Part Four
Implementing Business Ethics in a Global Economy

Chapter 12
Sustainability: Ethical and Social Responsibility Dimensions
Defining Sustainability

- **Sustainability**, from a strategic business perspective
  - Is the potential for the long-term well-being of the natural environment, including all biological entities
  - As well as the mutually beneficial interactions among nature and individuals, organizations, and business strategies
- **Sustainability can have different definitions in different cultures**
# Sustainable Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Country</th>
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</thead>
<tbody>
<tr>
<td>Umicore</td>
<td>Materials</td>
<td>Belgium</td>
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<tr>
<td>Natura Cosméticos</td>
<td>Consumer Staples</td>
<td>Brazil</td>
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<tr>
<td>Statoil</td>
<td>Energy</td>
<td>Norway</td>
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<td>Neste Oil</td>
<td>Energy</td>
<td>Finland</td>
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<tr>
<td>Novo Nordisk</td>
<td>Health care</td>
<td>Denmark</td>
</tr>
<tr>
<td>Storebrand</td>
<td>Financials</td>
<td>Norway</td>
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<td>Koninklijke Philips</td>
<td>Industrials</td>
<td>Netherlands</td>
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<td>Electronics</td>
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<td>Biogen Idec</td>
<td>Health care</td>
<td>United States</td>
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<td>Dassault Systems</td>
<td>Information Technology</td>
<td>France</td>
</tr>
<tr>
<td>Westpac Banking</td>
<td>Financials</td>
<td>Australia</td>
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Corporate Social Responsibility (CSR) is a corporate issue because:
- CSR can create competitive advantages
- Stakeholders have more power with increased access to information, both positive and negative
- Companies can use their brand identity to create social value, quality and customer loyalty
- Allows a firm to differentiate themselves and promote their products

Social responsibility is part of the budget, sustainability is a tool for ethical decision making and financial performance

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Ethical Decisions Affect Sustainability

Examples of Social Responsibility Concerns

Social Issues
Employee Well-Being
Legal Responsibilities
Sustainability
Philanthropy
Consumer Protection
Corporate Governance

Ethical Issue Awareness

Decisions

Stakeholder Evaluations
Global Environmental Issues

- **Atmospheric**
  - The most far reaching and controversial issues relate to the air we breathe

- **Water**
  - All businesses must think about water conservation, purification and allocation

- **Land**
  - Businesses have an ethical responsibility to minimize their harmful impact on the land
Atmospheric Issues

- Air pollution – comes from three sources
  - **Stationary** (factories and power plants)
  - **Mobile** (autos, planes, trains)
  - **Natural** (windblown dust and volcanic eruptions)

- Acid rain
  - *When certain elements in air pollution mix with air and water to create a new element, falling from the sky as corrosive rain*
  - *Can corrode paint and deteriorate stone*
Atmospheric Issues

- Most scientists believe our concentration of greenhouse gases accelerates global warming, a natural phenomenon
- The Kyoto Protocol was an international treaty to address greenhouse gas emissions
  - While it failed, it led to other initiatives, recently the Doha Gateway Agreement
- Some countries have implemented cap-and-trade programs for coal burning, the dirtiest form of energy
Water Issues

- Water pollution
  - Pollutants can come from various sources with many unknown side effects on humans and wildlife
  - Contaminated oceans compromise human food supplies
- Water quantity
  - While concerned about quality, some countries are increasingly worried about water quantity
Facts About Water Pollution

1. Up to 90% of wastewater in developing countries flow untreated to rivers, lakes and coastal zones.

2. Many industries such as leather and chemicals are moving from high-income countries to emerging market economies where pollution laws are not enforced.

3. Every day, 2 million tons of untreated human waste is put into some water source.

4. In developing countries, 70 percent of industrial waste is dumped untreated into water sources.

5. Projected increases in fertilizer use for food production and in wastewater effluents over the next three decades suggest there will be a 10% to 20% global increase in nitrogen water contamination.

6. Common organic water pollutants include detergents, disinfection by-products, food processing waste, insecticides and herbicides, petroleum hydrocarbons, Volatile organic compounds, chlorinated solvents, polychlorinated biphenyl (PCBs), trichloroethylene, and perchlorate.

7. Common inorganic water pollutants include acidity caused by industrial discharges, ammonia from food processing waste, chemical waste as industrial byproducts, fertilizers containing nutrients, heavy metals from motor vehicles, and acid mine drainage.

8. Macroscopic pollution (large visible items polluting the water) include urban storm water, marine debris, trash or garbage, nurdles (small ubiquitous waterborne plastic pellets), shipwrecks, and large derelict ships.

Land Issues

- Land pollution
  - Results from residential and industrial waste, strip mining and poor forest conservation
  - Causes health issues, habitat destruction, erosion, altered waterways and poisoned groundwater

- Waste management
  - Plastics, obsolete computers and cell phones in our landfills leach chemicals into the Earth
  - Many stakeholders believe manufacturers should be responsible for their products’ proper disposal
Land Issues

❖ Deforestation
  ➢ Reasons include the boom in biofuels, poverty, farming and short-term profits from lumber sales
  ➢ Companies must take a long-term view of environmental management

❖ Urban sprawl
  ➢ Transformed the U.S. from low-density communities to large-scale suburban developments
Land Issues

❖ Biodiversity
  ➢ *Because each species plays a unique role in its ecosystem, the loss of any one may threaten the entire ecosystem*  

❖ Genetically modified organisms
  ➢ *Controversial issue of transplanting genes from one organism to another, creating a new life form*
  ➢ *The long-term impact is unknown*
Environmental Policy and Regulation

- Environmental Protection Agency (EPA)
  The most influential regulatory agency; deals with environmental issues and enforces environmental legislation in the U.S.
  - Can file civil suits against companies that violate environmental laws
  - Established five strategic goals that reflect public priorities
## Goals of the EPA

<table>
<thead>
<tr>
<th>Goal</th>
<th>Long-term Outcome</th>
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<tbody>
<tr>
<td>1</td>
<td>Taking Action on Climate Change and Improving Air Quality</td>
</tr>
<tr>
<td>2</td>
<td>Protecting America’s Water</td>
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<tr>
<td>3</td>
<td>Cleaning Up Communities and Advancing Sustainable Development</td>
</tr>
<tr>
<td>4</td>
<td>Ensuring the Safety of Chemicals and Preventing Pollution</td>
</tr>
<tr>
<td>5</td>
<td>Better waste management, restoration of contaminated waste sites, and emergency response</td>
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Environmental Legislation

- Clean Air Act – 1970
  - Holds important implications for businesses and their relationships with consumers

- Endangered Species Act – 1973
  - Established a program to protect endangered and threatened species and their habitats

- Toxic Substances Control Act – 1976
  - Tracks over 75,000 industrial chemicals manufactured or imported into the U.S.
Environmental Legislation

- **Clean Water Act – 1977**
  - *Makes it illegal to discharge pollutants in navigable waters without a permit*

- **Pollution Prevention Act – 1990**
  - *Focuses on reducing pollution through changes in production, operation and raw material usage*
Environmental Legislation

- Food Quality Protection Act – 1996
  - Includes new safety standards for how the EPA regulates pesticides

  - Focuses on promoting alternative energy in the hopes to lessen U.S. dependence on foreign oil
Alternative Energy Sources

- Wind power
  - Holds great promise for the U.S. due to the Great Plains – one of the greatest sources of wind power on the planet

- Geothermal power
  - Provides a constant source of heat and is more reliable than other alternative fuels, but expensive
Alternative Energy Sources

- **Solar power**
  - 100% renewable energy but the technology remains expensive and inefficient

- **Nuclear power**
  - Pollution free and cost competitive but remains controversial due to dangers of meltdown and waste storage
Alternative Energy Sources

- **Biofuels**
  - *Corn ethanol is unsustainable but new technologies using algae and grass hold promise*

- **Hydropower**
  - *Largest form of renewable energy but controversial due to habitat destruction*
Business Response to Sustainability Issues

- Better environmental performance can increase revenue
  - Access to new markets, product differentiation and sale of air pollution technologies

- Better environmental performance can decrease costs
  - Improve risk management and stakeholder relationships, reduce materials and energy used and reduce capital and labor costs
Environmental and Economic Performance

Green Marketing

- **Green Marketing** is a strategic process involving stakeholder assessment to create long-term relationships with customers, while maintaining, supporting and enhancing the natural environment

- **Firms that want to become sustainability leaders should embed sustainability into their values, norms and beliefs**
Greenwashing involves misleading consumers into thinking a product/service is more environmentally friendly than it is.

- Research indicates greenwashing destroys consumer trust and creates confusion.
## Implementing an Environmental Strategy

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<tr>
<th>Low Commitment</th>
<th>Medium Commitment</th>
<th>High Commitment</th>
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<tr>
<td>Deals only with existing problems</td>
<td>Attempts to comply with environmental laws</td>
<td>Has strategic programs to address environmental issues</td>
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<tr>
<td>Makes only limited plans for anticipated problems</td>
<td>Deals with issues that could cause public relations problems</td>
<td>Views environment as an opportunity to advance the business strategy</td>
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<tr>
<td>Fails to consider stakeholder environmental issues</td>
<td>Views environmental issues from a tactical, not a strategic, perspective</td>
<td>Consults with stakeholders about their environmental concerns</td>
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<tr>
<td>Operates without concern for long-term environmental impact</td>
<td>Views environment as more of a threat than an opportunity</td>
<td>Conducts an environmental audit to assess performance and adopts international standards</td>
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Recycling Initiatives

- **Recycling** is the reprocessing of materials for reuse
  - Especially steel, aluminum, paper, glass, rubber and some plastics
- Some companies and local governments are finding ways to recycle water
Stakeholder Assessment

- Requires acknowledging and actively monitoring the environmental concerns of all stakeholders
  - The company must identify and prioritize claims
  - No company can satisfy every claim and stakeholders are not equal

- Strong relationships with stakeholders is the willingness to acknowledge and openly address potential conflicts
Risk Analysis

- Risk analysis assesses the environmental risks associated with business decisions
  - *Difficult to measure costs/benefits of decisions*

- High commitment companies must evaluate the latest information and maintain communication with stakeholders
  - *These companies incorporate new information and insights into the strategic planning process*
Highly committed companies may conduct an audit of their environmental efforts and report results to stakeholders

- *May use global standards as benchmarks*
- *Environmental laws/regulations vary by country making it difficult to find acceptable solutions on a global scale*