

Business Ethics & Corporate Social Responsibility

Session 20 Chapter 9: Business and Environmental Sustainability

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AGENDA

- Session Objectives
- Sustainability
- Business's Environmental Responsibility



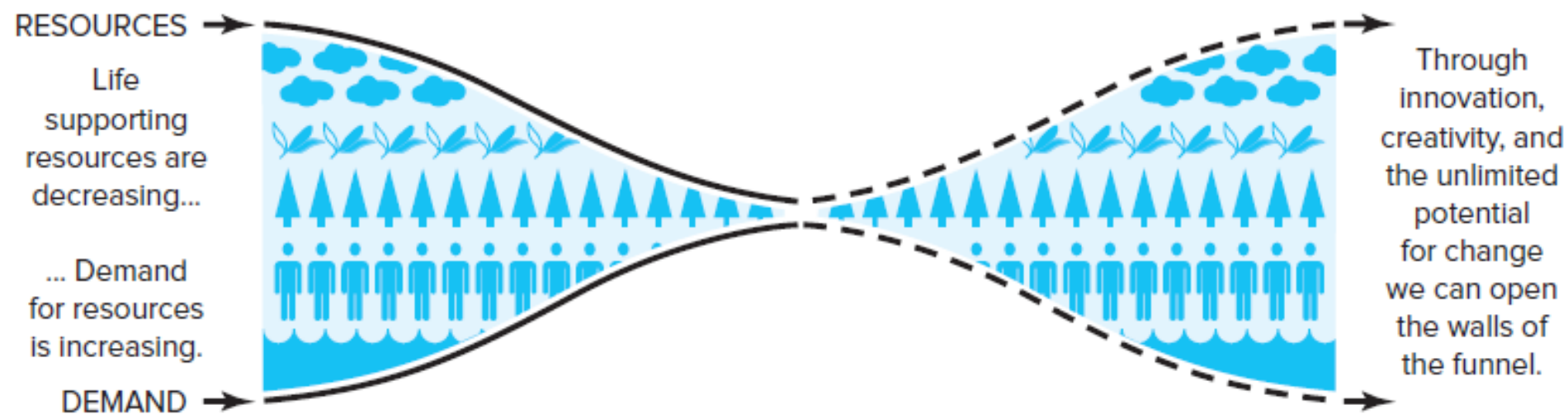
SESSION OBJECTIVES

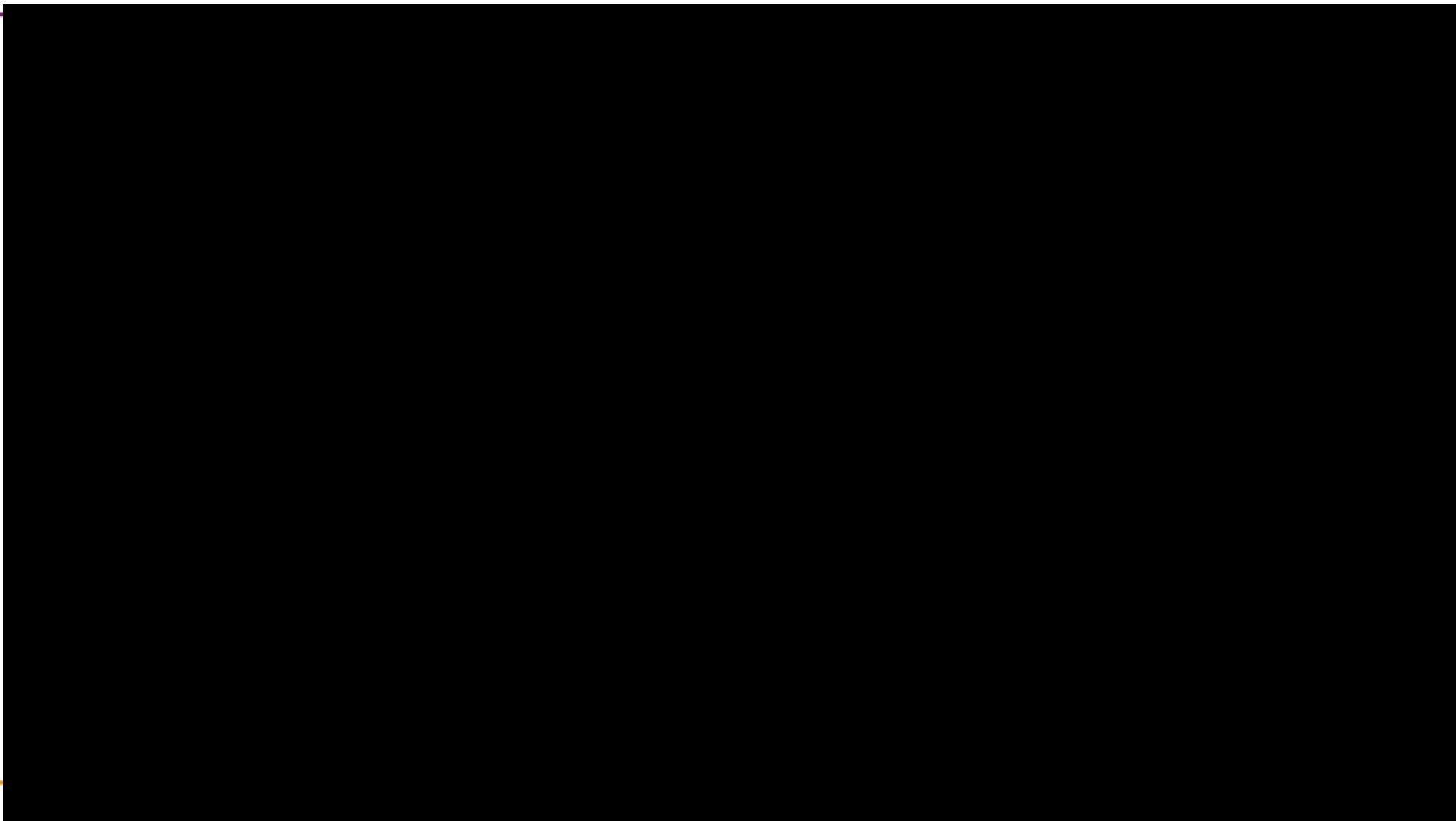
- Understand the concept of sustainability.
- Discuss the reason for protecting sustainability.
- Explain the difference between market-based and regulatory-based environmental policies.
- Identify the inadequacies of sole reliance on a market-based approach.
- Identify the inadequacies of regulatory-based environmental policies.
- Define and describe sustainable development and sustainable business.



Figure 9.1

The Natural Step's Funnel





INTRODUCTION

- Many believe we have entered the sustainability revolution,
 - where the race to create environmentally and economically sustainable products and services is creating unlimited business opportunities.
 - The Industrial Revolution brought the ability to degrade the natural environment at a faster rate than ever before.
 - By the start of the 21st century, the earth is experiencing a high species extinction rate which also threatens humans.
- The major ethical question of this chapter is what **responsibilities** businesses have regarding the environment.
 - Sustainable business and economic development seek to create new ways of doing business in which success is measured in terms of
 - **economic, ethical, and environmental sustainability,**
 - Often called the *triple bottom line* approach.



- The Natural Step challenges business to “backcast” a path toward sustainability.
- Sustainable business must use resources and produce wastes at rates that do not jeopardize human well-being.
- Businesses that do so will succeed in moving through the funnel and emerging as successful in the age of sustainability.

Backcasting

The Natural Step challenges business to imagine what a sustainable future must hold

From that vision, creative businesses then look backward to the present and determine what must be done to arrive at that future



BUSINESS ETHICS AND ENVIRONMENTAL VALUES

- Earlier chapters talked of ethics in terms of practical reasoning.
- And our standards encourage us to act one way rather than another.
- Given this objective,
 - which values and decisions are supported by a concern with the natural environment?
 - Why should business value the natural world?
- **Human self-interest** is the most obvious answer.
 - Two environmental realities underscore the importance.
 - Global climate change, species extinction, soil erosion and nuclear wastes threaten future generations.
 - Ecology shows us that natural systems are connected,
 - and we are a natural system.
 - The conservation movement advocated a restrained and prudent approach to the natural world.



HUMAN SELF-INTEREST!

- All human beings depend on the natural environment in order to survive.
 - Humans need clean water to drink, healthy air to breathe, fertile soil and oceans to produce food, an ozone layer to screen out solar radiation, and a biosphere that maintains the delicate balance of climate in which human life can exist.
- Two aspects of contemporary environmental realities underscore the importance of self-interested reasoning.



1. THE THREAT TO LIFE

- Past human societies have often run up against the limits of the local environment's ability to sustain human life.
- In these historical cases, environmental degradation has been localized to a particular region and has seldom affected more than a generation.
- In contrast, some contemporary environmental issues have the potential to adversely affect the entire globe and change human life forever.
- Global climate change, species extinction, soil erosion and desertification, and nuclear wastes will threaten human life into the indefinite future.



2. THE THREAT TO EVERYTHING ELSE



- The science of ecology and its understanding of the interrelatedness of natural systems have helped us to understand the wide range of human dependence on ecosystems.
 - Where once we might have thought that buried wastes were gone forever, we now understand how toxins can seep into groundwater and contaminate drinking water across great time and distances.
 - We now understand how pesticides accumulate throughout the food chain and pose greatest dangers not only to top predators such as bald eagles, but to human beings as well.
 - Where once we thought that ocean fisheries were inexhaustible and the atmosphere too big to be changed by humans, we now understand the precise balance necessary to maintain life-supporting systems.



BUSINESS ETHICS AND ENVIRONMENTAL VALUES

- Besides the self-interest reasons, the natural environment is essential and valuable for other reasons.
- These other values often conflict with the direct value that comes from treating the natural world as a resource.
 - The beauty and grandeur of the natural world provides great **aesthetic, spiritual, and inspirational value**.
 - Many view the natural world in religious or spiritual values.
 - Parts of the natural world hold symbolic value, historical value, and **psychological values** such as serenity and exhilaration.
 - The animal rights movement attributes a **moral standing** to animals.



TWO APPROACHES TO ANIMAL MORAL STANDING:

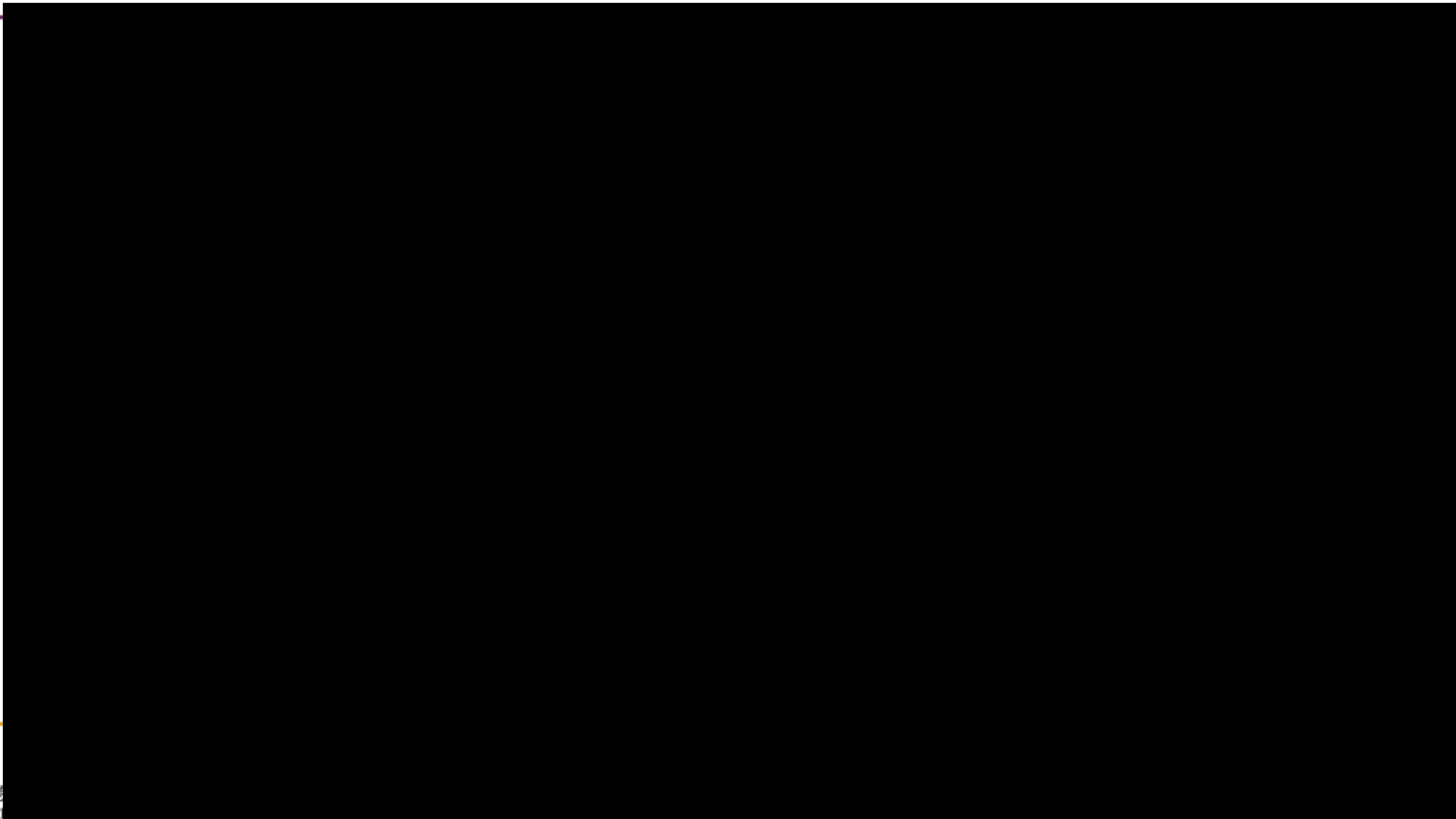
- Many animals, presumably all that have a central nervous system, have the capacity to feel pain.
- Reminiscent of the utilitarian tradition, this view asserts an ethical responsibility to minimize pain.
- Inflicting unnecessary pain is taken to be an ethical wrong; therefore, acts that inflict unnecessary pain on animals is ethically wrong.



TWO APPROACHES TO ANIMAL MORAL STANDING:

- A second approach argues that at least some animals have the cognitive capacity to possess a conscious life of their own.
- Reminiscent of the Kantian ethical tradition, this view asserts that we have a duty not to treat these animals as mere objects and means to our own ends.





MARKET OR REGULATION?

- Debate continues on whether efficient markets or government regulation is best when meeting the environmental responsibilities of business.
 - Each approach has significant implications for business.
- If the best approach to environmental concerns is to trust them to efficient markets,
 - then businesses should seek profits and allow the market to allocate resources efficiently.
- If government regulation is a more adequate approach,
 - then business should comply to regulatory requirements.
- Defenders of a market approach contend that environmental issues are economic problems, deserving economic solutions.



THE MARKET APPROACH

- William Baxter argued for an optimal level of pollution
 - by leaving it to a competitive market.
- Society could strive for pure air and water,
 - but the costs in lost opportunities is too high.
- A reasonable approach is to aim for air and water quality that is safe enough to breathe and drink.
- From a market perspective resources are “infinite.”
- History shows that humans find substitutes for any shortages.
- All resources are “fungible”
 - as they can be replaced by substitutes, and thus, infinite.
- Resources not being used to meet consumer demand are being wasted.



THE MARKET APPROACH

- A variety of market failures point to the inadequacy of market solutions.
 - One example is the existence of externalities.
 - The “costs” of environmental degradation is borne by parties “external” to the economic exchange , such as future generations.
- A second type of market failure occurs when no markets exist to create a price for important social goods, such as scenic vistas.
 - Markets alone fail to guarantee that such things are protected.
- A third market failure involves a distinction between individual decisions and group consequences.
 - Important ethical issues may be missed if policy decisions are solely the outcome of individual decisions.



THE REGULATORY APPROACH

- Much of the most significant environmental legislation in the U.S. was enacted during the 1970s.
- Before these laws, tort law was the only recourse.
 - Only individuals who could prove that they had been harmed by pollution could raise legal challenges to air and water pollution.
 - That legal approach placed the burden on the person who was harmed and, at best, offered compensation for the harm only after the fact.
- The laws established standards that shifted the burden from those threatened to those who would cause the harm.
 - Business was free to pursue its own goals as long as they complied.



THE REGULATORY APPROACH

- Several problems suggest this approach will prove inadequate over the long term.
 - First, it underestimates the influence that business can have in establishing the law.
 - The automobile industry used lobbying influence to exempt light trucks and SUVs from **Corporate average fuel economy (CAFE)** standards.
 - Second, this approach also underestimates the ability of business to influence consumer choice.
 - It is misleading to claim that business passively responds to consumer desires and that consumers are unaffected by advertising.
 - Finally, this model assumes that economic growth is environmentally and ethically benign.
 - There are many roads to profit and different roads can have very different environmental consequences.



THE SUSTAINABILITY APPROACH

- The 1980s brought a new model which combined financial opportunities with environmental and ethical responsibilities.

Sustainable development

- Meets present needs without compromising future generation's needs

Sustainable business practices

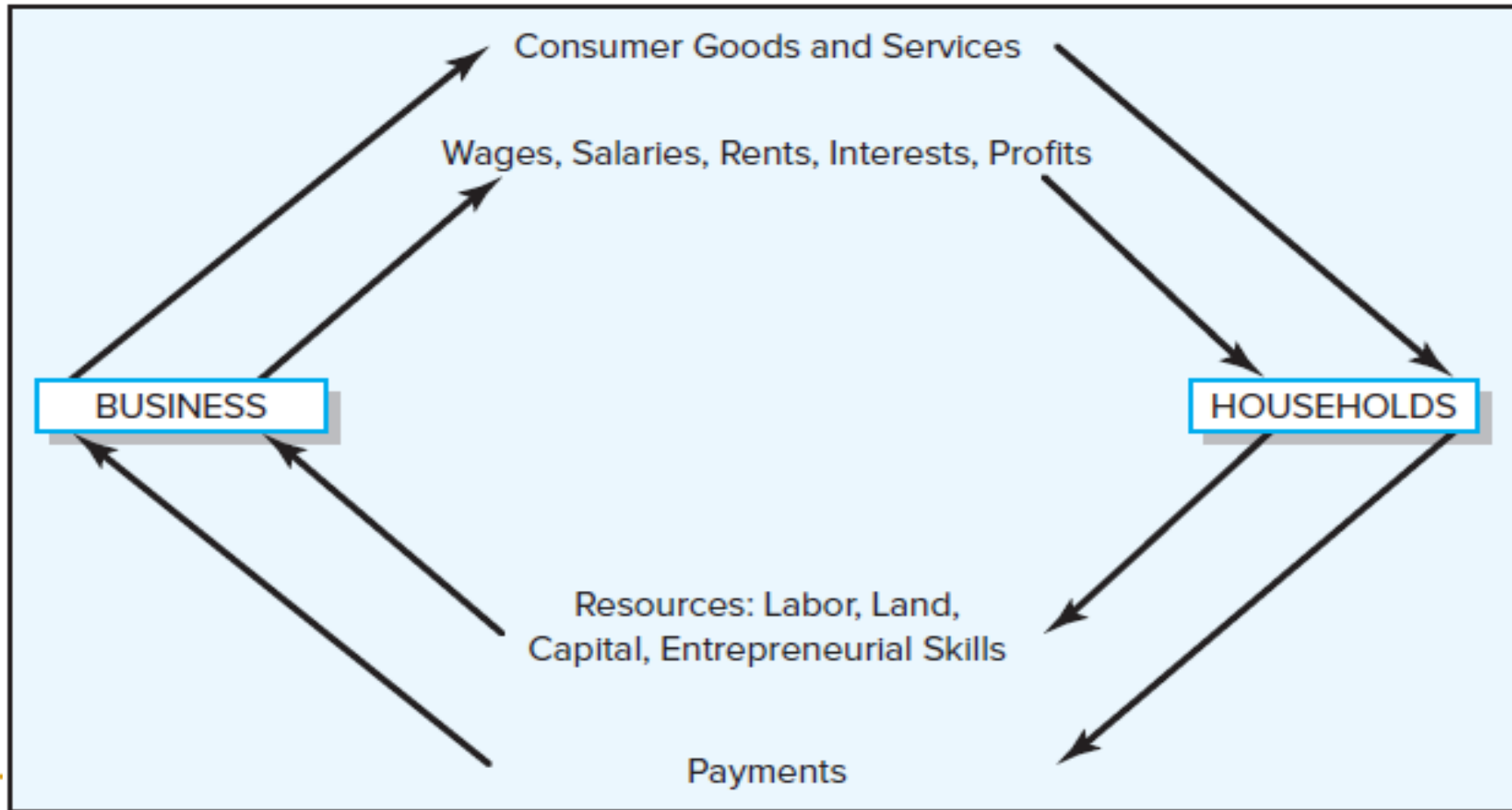
- A model in which business activities meet the standards of sustainability

Three pillars of sustainability

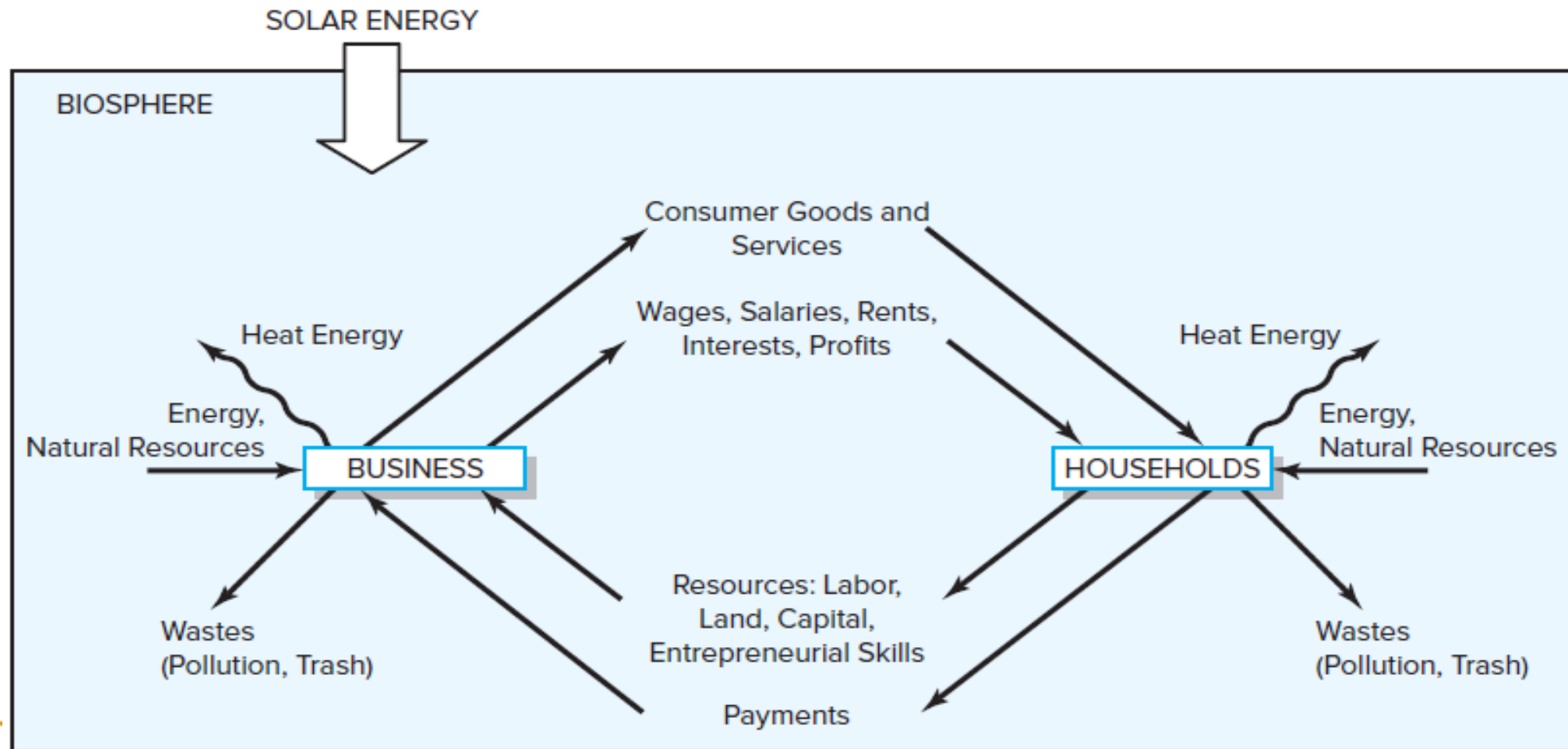
- Development must be economically, environmentally, and ethically satisfactory



The Circular Flow Model



A Model of the Economy (or Economic System) as a Subset of the Biosphere (or Ecosystem)



THE SUSTAINABILITY APPROACH

- Daly argues that over the long term,
 - resources and energy cannot be used, nor waste produced, at rates at which the biosphere cannot replace or absorb them.
 - Daly calls these the “biophysical limits to growth.”
 - The biosphere can produce resources indefinitely, and it can absorb wastes indefinitely, but only at a certain rate and with a certain type of economic activity.
 - The goal of sustainable development is to find that rate and type of activity, thereby creating a sustainable business practice.
 - This is the ultimate environmental responsibility of business.



THE “BUSINESS CASE” FOR A SUSTAINABLE ECONOMY

- Unlike the regulatory and compliance model, the sustainability model may present greater opportunities than burdens.
 - *First, sustainability is a prudent long-term strategy.*
 - As the funnel showed, successful businesses must use sustainable practices.
 - *Second, the huge unmet market potential among developing economies can only be met in sustainable ways.*
 - The base of the economic pyramid represents the largest and fastest growing economic market in human history.
 - *Third, significant cost savings can be achieved with sustainable practices.*
 - *Fourth, competitive advantages exist for sustainable businesses.*
 - *Finally, sustainability is a good risk management strategy.*
 - Avoiding future government regulation and avoiding legal liability are both potential benefits of sustainable products and practices.



CASE DISCUSSION QUESTIONS FOR NEXT CLASS

- What happened to luckin coffee?
- What's luckin's marketing strategy?
- Do you feel there's ethically wrong doing for luckin's marketing strategy, especially from a sustainability perspective?

