

College of Management

Business Ethics

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PMG 750

Lecture 10



Chapter 12: SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

CHAPTER OBJECTIVES:

- **Relate** sustainability to ethical decision making and social responsibility.
- **Examine** global environmental issues related to the atmosphere, water, and land.
- **Review** environmental legislation related to sustainability.

The Pyramid of Corporate Social Responsibility



Chapter 12: SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

CHAPTER OBJECTIVES:

- **Compare** renewable energy sources that provide alternatives for sustainability.
- **Evaluate** business responses to sustainability related to green marketing and greenwashing.
- **Provide** strategic directions for the Implementation of sustainability.

The Pyramid of Corporate Social Responsibility



SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

DEFINING SUSTAINABILITY



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 mutually beneficial interactions among nature and individuals, organizations, and business strategies.

Sustainability includes the assessment and improvement of business strategies, economic sectors, work practices, technologies, and lifestyles in the maintenance of the natural environment.

- **Sustainable development** has become a top concern for many businesses as it involves meeting the needs of the present without compromising the ability of future generations to meet their own needs.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

HOW SUSTAINABILITY RELATES TO ETHICAL DECISION MAKING AND SOCIAL RESPONSIBILITY



Business Ethics

The social obligations of a business, but also the obligations to employees, customers, suppliers, and competitors.

VS



Social Responsibility

Under the umbrella of business ethics but focuses more narrowly on a company's social obligations.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Defining Sustainability

- Sustainability falls into the social responsibility domain of maximizing positive and minimizing negative impacts on stakeholders.
- Because most stakeholders have concerns about some aspects of the natural environment, organizations should respond to those issues in their strategies, policies, and operations.

Decisions in this area relate to **assessing** risks, **monitoring** legal compliance, and **avoiding** misconduct within the environment.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Defining Sustainability

- A corporate culture that includes a sustainability agenda or a corporate social responsibility (CSR) report can create long-term favorable stakeholder responses.
- In addition, CSR performance can increase employees' company identification and commitment.
- Values are an important part of an ethical culture and support an organization's sustainability agenda.

Research indicates employees' exposure to sustainability activities increases the ability to implement sustainability programs as well as economic benefits.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Defining Sustainability

- Many firms use sustainable business practices to demonstrate their social commitment through such activities as sponsoring **cleanup** events, **recycling**, modifying manufacturing processes to reduce waste and pollution, using more **alternative** energy sources, and generally **reevaluating** the effects of their products on the natural environment.
- **Table 12-1 provides a list of some of the world's most sustainable companies.**

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

TABLE 12-1 **World's Most Sustainable Companies**

Company	Industry	Country
Siemens	Industrials	Germany
Storebrand	Financials	Norway
Cisco	Information technology	United States
Danske Bank	Financials	Denmark
ING Group	Financials	Netherlands
Bank of Australia	Financials	Australia
Koninklijke Phillips	Industrials	Netherlands
Johnson & Johnson	Health Care	United States
Koninklijke DSM NV	Materials	Netherlands
Enagas SA	Utilities	Spain

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Defining Sustainability

Sustainability, social responsibility, and ethics should not be used interchangeably.

- Some take the approach that if an organization is **sustainable**, then it is also ethical. However, an organization cannot ignore basic principles, values, and legal obligations to society.
- Because ethical decisions relate to specific conduct and relationships in the decision-making process, it becomes clear that sustainability is only one aspect of ethical decision-making.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Defining Sustainability

- Additionally, social responsibility is a much broader area than sustainability.
- Examples of social responsibility topics relating to various stakeholders include **consumer protection**, **corporate governance**, **employee well-being**, and more.
- All of these social responsibility areas have an ethical decision-making dimension.
- Figure 12-1 describes how ethical decisions impact sustainability as a component of CSR.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

FIGURE 12-1 Ethical Decisions Affect Sustainability as a Component of Social Responsibility



SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Defining Sustainability

There are four reasons social responsibility has become such an issue for organizations:

- **First**, *socially responsible activities such as sustainable business practices can create competitive advantages.*
- Consumers' buying behavior, the interaction of stakeholders with representatives of the organization, advertising practices, and participation in social media can help a firm stay on top of market knowledge and create beneficial relationships with stakeholders.
- **Second**, *organizations can use their products and brand identity to create social value, quality, and consumer loyalty.*

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Defining Sustainability

There are four reasons social responsibility has become such an issue for organizations:

- **Third**, *both positive and negative information about products and organizations became more available.* Therefore, consumers and other stakeholders gain power and can influence the economic success of the company.
- **Finally**, in this interconnected society, companies use their sustainable and socially responsible decisions to differentiate their firms and promote their products

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

GLOBAL ENVIRONMENTAL ISSUES



SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Global Environmental Issues

- The protection of air, water, land, biodiversity, and renewable natural resources emerged as a major issue in the twentieth century in the face of increasing evidence that mankind was putting pressure on the long-term sustainability of these resources.
- Some of the most significant environmental issues facing business and society today include: air pollution, acid rain, global warming, water pollution and water quantity, land pollution, waste management, deforestation, urban sprawl, biodiversity, and genetically modified foods.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

1. Atmospheric

- Among the most far-reaching and controversial environmental issues are those that relate to the air we breathe.
- **Atmospherics** is segmented into **pollution**, **climate change**, and **ozone depletion**.
- **AIR POLLUTION**: Air pollution typically arises from three different sources: **stationary sources** such as factories and power plants; **mobile sources** such as cars, trucks, planes, and trains; and **natural sources** such as windblown dust and volcanic eruptions.
- These sources discharge gases, as well as particulates, that can be carried long distances by surface winds or linger when air stagnation occurs.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

1. Atmospheric

- **ACID RAIN:** In addition to the health risks posed by air pollution, when nitrous oxides and sulfur dioxides are emitted from manufacturing facilities, the compounds are exposed to air and rain and form new compounds, resulting in what is commonly called acid rain.

The vital aspect of this type of pollution is that one country can produce it while another can have the negative impacts.

- Cleaning up emissions from factories and cars is one way to reduce acid rain.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

1. Atmospheric

- **GLOBAL WARMING:** When carbon dioxide and other gases collect in Earth's atmosphere, they trap the sun's heat like a greenhouse and prevent Earth's surface from cooling.

Without this process, the planet becomes too cold to sustain life.

- However, during the twentieth century, the burning of fossil fuels—gasoline, natural gas, oil, and coal—accelerated dramatically, increasing the concentration of “greenhouse” gases (carbon dioxide, methane, nitrogen oxides, and fluorinated gases) in Earth's atmosphere.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

1. Atmospheric

- **GLOBAL WARMING:**

- At the same time, chlorofluorocarbons—from refrigerants, coolants, and aerosol cans—are believed to be the cause of a giant hole in the Earth's atmospheric ozone layer.
- The ozone layer filters out the sun's harmful ultraviolet light. These and other factors cause what the media call "global warming."

One attempt at addressing global warming was the Kyoto Protocol.

- This international treaty was meant to curb global greenhouse gas emissions by having countries voluntarily reduce their national outputs.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

1. Atmospheric

- **GLOBAL WARMING:**

Coal is another area of contention among different countries.

- Burning coal contributes to air pollution by releasing large amounts of gaseous and particulate emissions into the atmosphere. Some countries are combating coal usage by implementing cap-and-trade programs.

A cap-and-trade program sets carbon emissions limits (caps) for businesses, countries, or individuals.

- Companies are given a certain amount of carbon they are allowed to emit, and to legally emit anything beyond the limit requires a company to purchase carbon credits from another company that does not pollute as much.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

2. Water

- **Water** is emerging as the most important and contested resource of the twenty-first century.
- Nothing is more important to human survival, yet fresh water is being polluted and consumed at an unprecedented rate..
- To remain viable, all businesses must think about water conservation, purification, and allocation.
- **WATER POLLUTION** is one of the biggest contributors to illnesses in developing countries. Chemicals found in commonly used fertilizers and pesticides can drain into water supplies with each rainfall.
- Mercury, a common chemical found in batteries and some household products, is another concern as it contaminates oceans and, therefore, human food supplies.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

2. Water

- **WATER QUANTITY** In addition to concerns about the quality of water, some parts of the globe are increasingly worried about its quantity. Water use has increased dramatically in the last two decades, creating serious consequences for the global water supply and for business.

Proactive companies are facing this reality and coming forward with solutions.

- Starbucks installed a manually operated pump faucet to replace regular turn-on fixtures in their stores, estimated to save approximately 100 gallons of water per store each day.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

3. Land

- **Land sustainability** issues include everything from pollution and waste to loss of biodiversity and genetically modified food.
- These ethical issues are decreasing the use of viable land for human and animal habitation.
- Because businesses generate waste, contribute to urban sprawl, and often require the use of hard-to-restore natural resources, they have an ethical responsibility to minimize their harmful impact on the land.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

3. Land

- **LAND POLLUTION** Land pollution results from the dumping of residential and industrial wastes, strip mining, and poor forest conservation.
- Such pollution causes health problems in humans, jeopardizes wildlife habitats, causes erosion, alters watercourses (leading to flooding), and can eventually poison groundwater supplies.
- While soil pollution may not be as much of a problem in other countries, balancing the needs of stakeholders, including consumers, businesses, the environment, and society at large, is an important ethical consideration.

In order to reduce pollution around the planet, all businesses must become aware of and accept responsibility for the problem of pollution.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

3. Land

- **WASTE MANAGEMENT** One of the biggest factors in land pollution is the dumping of waste into landfills. American consumers are by far the world's biggest wasters. The nation has up to 40,000 abandoned landfills that are often left untreated and are filled with plastics and other materials that can take 1,000 years to degrade.
- **DEFORESTATION** The world's forests are being destroyed at a rate of 46,000 to 58,000 square miles annually.³⁶ The reasons for this wide-scale destruction are varied.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

3. Land

- **URBAN SPRAWL** Urban sprawl began in the United States with the post-World War II building boom.
- This boom transformed the nation from primarily low-density communities designed to accommodate one-car households, bicyclists, and pedestrians to largescale suburban developments at the edges of established towns and cities.
- Although limiting urban sprawl creates disadvantages for car and oil companies, many businesses can benefit from urban renewal movements that reduce sprawl.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

3. Land

- **BIODIVERSITY** Deforestation, pollution, development, and urban sprawl put increasing pressure on wildlife, plants, and their habitats.
- Many plants and animals became extinct, and thousands more are threatened.
- Experts fear overutilization of natural resources will cause catastrophic imbalances in the environment.
- Because each biological species plays a unique role in its ecosystem and is part of a complex chain of events, the loss of any of them may threaten the entire ecosystem.

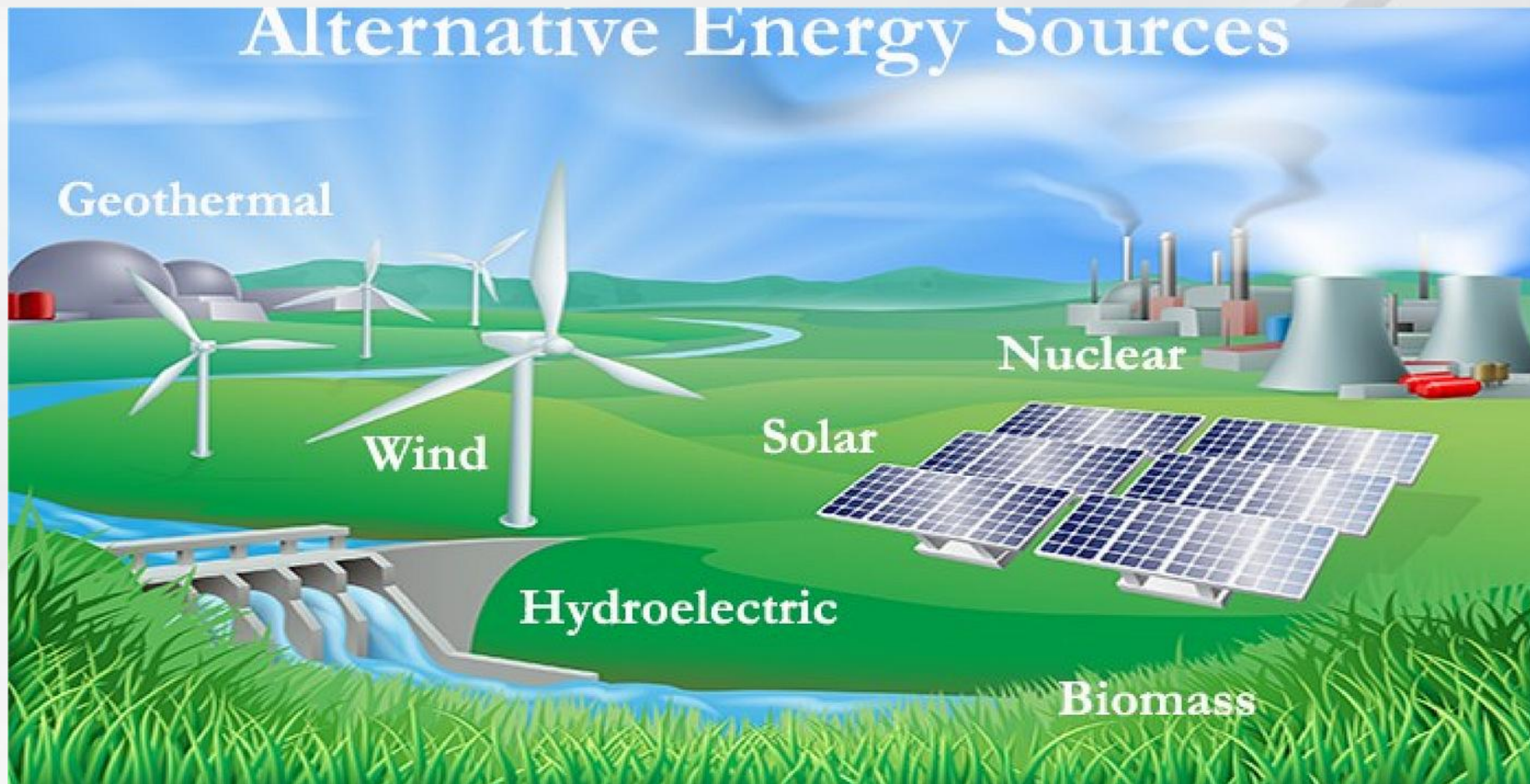
SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

3. Land

- **GENETICALLY MODIFIED ORGANISMS** Depending on whom you ask, genetically modified foods are going to save impoverished areas from starvation and revolutionize agriculture or destroy biodiversity and make us all sick.
- Genetically modified (GM) organisms are created through manipulating plant and animal DNA to produce a desired effect like resistance to pests and viruses, drought resistance, or high crop yield.
- This process generally involves transferring genes from one organism to another in a way that would never occur naturally, in order to create a new life form with unique traits.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

ALTERNATIVE ENERGY SOURCES



SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Alternative Energy Sources

- Alternative energy sources already have a major impact on many stakeholders.
- In some cases, they significantly decreased the carbon footprint of communities, cities, and even countries.
- Businesses such as New Belgium Brewing incorporated alternative energy sources into their operations, decreasing their carbon emissions as well as their energy costs.
- The following section will describe some of the more popular forms of alternative energy sources being explored.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Alternative Energy Sources

- **Wind Power**, experts believe wind energy could meet as much as 20 percent of the nation's energy needs.
- **Geothermal Power** Geothermal power has significant advantages and disadvantages that either advance or limit its adoption.
 - On the one hand, geothermal energy provides a constant source of heat.
 - It is subsequently a more dependable energy source than some other forms of alternative energy.
- **Solar power** is 100 percent renewable energy that can be converted into electricity through the use of either photovoltaic cells (solar cells) on homes and other structures or solar power plants.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Alternative Energy Sources

- The major disadvantages of solar power are that the technology remains expensive and inefficient compared to traditional fossil fuel-generated energy, and the infrastructure for mass production of solar panels is not in place in many locations.
- **Nuclear Power** Countries throughout Europe managed to greatly reduce their emissions through the implementation of nuclear power plants, yet this form of power remains controversial.
- Because of the danger associated with nuclear meltdowns and radioactive waste disposal, nuclear power earned a bad reputation in the United States.
- On the one hand, nuclear power is pollution-free and cost-competitive.

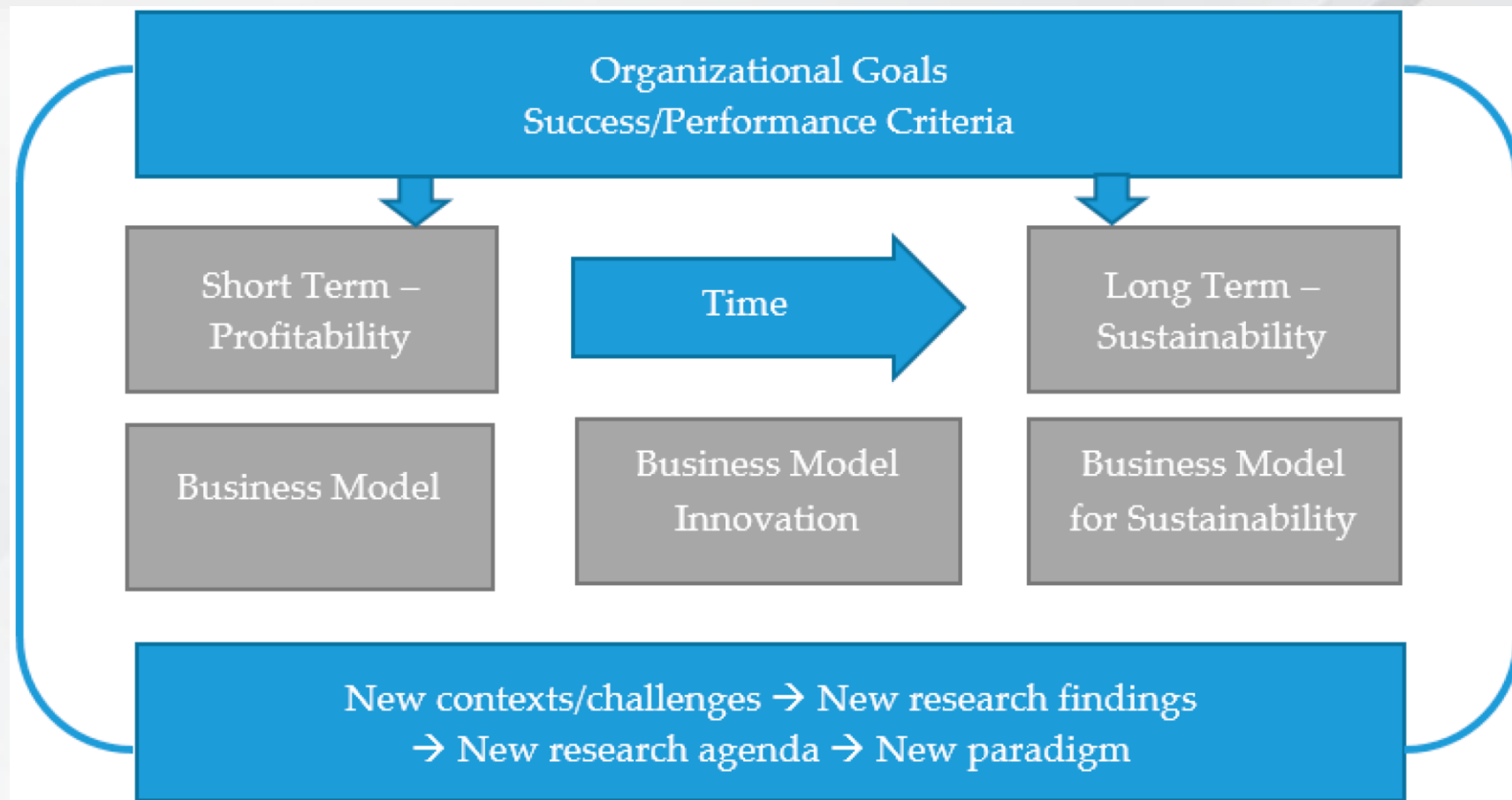
SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Alternative Energy Sources

- **Biofuels** Perhaps the most controversial form of alternative energy after nuclear power is ethanol.
- Critics argue that manufacturing ethanol takes a lot of energy and is not much more sustainable than oil.
- **Hydropower**, Throughout history people used water as a power source and means of transportation.
- From the water-powered mills of centuries past to modern hydroelectric dams, water is a powerful renewable energy source

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

BUSINESS RESPONSE TO SUSTAINABILITY ISSUES



SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Business Response to Sustainability Issues

- **Green marketing** is a strategy involving stakeholder assessment to create meaningful long-term relationships with customers, while maintaining, supporting, and enhancing the natural environment.
- **Greenwashing** As green products become more popular, greenwashing increasingly becomes an ethical issue. Greenwashing involves misleading a consumer into thinking a good or service is more environmentally friendly than it really is.
- Greenwashing ranges from making environmental claims required by law and are therefore irrelevant (CFC-free) to puffery (exaggerating environmental claims) to fraud.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

Business Response to Sustainability Issues

- The most common reason for greenwashing is to attract environmentally conscious consumers.
- Many consumers do not find out about the false claims until after the purchase.
- Therefore, greenwashing may increase sales in the short term.
- However, while greenwashing might make a company appear sustainable, this strategy can seriously backfire when consumers find out they are being deceived.

SUSTAINABILITY: ETHICAL AND SOCIAL RESPONSIBILITY DIMENSIONS

The Strategic Environmental Audit



TABLE 12–7 Strategic Sustainability Audit

Yes	No	Checklist
☐	☐	Does the organization show a high commitment to a strategic environmental policy?
☐	☐	Do employees know the environmental compliance policies of the organization?
☐	☐	Do suppliers and customers recognize the organization's stand on environmental issues?
☐	☐	Are managers familiar with the environmental strategies of other organizations in the industry?
☐	☐	Has the organization compared its environmental initiatives with those of other firms?
☐	☐	Is the company aware of the best practices in environmental management regardless of industry?
☐	☐	Has the organization developed measurable performance standards for environmental compliance?
☐	☐	Does the firm reconcile the need for consistent responsible values with the needs of various stakeholders?
☐	☐	Do the organization's philanthropic efforts consider environmental issues?
☐	☐	Does the organization comply with all laws and regulations that relate to environmental impact?



Thank You