Should I stay or should I go? A case of CSR in the occupied Palestinian territories

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Abstract: Companies investing in the occupied Palestinian territories are faced with a dilemma. Undoubtedly, the creation of jobs helps to put young Palestinians to work. Experience shows that especially young males are less likely to radicalise and commit crimes when having an occupation. However, negative press coverage due to the disputed status of the territory can force companies to withdraw. CSR activities can help to demonstrate that a company has a genuine interest in its employees and community at large. Our article looks into one particular case of an Israeli company that had to withdraw their operation due to public pressure, mainly Western media. We give recommendations how such failure could have been avoided by using the right kind of CSR activities that address the needs of the Palestinians.

Keywords: occupied Palestinian territories; OPT; corporate social responsibility; CSR; individual social responsibility; ISR.

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1 Introduction

Officially called the State of Palestine and recognised by 136 (70.5%) UN member states, the Occupied Palestinian Territories (OPT) are located in the Middle East and a source of constant conflict between Israel and its neighbouring countries. Public pressure has forced some Western companies to pull out of the OPT. For example, as public pressure became too high for Heidelberg Cement AG the company gave in and cited corporate social responsibility (CSR) reasons for selling its operations in the OPT (Nieuwhof, 2009). A recent Danwatch report (Bahl, 2017) estimated that there are approximately 15–20 Israeli administered industrial zones in OPT housing around 1,000 factories. International pressure on Israel is mounting. The EU has issued guidelines requiring Israel to remove the label ‘Israel’ from goods produced in OPT and to replace with ‘Product from the West Bank (Israeli settlement)’ (Euractive 2015). Israel argues that it is being unfairly singled out compared with other countries with much worse human rights violations. In March 2016, the UN Human Rights Council voted to establish a database that will name companies doing business in Israel’s settlements in the occupied West Bank and East Jerusalem (Deger, 2016). With over 600,000 Israeli settlers in East Jerusalem and the West Bank, many see the database as a forerunner to a broad based boycott of Israeli companies.

However, if companies leave the OPT the prospects for the locals to find a job become even more bleak. Caruso and Gavrilovay (2012) found a strong relationship between youth unemployment and violence. Results underline that male youth unemployment rather than female unemployment helps to explain Palestinian violence. In 2016, the unemployment rate stood at 27% with a youth unemployment rate in Gaza at 58% (World Bank, 2017).

Halkias and Thurman (2012) argue that by boosting local economies with the support of entrepreneurial activities, operating on the small to micro scale, poverty can be alleviated. Vocational education and training can also help increase employment and income generation for youth and women (Hilal, 2012). Education and training should be in the form of industry-academic linkages as it has proven to be a successful concept for effective education in developing countries (Preeti et al., 2011).

Companies have a social responsibility to contribute their share by training young people and offering at least some sort of career prospects.

CSR describes the complex relationships between business and society. It looks at the economic, social, and environmental impacts of business activity in the world (Adeyeye, 2011). A recent study amongst CSR directors by Pollach (2015) highlighted the problem that due to the complex relationships between business and society it is difficult to identify all target groups. Stakeholders are made up of diverse groups with different interests and needs especially in developing countries (Jamali et al., 2017). Nonetheless, CSR standards exist. Global standards that a company should comply with are set by credible organisations such as the OECD (guidelines for multinational enterprises) and the UN (global compact); they provide guidelines how companies can implement CSR successfully (Adeyeye, 2011).

Our case study is about an Israeli company manufacturing in the OPT for the global market. Human Rights groups and most Western media reject the idea of investment in the ‘occupied’ territories because the occupation of the OPT by Israel is seen as illegal. However, without work opportunities the locals might leave their homeland and seek
asylum in Europe; something that European governments are afraid of. Palestinian workers face the situation that on one hand they don’t appreciate at all the fact that their homeland is occupied by Israel but on the other hand they need a job to survive, even if the employer is from the neighbouring enemy. A company faces the dilemma that wages are lower than in Israel but negative PR can outweigh the cost savings, especially when the company is selling to consumers (B2C) globally and its success depends on a reputable brand name. One way out of these dilemmas is demonstrating CSR commitment. It cannot silence the critics but makes it harder for them to categorically reject any investment. We will exemplify this by using the case of SodaStream.

Figure 1   Research framework (see online version for colours)

2  The case of SodaStream

The Israeli company SodaStream provides carbonation systems to allow customers to use tap water to make sparkling water and fizzy drinks from the comfort of home. Criticising traditional soda industries (‘Big Soda’) for their use of plastic and aluminium cans, SodaStream tells customers that they don’t ship the water or the cans, they just ship the bubbles. The company claims that a single carbonator makes the soda equivalent of 170 to 310 aluminium cans and estimates that it saves over a billion cans and bottles of waste each year (SodaStream, 2017). The SodaStream product range includes sparkling water makers, exchangeable CO₂ cylinders and consumables (CO₂ refills, bottles and water flavourings). The company sells through 80,000 retail stores in 45 countries with over 60% of revenues to Western Europe (Germany, Switzerland, Austria, Nordics), 24% to the US, 10.4% to Asia Pacific and 5.3% in CEMEA (Czech Republic and Israel); the company estimated that as of end of 2016 11 million households were active users of the product (SodaStream, 2017).

Home soda machines are a category created by SodaStream and the company has enjoyed a market monopoly for decades. Recent moves by Coke and Pepsi to expand into the business have so far not made an impact and the company continues to dominate the category in most of its markets. SodaStream offers a range of syrup flavourings for flavoured sparkling water and once saw itself in direct competition with Coca Cola and Pepsi. In recent years, the company has evolved its positioning to focus more on the health benefits of plain sparkling water.
Sparkling water is carbonated water with no added flavourings. Soda is the often used term to describe sugared and flavoured fizzy drinks. In this sense the company name SodaStream is confusing. As consumers move away from unhealthy sugared sodas, spurred, in part, in the US by Michelle Obama’s ‘drink up’ campaign, consumption of sparkling water (traditionally more popular in Europe) has been rising steadily. In 2015, consumption of bottled water surpassed that of sugared soda in the US for the first time (Berman, 2015).

SodaStream’s stock took a dive in 2014 when it came under fire for operating in OPT. Under pressure from Boycott, Divestment and Sanctions (BDS), which compares Israel’s regime to a form of apartheid (BDS Movement, 2016) and following a showdown with British charity Oxfam, the company closed down its manufacturing facility in Maaleh Adumium in the West Bank and relocated to Lehavim in southern Israel. When Scarlett Johansson, long time ambassador to Oxfam, was questioned on her role as brand endorser for SodaStream she declined to step down and instead relinquished her role at Oxfam, claiming that SodaStream was committed to building a bridge to peace between Israel and Palestine.

SodaStream is promoting a message of good health, environmental awareness and value for money. According to the WHO (2017), 91% of the world’s population had access to an improved drinking-water source in 2015 and 4.2 billion people were getting water through a piped connection. Initiatives such as the EU Drinking Water Initiative and the US Safe Drinking Water Act contribute to a growing number of households that have access to a source of potable water. Producing sparkling water at home is therefore an option for an increasing number of households around the world. SodaStream’s household penetration rate in Germany is over 6% but still under 1% in the USA. While SodaStream faces a unique opportunity to ride the global wave of anti-plastic and consumer health sentiment it also faces challenges in defining its role as a socially responsible consumer brand. The closure of the OPT plant cost an estimated $20 million and resulted in negative press coverage. SodaStream’s share price dropped from a high of $72 in 2013 to $12.6 in January 2016.

Photographs of unhappy Palestinian workers leaving the factory for the last time were published around the world. With a high unemployment rate in the OPT, putting Palestinians out of work was not the best solution.

What other options did SodaStream have? It will be impossible to completely silence organisations such as BDS. There are famous companies that the press, rightly or wrongly, likes to pick upon such as Nike and Wal-Mart. However, by demonstrating to be a good citizen the company could have shown their commitment to the OPT by not shutting down the operation. For a start, 500 Palestinian workers would still have a job. The company should have collaborated with local Palestinian businesses and communities with the objective of fostering economic development in the region. Training, apprenticeship and employment opportunities should have been provided for young Palestinians to foster skills development. It could have offered possibilities for assignments abroad with SodaStream’s international affiliates. Institutions such as Al-Quds University in Jerusalem offer dual educational programmes in the form that companies employ young people and the university provides the theoretical training at various (vocational, undergraduate, graduate) levels. Besides own CSR activities the company can make a point of indirectly supporting individual social responsibility (ISR) by reducing waste in the form of plastic bottles and cans.
Looking at Myanmar under the military regime or Iran and North Korea nowadays, some argue that it is the poor people that suffer the most from a boycott. Others point out that this is the only option available to trigger change. In the light of conflicts in other countries such as Northern Ireland, economic development has shown to have a positive impact on reducing inequalities and supporting the peace process. It is unrealistic to assume that MNCs will enter the OPT any time soon. Until then economic development has to come from small home-grown entrepreneurial activities or foreign investment.

3 Key questions

The main considerations of the case are to:

- evaluate whether SodaStream, as an Israeli company, can contribute to the peace process and economic development in the OPT
- assess the particular risks faced by a B2C company with global brand exposure in a politically charged environment and how best the company can mitigate against those risks
- analyse whether Scarlett Johansson is the right kind of brand ambassador for SodaStream and whether her reaction to the scandal in 2014 may have helped or damaged the brand
- evaluate how the company can use global and regional trends in sustainability, health, lifestyle, water and environmental protection to drive its growth as well as its CSR strategy
- analyse how the company can reach out to environmental NGOs and to environmentally-focused cities and municipalities to help drive additional demand and thereby supporting ISR.

The case illustrates the power of the media, internet and social media campaigns to influence company policy - in this case Oxfam and BDO. Although SodaStream denies that the decision to move the factory was based on pressure from BDO or Oxfam, it is almost certain that this was the deciding factor.

Ethics and CSR can be analysed by evaluating the decision taken by SodaStream. While utilitarianism may have favoured the company staying in OPT and continuing to employ the Palestinian workers, Kantian philosophy would conclude that the company should move out based on the principle of zero tolerance for human rights violations, regardless of the impact on the unemployed Palestinians left behind. Defining a socially responsible role for SodaStream involves balancing risk (potentially high public backlash) against community value generation (job opportunities for Palestinians and building of bridges towards peace).

Looking at environmental protection and the target audience of SodaStream, the Kuznets curve may be applied to examine the level of ‘environmental maturity’ of target markets and help to identify areas of high growth potential for SodaStream. For example Scandinavian countries are high on the Kuznets curve.

Agency and resource-based view theories can be applied to evaluate how the company’s shareholders can ensure that the values generated by the proposed CSR actions outweigh the risks and potential costs. The role of marketing capability as well as
the ability to generate quantifiable, demonstrable benefits from the CSR strategy should be assessed.

SodaStream should pave the way for Israeli companies to define a new way of working with Palestinians in the OPT rather than simply exploiting cheap labour and government incentives. SodaStream should establish a collaborative model that will generate jobs and training opportunities for Palestinians. Co-ownership (to the point of share participation programmes) will make it more difficult for Human Rights organisations to accuse SodaStream of exploiting Palestinians.

The damage done by the conflict with Oxfam in 2014 took a long-term toll on the company’s reputation. Having stepped down from an ambassador role at a reputable charity like Oxfam, it would be very difficult for Scarlett Johansson to add credibility to a socially responsible positioning of SodaStream. The company should identify a new brand ambassador with global appeal that can attract a young audience and that shares the kinds of social and ecological values that SodaStream is trying to portray (e.g., Emma Watson). A strong brand endorser will strengthen customer loyalty and ensure that customers continue to use the products as they evolve through life cycle phases.

SodaStream should deliver a strong social media campaign around its contribution to a cleaner planet, teaming up and co-branding with non-profits such as WWF, Greenpeace, WHO, the ‘Ban the Bottle’ and ‘Drink Up’ campaigns and the Surfrider Foundation. This will help SodaStream to emphasise its role in keeping the oceans free of plastic, reducing household waste and helping people to lead healthier lifestyles, i.e., ISR.

SodaStream should target countries, cities and municipalities that have chosen to ban single use plastic bottles and focus primarily on countries that have a committed policy to sustainability and high quality potable water.

The problems between Israel and the Palestinians are unlikely to disappear or be resolved any time soon. Public opinion is moving against Israel and pressure is mounting on the country to improve the living conditions and opportunities for Palestinians. If the conflict continues to escalate, SodaStream could be running the risk of being subjected to more broad based sanctions. As a B2C brand with over eleven million customers, SodaStream is an easy target (like Nike) for galvanising public sentiment for NGOs than B2B companies with less name recognition and lower volume of consumer exposure.

Physical evidence of the lives improved by SodaStream’s activities in the West Bank along with a social media marketing campaign showing Israelis and Palestinians working side by side might help to mitigate against these risks while strengthening the reputation of the company.

Whether it was the right thing ‘to go’ nobody will ever know. Staying on and fighting media fire with CSR water is a viable alternative that would actually have improved people’s lives and even contributed to the peace process.

References


