationalreports/africa/nigeria/nigeria_hdr_report.pdf [Accessed 20 March 2010]

- Visser, W. Matten, D. & Pohl, M. (2008) *A to Z of Corporate Social Responsibility: A Complete Reference Guide to Concepts, Codes and Organizations.* S.L: John Wiley & Sons, Ltd

- What is Corporate Citizenship? USA: Boston College Center [on line]. Available at: http://www.bcccc.net/index.cfm?pageId=2007. [Accessed 23 March 2010]