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Editorial

This issue of the Journal of Business Systems, Governance and Ethics presents papers from the US, Australia, Indonesia and Africa with an emphasis on the seminal topic of ethics. The first article in this issue, *A System Approach to Implementing Business Ethics in the Corporate Workplace* by Clifton Clark form the City University of New York. Argues that that strategies to implement ethics in the workplace are largely unsuccessful because of the failure of two systems, the corporate system of the workplace and the education and public systems found in government and public institutions that include business schools. He concludes that business schools are uniquely capable of leading a transformation to an ethical culture.

The next two papers address environmental ethics. William Lamberton from Southern Cross University*, in An Ethical Response to Climate Change,* examines the ethical question of the responsibility of business organisations to climate change. He applies ethical theories to support his argument that businesses have a moral responsibility to respond immediately to commence sustainable production and distribution systems that reduce carbon emissions and that responses should not be delayed in the interests of business profits. The second paper on climate also addresses the cost implications of carbon emissions by investigating the relationships between carbon emissions and foreign direct investment, gross domestic product and population size in Indonesia. Shofwan Shofwan, University of Brawijaya Indonesia, and Michelle Fong from Victoria University use econometric analysis to investigate whether foreign investors move to countries that apply lower environmental standards. The results of their study provide poor support for the pollution haven hypothesis.

The final paper describes the particular ethical dilemmas faced by international managers working in Africa. Abiodun Joachim and Oyeniyi and Joseph from Covenant University identify the ethical challenges created for managers and their employees by the conflicting values, goals and perceptions associated with their diverse backgrounds. They conclude that new skills will be required to resolve the ethical dilemmas that arise from corruption and bribery, piracy and counterfeiting, economic espionage, sexual discrimination and cartels.

Professor Anona Armstrong AM
Guest Editor

A System Approach to Implementing Business Ethics in the Corporate Workplace

Clifton Clarke
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Abstract

The current vitriolic discourse over the financial scandals implicating Wall Street and its satellite institutions dictates a fresh look at strategies intended to eradicate or prevent unethical practices in business activities. The spate of recently published unethical behavior among business executives in the United States confirms, unequivocally, that past and current strategies have failed. This paper reviews and evaluates the impact of some of these strategies. It found that the strategies focus on legislation, written corporate codes of ethics and assorted activities in business schools. It found that these strategies are largely isolated and missed the fact that unethical business conduct is systemic, reflecting the ethical lapses of two systems: a public system (consisting of governmental bodies, business schools, and the general citizenry) and a corporate system (consisting of boards of directors, executives, managers and employees). It found that there is a significant gap between the rhetoric of corporate executives and their attention to unethical conduct in the workplace. It concludes that isolated legislative actions, apathetic business schools' policies, complacent and complicit corporate boards, contribute to the failure. It also concludes that, the implementation of business ethics in the workplace requires a transformation of attitude within and between these systems and posits that a system approach is the only strategy that can successfully transform these systems and that business schools are uniquely capable of leading this transformation.

Keywords

Ethics, corporate workplace, transformation, culture, business schools, legislations

Introduction

Hearings held by a subcommittee of the Banking and Finance Committee of the United States Senate on certain practices of financial institutions, particularly those practices that might have contributed to the economic collapse in 2008, revealed the disconnect between the public's and corporations' perceptions of ethical conduct (Hauser 2010). Several of the questions posed to the Chief Executive Officer, and the Executive Director of Structure Products Group Trading of Goldman Sachs Group, Inc., focused on the company's ethics. For example, the senators wanted to know whether it was ethical for the company to sell investments that its own trading team knew were "worthless". In their defense, this and other questionable practices were an integral part of their company's business model. Similarly, Morganton (2011), of the New York Times reported that the former Chief Executive Officer of Countrywide Financial, then the largest mortgage lender in the United States, knowingly developed and sold questionable loans. He reported that "E-Mails and other documents supplied to regulators in the Security and Exchange Commission's (S.E.C.'s) case against Mr. Mozilo showed him discussing the company's lending practices and describing some of its loans as 'toxic' and 'poison'. Nevertheless, the company kept selling the types of loans Mr. Mozilo was denigrating". For Mr. Mozilo the benefits of his action outweigh the cost, noting that "Countrywide was helping to breakdown the racial and economic barriers to homeownership. This approach went a long way to

avoiding a serious social problem down the line" (Protests 2011). From the perspectives of these executives their actions were well within the boundaries of the free market system, a view rejected by the general public who saw the market ideology defense as a ruse to obfuscate their unethical, if not illegal practices. The public's position is consistent with that of Gras (1939), who argues that exploitation is an abuse of the capitalist system and is not inherent in the system itself. The contradictions alluded to are symptomatic of the discord between normative and practical ethics. It is not surprising that the conduct in question has resurrected the age-old debate over ethics, and in particular, business ethics and the role of business schools.

Context and Definitions

The advocacy for the integration of ethics into business and accounting education dates back many years. An editorial in the Journal of Accountancy posited that "Ethics should be a subject of study for every accounting student" (Journal of Accountancy 1953, p. 293). The American Accounting Association's Committee on Future Structure, Content and Scope of Accounting Education recommended inter alia that accounting education should provide students with the knowledge to "appreciate ethical standards and conduct" (The Bedford Committee 1986, p. 179). The National Commission on Fraudulent Financial Reporting calls for changes in accounting education to ". . . include ethics discussions in every accounting course" (The Treadway Commission 1987, p. 83). Derek C. Bok, former president of Harvard University urged the Harvard Business School to introduce ethics into their MBA curriculum (Bok 1983). In 1982, The Wall Street Journal reported on the proliferation of fraudulent and questionable financial reporting practices (Morris 1982). Recently, the highly publicized cases of fraudulent activities associated with the securities market and financial accounting reporting and practices (Bernard Madoff, Enron Corporation, The Galleon Group, Primary Global Research, Arthur Andersen, WorldCom) to name a few, has fueled a chorus of demand for ethical conduct from individuals in business. As the public looks for remedies to this seemingly corporate cancer the question as to the role of corporate boards in stemming these behaviors in the workplace and the role business schools in molding the character of their graduates grows louder and more pervasive. But the precise actions expected from businesses and business schools have been evasive.

Philosophers and politicians have struggled with the concept of ethics for centuries with conflicting conclusions on how to define and implement it. Theodore Roosevelt (1858-1919), 26th President of the United State is reported to have said "To educate a man in mind and not in morals is to educate a menace to society" (Roosevelt, n.d.) It is interesting to note that this was said in a period of U.S. history that is known for 'political discrimination', 'economic exploitation' and 'social segregation'. And despite their campaign for a just and moral society, Plato and Aristotle concurred that slavery was necessary for the success of their society (Taeusch 1931). Likewise the literature is saturated with debates and discussions on the need to improve ethics in business. Although there is a consensus that ethics should be at the core of business transactions, there are chasms among the myriad of interpretations and applications. The inconsistencies alluded to above reflect the challenge to wed general or normative ethics and situational or practical ethics. Critical questions such as what is ethics, are there two ethics (business and personal), what role the extant culture plays in decision-making, and what role can business schools effectively play in implementing ethics in the workplace, have not been sufficiently answered.

A generally accepted definition of ethics is that it is the study of what is good and bad, right and wrong, just and unjust. Others such as Kohlberg described it as moral judgment and argued that "the exercise of moral judgment is a cognitive process" (Reimer et. al. 1983, p. 3). According to Cavanagh "ethics is a system of moral principles and the methods for applying them; ethics thus provides tools to make moral judgments. It encompasses the language, concepts, and models that enable an individual to effect moral decisions" (Cavanagh 1984, p. 137). De George (1987) defines ethics as the study of morality and immorality. Kaviya

(2011) offers this explanation "ethics is the discipline dealing with that which is good and bad and with moral duty and obligation. Business ethics is concerned with the behavior of a businessman in doing a business and . . . developed by the passage of time and custom. Custom differs from one business to another". Ethics, for some executives, has more nuances. It is casuistry, a cost-benefit calculation based on whether their behavior accrues benefits to their shareholders (Drucker 1983). This view point is consistent with the utilitarian theory of ethics (Bentham 1789) and (Mill 1863). Obviously, civil rights (Locke 1690) and justice (Aristotle 1953) are not factors in their decision set. These normative concepts are easily understood. The challenge is to implement them in tangible ways, that is, to construct strategies which promote business creativity and innovation, while simultaneously protect all stakeholders.

The interpretation and therefore implementation of ethical principles are further complicated by social concerns. Since ethics involves the interaction among people, it functions in a social system, whether that system is the general society or the workplace or both. A social system undergirds culture, which may be defined as the values and ideology that influence decision-making. Values determine the basis on which choices are made. An ideology is comprised of the integrated values in a social system. It provides purpose, directions and identity to that system. Thus an ideology determines goals, strategies and reputation of a system. The implication is that ethics is communicated through social systems. The ideologies and strategies that government, corporations and business schools employ to combat unethical business conduct and their results are evaluated against this backdrop.

Government and Ethics

The solutions for unethical business conduct have evaded both federal and states governments for decades. The origin of governments' involvement in business ethics can be traced to the Sherman Anti-trust Law of 1890 (Taeusch 1931). The objective of that and subsequent laws is to prevent or to deter unethical conduct "through strengthening systems and controls, and promoting transparency, accountability and informed citizenry" (Chene 2010). The central features of major federal legislation discussed in this section illustrate the extent of governments' anti-fraud interventions. These legislative actions may be divided into two categories; those designed to protect consumers on the one hand and investors on the other. The Sherman Anti-trust Act of 1890, and the Clayton Act of 1914, are among the first set of consumer protection legislations (Taeusch 1931). The former aims to prevent restraint of interstate and foreign trade while the later prohibits price discrimination in contracts and other agreements that restrict competition. The Foreign Corrupt Practices Act (FCPA) of 1977 and revised in 1988 has anti-bribery prohibitions and accounting and record-keeping requirements (Gaetti 1997). The anti-bribery prohibitions "make it illegal for U.S. persons to bribe a foreign government official for the purpose of obtaining or retaining business" (Gaetti 1997). The record-keeping provisions require publicly traded companies in the U.S. "to devise and maintain an accounting system which tightly controls and accurately records all dispositions of company assets" (Gaetti 1997). The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the Credit Card Act) prohibits predatory practices in the credit card industry and confirms certain consumer rights (Detweiler 2009). The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted to protect both consumers and investors. It, among other things, regulates transactions in products such as home mortgages, car loans, credit cards and certain derivatives. The oversight of these legislations is distributed among a maze of governmental agencies which oftentimes have overlapping objectives and contrary enforcement practices.

The securities markets are subject to the oversight of the Securities and Exchange Commission (SEC). The purpose of the SEC is to protect investors and maintain market integrity. The online publication "How the SEC Protects Investors, Maintains Market Integrity" discusses the main legislations in pursuit of this objective. The Securities Act of 1933 requires publicly traded companies to register their securities and

accurately disclose financial and other information that will influence investors' decisions. It also prohibits deceit, misrepresentations, and other fraud in the sale of securities. The Securities Exchange Act of 1934 regulates companies and individuals engaged in the sale and exchange of securities. It also authorizes the SEC to require periodic reporting of information by companies with publicly traded securities. The Investment Company Act of 1940 regulates the organization of companies engaged primarily in investing and trading in securities offered to the investing public. The Investment Advisers Act of 1940 and amended 1996, with certain exceptions, requires investment advisers to register with the SEC and comply with rules designed to protect investors. Finally, the Sarbanes-Oxley Act of 2002, was enacted in response to the Enron, WorldCom and other similarly high profile scandals. It, among other things, mandated several reforms to guard against corporate and accounting fraud. Since 1991 the enforcement strategies have been augmented by the federal sentencing guidelines designed to encourage ethical conduct in the workplace (Desio 2004). Despite these strategies by government, unethical business conducts continues in various forms. The strategies employed by corporations have produced no better results.

Corporate Culture and Ethics

The origin of unethical business practices is unknown. However there are events in history which indicate that it is not a recent phenomenon. These events demonstrate that unethical behavior is not a victimless activity. Unfortunately, it usually takes egregious incidents to expose the injury it inflicts on individuals and society. One of the earliest reported incidents is in the Holy Bible (Mathew 21: 12), where it is reported that Jesus in a rage directed mainly at the moneychangers (bankers), drove the merchants and moneychangers out of the temple (Scripture Backdrops). The moneychangers were notorious for charging pilgrims exorbitant foreign exchange rates and fees (Scripture Backdrops). Taeusch (1931) opined that business ethics emerged at the peak of the westward migration. He asserts that "from this time on, excess social, political, and economic energies could no longer expend themselves on a virgin territory, but reacted more and more upon established human communities. It is in such reflective situations that ethical considerations arise; and so they arose in our economic life, first in the form of labor disturbances and agrarian readjustments, and later in the sharper conflicts of business competition" (Taeusch 1931, p. 53). De George (1987) and Gras (1939) suggested that attention to ethics in business has its origins in religious values; the expectation that one should be concerned about the wellbeing of others.

While there may be a universal expectation of corporations to do what is good, right and just, the question remains as to what is good or bad, right or wrong, just or unjust in business. Drucker and others have expressed skepticism of the very idea of a business ethics. He asked, ". . . if there is indeed something that one could call business ethics and could take seriously, what could it be?" (Drucker 1993, p.195). There are two main theories of business ethics. One is the theory of moral unity which holds that business actions can be judged by the general ethical standards of society (Steiner and Steiner, 1985). This point of view is consistent with those of moralists such as F. H. Bradley (Ethical Studies, 1876), Edmond Cahn (The Moral Decision, 1955) and Aristotle (Ethics, 1953). But moralists do allow for unethical behavior in "extenuating" and "aggravating" circumstances based on social and cultural mores. For example, they accept that a poor widow who stole bread to feed her starving children should receive clemency. In Nicomachean Ethics, Aristotle suggests that unethical behavior caused by ignorance and incapacity to perform an action should be excused. As Gras (1939) observed, "Unhappy lies the head of the moralist, for he must try to fit parts that do not match" (Gras, 1939, p. 315).

Another school of thought, the amoral theory, argues that business activity is amoral and so decisions should be based solely on considerations of economic self-interest (Steiner & Steiner 1985). This economic theory and its contaminant business practices flourished in the nascent period of capitalism under the doctrine of

Social Darwinism (survival of the fittest) and laissez-faire economics. This doctrine underpins the philosophy of Adam Smith (1904) and others who believe that the common good is best achieved by individual pursuit of their self-interest. This line of thinking is the central tenet of corporations' practices. The financial crisis of the U.S. in the 1930's and the subsequent intervention of the federal government in the economy (the New Deal) at least modified the scope of business autonomy and thereby the behavior of individuals in business. The resurrection of the doctrine of 'survival of the fittest' saw a resurgence of business practices that are obviously not good, not right and not just. Some of the purveyors of these practices have been prosecuted. Others such as those associated with certain practices related to subprime mortgages and credit swaps and the subsequent collapse of the housing market are being investigated. Both the moral and amoral theories have some validity. Groups of all kinds need a set of principles that guide the behavior of their members. But individuals must have the space to create and innovate and to benefit from the fruits of their action.

Ultimately, ethics is practiced by individuals, and so it cannot be evaluated in a vacuum. The challenge individuals face is how to apply general principles of ethics in the context of the situation that confront them. A survey conducted by Merchant (1987) suggests the following reasons for the spate of fraudulent and questionable financial reporting experienced then and which seem appropriate now:

1. Incentives and other inducements: rewarded by the 3P's – Pay, Promotion and Praise. They become ends.

   Managerial performance is measured in terms of results. Results are which justify means. "The means-ends ethics" is often associated with the Italian political philosopher Niccolo Machiavelli. In the Prince he wrote that worthwhile ends justify efficient means, that when ends are of overriding importance or virtue, unscrupulous means may be employed to reach them.

2. Temptations:
   The ineffectiveness or nonexistence of corporate controls to detect managers' deceptive practices

3. Lack of moral guidance and leadership from top management.

Merchant (1987) concluded that corporations could resolve these problems by using strong penalties for violations, by using realistic performance targets, and by deemphasizing short-term goals. The implementation of these suggestions may serve as deterrents for some employees, but they missed the salient point and that is, unethical behavior is system induced and nurtured. A system will produce the best product it is designed to produce, the saying goes. Corporate systems are designed to produce profits, first and foremost. If ethical behavior generates profits, businesses will provide incentives and rewards to employees who adhere to ethical standards.

A study of businesspeople by Baumhart shows that most believe a code of ethics would help them clarify their own standards and decisions (Baumhart, 1961). In essence, business executives are not against the concept of ethics and a large majority has developed written codes of conduct for their own firms. The struggle between normative and practical interpretation of ethics is a challenge for business executives in a viciously competitive world. They need successful models, that is, proven practices and processes that produce measurable outcomes. Ethics, as a discipline, lacks these attributes and therefore it does not offer the confidence executives need to plan. Planning is about the future. The future is a dark place and no executive will enter there without some protection. It was probably in recognition of this vagueness that Blumenthal, former chair of Burroughs Corporation and Bendix, and secretary of the United States Treasury, proposed the establishment of a national code of business ethics among Chief Executive Officers (Blumenthal 1975). It was in the same vein that The Caterpillar Tractor Company developed and distributed its own code of conduct

to its managers worldwide (Caterpillar 1974). These proposals were widely accepted as evidenced by the growth in the number of firms that subsequently created ethics committees within their boards of directors (Cavanagh 1984).

The number of firms with written codes conduct has grown since the 1970's. Kerin, et al (2007), estimated that "80 percent of United States companies have some sort of ethics code and one of every five large companies has corporate ethics officers "(Kerin et al. 2007, p. 84). However, the actions of some companies could have been driven by the plethora damaging disclosures of unethical and illegal acts in which of some of the largest American firms engaged during the 1970's (Ross 1980). Such conduct was not confined to activities in the United States. According to Clinard & Yeager (1980), many corporations were implicated in the practice of paying bribes to foreign officials. The growth in corporate ethics programs might also be motivated by the 1991 Federal Sentencing Guidelines for Organizations (Joseph 2003). It provides for a significant financial incentive to corporations who implement these guidelines. Programs that follow the sentencing guidelines may receive a reduction of up to 95 percent in Federal Government fines (Desio 2004). Regardless of the reasons companies develop codes of conduct; the evidence shows that their strategies are not succeeding. As recent as April 2010 the U.S. Justice Department and the Security and Exchange Commission were investigating whether Hewlett Packard Company executives paid millions of dollars (US) in bribery money between 2004 and 2006 to the Prosecutor General of Russia to win a large contract to supply computer equipment throughout Russia (Crawford 2010). More recently, Tyson Foods settled bribery charges with the Justice Department (Neuman 2011). Surprisingly, or maybe not, there is no evidence that the executives of the accused accompanies have ever conceded that their conduct was unethical.

Although these practices are reprehensible, they do not confirm that business executives are necessarily unethical. Their priority is to maximize the wealth of their shareholders in a highly competitive environment. This requires them to make assumptions about the future based on tested and proven models. Ethics is an amorphous concept and is often discussed in normative rather than practical terms. For a short time ethics was synonymous with social responsibility a concept embraced by business executives. However, it can also be morphed into self-justification. Wright, quoting a former corporate executive wrote "the system of American business often produces wrong, immoral and irresponsible decisions, even though the personal morality of the people running the business is often above reproach" (Wright 1979, p. 61). This comment can be summed up with this piece of cynicism: "An ambassador is an honest man, lying abroad for the good of his country" (Wotton, n.d.). The case of the CEO of Galleon Group exemplifies this conundrum. The prosecution accused him of knowing "tomorrows business news and traded on it" but his lawyer countered that he obtained information through "shoe-leather research, diligence and hard work" (Lattman 2011). Bridgeport Education, an online education company, is another example of normative versus practical ethics. The company obtains 86 percent of its revenue from the federal government. Its dropout rate ranges from 63 to 84 percent depending on the degree program and they paid little attention to job placement, a crucial promise to students. And, of their per student cost, $700 went to instruction, $2,700 went to recruiting and $1,500 went to profit. Their justification for this perceived abuse of students was that they provide education at a lower cost to taxpayers than public colleges (Lewin 2011).

Despite the heightened awareness, there is no noticeable impact on corporate unethical practices. A possible reason is an absence of leadership on this issue among business executives. Leadership is reflected in the perceived message from top management and not necessarily in a written code of conduct. The ethical tone set by top executives should be the doctrine of the workplace, that is, every employee should be indoctrinated in those values. The positive effects of indoctrination will outweigh any negative concerns. A review of surveys conducted by the Ethics Resource Center (ERC) revealed a persistently significant gap between executives' rhetoric and their actions. The 2007 National Business Ethics Survey (NBES) survey shows that only one in

four companies has a well implemented ethics compliance program. Although The 2009 NBES survey found that an ethical culture in the workplace is highly regarded and that there is awareness among executives that financial fraud or other misconduct can be discovered before the damage shows up in financial reporting if there is an ethical culture in the workplace, unethical conduct persists in corporations. In the executive summary of the 2000 NBES survey, the Ethics Resource Center reports that "one in eight employees feel pressure to compromise their organizations' ethics standard." According to the 2005 NBES survey, ethical misconduct returned to the pre-Enron levels during 2005, and, as was in 2000 survey, one in eight employees experience some form retaliation for reporting misconduct. More recently, the 2009 NBES survey reported an increase in retaliation against those who reported misconduct in the workplace. Studies conducted by Bolt-Lee, Farber & Moehrle (2011) , of among other things, whistleblowing in corporations found similar pattern of retribution against auditors and employees. They found that the auditors who reported findings of fraud were not rewarded. However there was an "approximately 50% probability that the whistleblowing auditor would lose the account of the company involved in the irregularity", and "82% of named whistleblowers alleged they were either fired, forced to quit or demoted after blowing the whistle" (Bolt-Lee, Farber & Moehrle 2011, p. 38). The 2009 NBES Supplemental Research Briefs found that "Actions – and Perceptions – of top managers drive the ethical culture of the company and have a significant impact on outcomes" (NBES 2009, p. 8). Such impact includes the prevention of the kinds of workplace behavior that can put a business at risk. The 2009 NBES survey also found that "in a weaker ethical culture, employees observe more misconduct" (NBES 2009, p. 16). These findings raise questions about the commitment of corporate executives to implementing ethics in the workplace. Any positive response from corporate executives may be driven primarily by mitigating factors against punishment rather than concerns about social responsibility. Clearly, corporate culture or what Sonenshein characterized as thick or organization moralities (Sonenshein 2005), is the primary determinant of the degree of ethical behavior in the workplace.

Corporations are living organisms. They have culture, leadership and emotion. They experience desperation, depression, denial, hope, and fear (Foster & Kaplan 2001). Most of all they have mental models. These are "the core concepts of the corporation, the beliefs and assumptions, the cause-and-effect relationships, the guidelines for interpreting language and signals, the stories repeated within the corporate walls" (Foster & Kaplan 2001, p. 18). Corporate systems are built on mental models, some of which have produced less than virtuous results. Mental models are invisible, implicit, yet real, enduring and omnipresent. It develops and nurtures interrelationships and interdependence. The workplace is an ecosystem and as with other ecosystems adaptation is imperative for the survival of its members and the system itself. System thinking is pervasive, that is, the view that an organization is effected by what happens to the parts. It encourages cohesiveness, positively or negatively, among employees. Senge defines system thinking as "the discipline that integrates the disciplines *(personal mastery, mental models, building shared vision, team learning),* fusing them into a coherent body of theory and practice" (Senge 1990, p. 12). A corporation is also a learning organization "a place where people are continually discovering how they create reality and how to change it" (Senge 1990, p. 13). People in the workplace slide between two realities, namely, personal culture and the culture of the workplace. The decisions they make may be based on moral or amoral principles. It depends on the corporate culture and by extension, corporate boards.

Corporate boards of directors have a crucial role in the quest to eradicate unethical business practices. The boards of directors are the official management of corporations. It is at this level that the ideology and message regarding ethical standards should emanate as do all other policies and strategies of the corporation. According to Gras (1939), "Business ethics is the reservoir of clear water which may be drawn upon to build the codes of industry. It is a lake upon which the individual firm can sail its ship into the harbor of Good Policy" (Gras 1939, p.310). Although investors sometimes chided directors for the under-performance of their corporation, they usually escape punishment for the unethical behavior of their executives. This breeds

complacency and contempt for ethical issues. The SEC's suit against the directors of DHB Industries might represent a change in this practice. The SEC accused three ex-board members of DHB Industries of "willful blindness", alleging that they turned a blind eye while the company sold defective armor to the military and law enforcement agencies (Norris 2011). This action was welcome by investors and members of the legal and enforcement communities, but a more proactive approach might have avoided the suffering meted out to the victims of this alleged fraud. The SEC's charges signals that board members must become proactive on matters of ethics because they may be held accountable for the malfeasances of their executives. Business schools have the ability and capacity to assist corporate executives with their ethical challenges.

Business Schools and Ethics

The role of business schools in the moral development of their graduates is not settled. It is reasonable to assume that most, if not all students, have some notion of what is good and bad, right and wrong, just and unjust in the abstract. The purpose of business schools is to provide their graduates with among other skills, critical thinking. Teaching is a process which results in the voluntary modification of the behavior or thought of others. In so doing it should produce critical thinkers. "Good teachers produce skeptics who ask their own questions and find their own answers" (Ackoff & Addison 2007, p. xi). Ethics is a diffused discipline and by extension business ethics is an undefined body of knowledge. Therefore, the application of ethics is invariably the product of critical thinking, which is influenced by the environment in which the decision is being made. Subjectivity often trumps objectivity in crucial circumstances, therefore a set of rules must be available for reference at all times. The workplace is highly competitive and corporate culture, directly or indirectly, provides the weapons used in this combative environment. It is where the feedback loop of performance and reward is established, evaluated and controlled. Against this backdrop, business schools should not be expected to teach their graduates to unilaterally disarm. This could lead to career suicide. As Machiavelli observed, "it is not reasonable to suppose . . . that any unarmed man will remain safe among armed servants" (Buskirk 1974, p. 40). Business schools can and should create awareness. But such knowledge is impotent or at best a blunt instrument in an unethical culture.

Business schools provide ethics education through various means. In addition to course materials they have encouraged ethical behavior among their graduates through honor societies and other means. Professor Nitin Nohria (who became Dean of Harvard Business School in May 2010), has been actively promoting business ethics for more than two decades. He has been leading the crusade to adopt an MBA Oath. The Oath is a voluntary pledge for graduating and current MBAs to "create value responsibly and ethically." MBA students, graduates and advisors representing over 250 business schools worldwide, the Aspen Institute and the Economic Forum are participating in this Oath (The MBA Oath). There is nothing new about professional and organizational Oaths. The Hippocratic Oath, Thunderbird's Oath of Honor and the Columbia Business School's Honor Code are notable examples. These activities are necessary but are obviously insufficient to prevent unethical behavior by their graduates. Therefore, business schools must become more innovative if they are to remain credible in the quest for solutions to this scourge.

Conclusion

The need for a more ethical workplace is no longer debated. It is also a demonstrable fact that there is a colossal failure of the current strategies employed to control unethical conduct in the workplace. Laws have been enacted, codes have been written, oaths have been taken and pledges have been made but they all fell short of their objectives. The federal government has tacitly admitted the failure of the legislative approach by its resorting to a cooperative posture through the sentencing guidelines developed by the United States Sentencing Commission. One is not sure of the extent to which a business school can influence the ethical

behavior of their graduates but they can help corporations. One of the main reasons the strategies fail is that there is a lack of meaningful collaboration among business schools and corporate boards. The justification for their collaboration is self-evident. Firstly, there is a natural link between the two institutions, the responsibility to protect the public interest. Secondly, there is a need to bridge the divide between normative ethics as taught by business schools and the ethical challenges that confront corporations. This presents a unique opportunity for business schools to take a leading role in ameliorating this intractable problem. Business schools can begin to demonstrate their commitment to developing ethical corporate workplaces by establishing direct contact with corporate boards and by hiring faculty who are business ethicists and avail their services to corporations. These are faculty who appreciate the concerns of business executives, understand how corporations work, and are dedicated to protecting the interest of the public.

Corporate boards of directors can reciprocate by appointing a member whose sole responsibility is to develop, monitor and enforce ethical standards in the workplace. This member would be required as a matter of corporate policy to establish consultative relationships with ethics faculty at business schools. Parenthetically, the new posture of the SEC might encourage this direction. The relationship will facilitate the flow of ideas and best practices between business schools and corporations. It will also intersect the application of normative and practical ethics. It is essential because ethical questions usually arise at the margin. For example, a discussion may occur on issues of disclosure; what should be disclosed, to whom it should be disclosed, and when it should be disclosed. Taken separately or in any combination, the response to these questions can have significant financial and public relations consequences. The notion of corporations obtaining external opinions is not new. They routinely seek the advice of external professionals such as lawyers. While corporate executives may be impaired by parochial ideologies, independent business ethicists would not be restrained by such handicaps, thus allowing for better decisions.

Clearly, the engagement and cooperation between business schools and corporate boards at a level that matters can transform attitudes, policies and practices within the public and private systems. The nature of the problem requires coordinated solutions. And a system approach is the only strategy that can provide these solutions.

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An Ethical Response to Climate Change

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Abstract

This paper examines the ethical question of the responsibility of business organisations to respond to climate change. Ethical principles of 'polluter pays', 'historic culpability' and 'equitable distribution of the carbon budget' are applied to the question of 'should business respond to climate change', using rights and utilitarian ethical analyses. An ethical argument is established for business organisations to decarbonise their production and distribution systems rather than delay action. Government policies required to remove barriers which are delaying a widespread and meaningful response by business to humankind's greatest moral challenge together with the ethical implications are discussed.

Keywords

Rights analysis, decarbonisation, utilitarianism, carbon pricing, polluter pays principle

Introduction

Widespread agreement within the international science community supporting an immediate and extensive response to climate change has not been matched by decisive action across the broad business community (Lowe, 2010). Evidence of business-as-usual is strong and the barriers to change appear formidable (Hamilton, 2010) in spite of significant progress within the science community increasing our understanding of both climate change (Stern, 2007) and a range of feasible responses to mitigate carbon emissions (Caldeira, 2004) and adapt to expected climate change impacts.

How humankind *should* respond to climate change is fundamentally an ethical question requiring tradeoffs between current and future generations, allocation of resources between rich and poor nations, and value statements assessing risks enabling expected costs and benefits of alternative courses of action to be estimated and compared.

Given the primary causes of carbon emissions are energy, transport, and industrial production (accounting for 75% of anthropogenic carbon emissions), and agriculture and deforestation (accounting for the remaining 25%) the links between business, industrialisation and climate change are apparent (IPCC, 2001; Johansen, 2007). Decisions as morally and temporally complex as climate change response represent an enormous challenge requiring globally co-ordinated solutions and given the significance of industrial emissions necessarily include business organisations in the process of change. This complexity is demonstrated by the technical difficulty of comparing the relatively low short term cost and convenience of fossil fuel based energy against the risk of increased frequency and intensity of extreme weather events, disease epidemics, famine and a degraded environment leading to loss of life, livelihood and well being (IPCC, 2007).

Climate change response is essentially a debate about sustainability. Accepted definitions of sustainability require our actions do not compromise the opportunity for future generation to meet their own needs (WCED,

1987). If business transforms to meet the multiple goals of sustainability, this necessarily requires the elimination of reliance on non renewable resources towards reliance on non polluting, renewable energy sources (Lovins *et al.,* 1999).

There are many possible responses the business community could make to climate change ranging from doing nothing to rapid and widespread change commencing immediately. The ethical question central to this paper is

Do business organisations have a moral responsibility to commence the decarbonisation process immediately or should they delay action in response to climate change for as long as possible?

Decarbonisation represents an important step towards transformation to the closed loop model of a sustainable business organisation which redesigns its economic production and distribution systems to enable them to be powered by renewable energy with the elimination of all waste (Lovins *et al.,* 1999). The process of decarbonisation involves the transformation of energy, transport, mining, and agricultural systems to non fossil fuel based alternatives. Clearly the redesign of economic production and distribution systems is a long term project.

The primary ethical question offers a *business-as-usual* alternative which would delay any action in response to climate change until forced by legislation, or ecological constraints such as natural resource exhaustion or climate emergency. In the remainder of this paper this primary ethical question is abbreviated to *should business decarbonise or delay?*

The ethics of climate change

The primary ethical question is analysed using rights and utilitarian ethical theories. Rights theory is specifically relevant to climate change issues given the impact and increasing threat climate change imposes on humankind. Furthermore climate change impacts are experienced to varying degrees throughout the world and the resources available and capability to adapt vary greatly.

Utilitarian ethical theory is widely used in economic analyses (McGee, 2009) and was the method used by Stern (2007) and Garnaut (2008) in their analyses of the economics of climate change for the UK and Australian Governments. Given the significant economic cost of climate response, cost-benefit and utilitarian consequential analyses provide best guess outcomes of climate change response scenarios. The rights-based ethical analysis precedes the utilitarian analysis given a violation of rights may have consequential implications specifically in relation to financial compensation to wronged persons.

Rights theory

Deontological theories such as rights analysis require compliance with a just principle to determine morality. The ethical question critical to a rights-based approach is *does an act violate someone's rights?* If the answer is *yes*, the act is considered unethical (McGee, 2009). In the context of business and climate change the issue is whether carbon emissions by business constitute a rights violation. This rights-based analysis responds specifically to three questions

1. Has there been a rights violation?
2. If so, is there a moral case for compensation?
3. Is there a future right to emit carbon?

Answers to these questions are then linked to the primary ethical question; that is should business *decarbonise or delay*?

Central to rights theory is rejection of the utilitarian idea that morality requires the pursuit of the greatest good for the greatest number in preference to the principle of never violating individual human rights (Rayner and Malone 2000, p 219). Human rights, which derive from basic moral principles such as the right to life or the right to freedom, are considered to be both universal and unconditional (Boatright, 2009).

Sterba (2009) uses a libertarian argument to prioritise the right of the poor to meet their basic needs before the rich satisfy their wants for luxury goods. Furthermore the poor have the right of non-interference; that is the rich cannot morally act in a way which interferes with the poor as they act to meet their needs. Boatright (2009, p. 37) supports Sterba's principle of the right to non interference

Rights entitle us to make claims on other people… to refrain from interfering in what we do.

The right to non interference is particularly relevant for developing countries which disproportionately carry the burden of climate change impacts (Paavola and Adger, 2002) caused by the actions of economically developed industrial nations responsible historically for the major proportion of anthropogenic climate change (Singer, 2006). Drawing on the work of Raz (1986), Caney (2005, p. 767) states that a right exists when

A person has a right to X when X is a fundamental interest that is weighty enough to generate obligations on others.

Caney (p. 768) then extends this principle to climate change

Persons have the human right not to suffer from the disadvantages generated by global climate change.

Disadvantages suffered by persons due to climate change include increased mortality from higher temperatures, increased frequency of weather related extreme events and resulting damage, injury and loss of life, and loss of housing due to rising sea levels (IPCC, 2007). Extensive further negative impacts from climate change are forecast with a high degree of certainty (IPCC, 2007).

Paavola and Adger (2002) draw attention to Paragraph 3 of the United Nations Framework on Climate Change (UNFCCC) Convention Article 3 which requires prevention of the causes of climate change from the duty to

…take precautionary measures that anticipate, prevent or minimise the causes of climate change and mitigate its adverse effects (UNFCCC, 1992, p. 4).

Rights-based ethical analysis supports the view that anthropogenic climate change violates the right of non interference and the right not to be disadvantaged by the actions of others which reduce the ability to meet basic needs of food, shelter, health, and security.

Attempts to shift moral responsibility from business to consumers for carbon emissions fail as many consumers lack an understanding of the complex issue of climate change and its causes, have very little influence on business production systems (Desjardins, 2007), and in many cases cannot buy alternative products produced using sustainable production systems as these products either don't exist or the information on environmental practices is ambiguous due to extensive corporate greenwash practices (Arnold and Bustos, 2005).

The moral case for compensation is supported by the *polluter pays principle*. Singer (2006, p. 2) uses this principle to argue for compensation to be paid to victims by the carbon polluters

If a polluter harms others, those who are harmed normally have a legal remedy…If the rich nations pollute the atmosphere with carbon dioxide, causing my crops to fail because of changing rainfall patterns, or my fields are inundated by a rise in the sea level, shouldn't I also be able to sue?

The polluter pays principle is evident in environmental law (Gardiner, 2010) where those that cause a problem must fix it and compensate for harm done.

Moral arguments offered against culpability for historic emissions include ignorance of impact of emissions up until climate science became widely accepted which could be interpreted as 1990 (Caney, 2005) or 2001 (Arnold and Bustos, 2005); belief that atmospheric carbon sink capacity was unlimited and therefore did not represent over use of a scarce resource; and many of those responsible for historic carbon emissions are deceased and therefore cannot be held to account for their actions (Gardiner, 2010).

In relation to a nation's responsibility for historic emissions, Gardiner asks why we would not be responsible for the costs (of burning fossil fuels) given we have inherited the benefits. By linking benefits received to historic culpability for climate impacts Gardiner, and Arnold and Bustos apply the *beneficiary pays principle* (Caney, 2005).

Arnold and Bustos (2005, p. 9) link the beneficiary pays principle to the culpability of business for global climate change (GCC)

Those who enjoy the benefits resulting from burning fossil fuels, and thereby contribute to GCC, ought to pay more for such benefits than those who do not enjoy such benefits.

Arnold and Bustos (2005) conclude that business organisations are morally responsible for their contribution to climate change from 2001, as this is the point where near scientific consensus was reached and communicated clearly by the IPCC. Those businesses that have not taken *aggressive measure to abate….CO2 emissions* (Arnold and Bustos, 2005, p 18) are negligent and responsible for the impacts of that negligence.

The rights analysis points towards a violation by business organisations emitting carbon of the right of non interference to enable people to meet basic needs. The difficulty of mounting a successful case for legal compensation for historic emissions is acknowledged. Using the polluter-pays and beneficiary-pays principles does however establish a moral case for compensation.

Allocating the global carbon budget

The third rights-based question concerns the future right to emit carbon. The capacity for the atmosphere to absorb greenhouse gases is finite. This capacity is part of the global commons and should be shared by all people and future generations (Johansen, 2007). Economically developed nations have consumed many times more than their proportional share of this scarce environmental resource and no convincing moral justification has been provided to support the expropriation of this resource to the rich.

Jamieson (2001) identifies four options for determining the future right to emit carbon

- Allocate each country equal per capita emission rights
- Allocate each country emission rights according to their historical responsibility
- Allocate emission rights according each country's ability and willingness to pay
- Some mix of the above.

These four alternatives all fit within a discourse of global managerialism which assumes as given the existence of property rights over the global atmosphere (Paavola and Adger, 2002). Caney (2005) identifies a right to emit a *fair* share of carbon which *prima facie* equates to equal per capita emission rights. Rejection of equality as an ethical position is only possible where compelling reasons are presented to support an unequal distribution.

Gardiner (2010) uses the principle of global equity to argue for equal per capita allocation of the right to emit carbon plus carbon trading options as this would enable a transfer of wealth from rich to poor nations as rich nations purchase credits to emit above per capita national caps. Given huge national differences in current per capita emissions, an equal per capita allocation will lead to wealthy nations (who are also the largest carbon polluters) buying large amounts of unused capacity to emit carbon from the developing nations (Gardiner, 2010).

Johansen (2007) supports a staged reduction of emission levels in industrialised nations down to the global target per capita emission level over a predetermined number of years. Emission levels would converge at the agreed target date, or alternatively any emissions above agreed targets are offset by carbon trading and the transfer of funds to low emitters. Under this proposal the right to emit above an equitable level will be lost progressively up to the date of convergence.

Singer (2007) proposes a similar scheme to Johansen, adjusting the target global emission level to that required to keep the average climate increase to less than 2 degrees, and basing per capita allowances on each nation's expected total populations at the target date. This removes the incentive for nations to increase their population as a means to increasing their carbon emission allowance.

Equality in per capita emissions does not require developed nations to pay for their past use of the earth's carbon sink capacity, and is more favourable than an agreement requiring compensation for historic emissions.

Ethical justification for allocating future emission rights based on historic emission levels is difficult. Given that historic emissions represent a state of injustice, there is no credibility in repeating this (Moellendorf, 2009). Such a position requires poor developing countries to share the burden of mitigation when they do not have the financial means to so without a widespread increase in suffering within their countries. Polluter pays and ability to pay principles cannot both be ignored (McDonald, 2005).

Furthermore there should be no legal entitlement to continue historic emissions levels given the link between industrialisation, carbon emissions, climate change and climate events and therefore the violation of *vital interests of other people* (Johansen, 2007 p. 22).

Linking per capita emissions with individual consumption levels is an important step in empowering each global citizen to contribute to GHG emission reduction. A sense of responsibility for the emissions each of us directly causes through our consumption decisions provides an ethical motivation for change (Johansen, 2007).

However allocation is achieved, it is apparent that the right to emit should lie with nations and their citizens through an equitable allocation process. The right to emit carbon *prima facie* will not lie with business organisations. If business entities do not have a legal or moral right to emit carbon then they would need to acquire this right through permits or some kind of emissions trading apparatus. Many organisations operate transnationally, reflecting the need for global governance to force compliance with carbon reduction targets.

Business will be faced with two choices; purchase the right to emit carbon within globally allocated allowances and bear the cost which presumably they will pass onto consumers where possible; or transform to zero carbon emission production systems. The social, environmental and economic costs and benefits of the option to decarbonise or delay are compared in the following utilitarian analysis.

Utilitarian analysis

The conceptual foundations of utilitarian analysis were first established in the seminal writings of Bentham (1823) and Mill (1863). Utilitarianism recognises an action as being ethical if it leads to the greatest good for the greatest number using utility as the guiding principle on which ethical decisions are based.

At the heart of consequential ethics is a rejection of the absolutist moral position central to rights analysis and other deontological ethical theories, acknowledging the moral significance of the relative context of each action; determining morality from the impact an action has on utility. John Stuart Mill argued that social utility was also the foundation for the existence of rights; and based on this principle, society is obligated to defend the possession of these rights (Thiroux and Krasemann, 2009).

The major criticism of utilitarianism is its consideration of actions that absolutists would condemn in any circumstances (Singer, 1972). However utilitarians do not accept that any means imaginable can be defended by the achievement of a just goal. Questioning the *unquestionableness* of an absolute position is not in itself immoral, but rather reflects the grim reality that sometimes we are forced to choose the lesser of evils, and selecting the alternative which minimises harm may be the moral course of action (Nielson, 1972).

It is feasible that a utilitarian view of climate change may recognise the only options available involve minimising negative impacts, acknowledging that all policy directions involve some level of harm to people and the ecological systems which support them.

Utilitarian analysis has been used in the context of climate change with both Stern (2007) and Garnaut (2008) opting for its economic derivative *cost-benefit analysis* to formulate their recommended ethical and economic responses to the challenge of climate change in their reports to the UK and Australian Governments. Stern and Garnaut used cost-benefit analysis to conclude action should be taken immediately to reduce the cost of dealing with a greater problem, as delaying action was seen to increase risk of extreme climate events as well as the costs of adaptation and mitigation.

Cost benefit analysis must be interpreted carefully in full recognition that economic valuation of social and environmental costs and benefits is not precise. For example users of cost-benefit data must understand the extreme difficulty of estimating the cost of the loss of life, or the benefit of avoiding the extinction of a species (Singer, 2002).

An assumption which underpins cost-benefit analysis is that where there is a net positive benefit a transfer can occur to ensure an equitable solution for both winners and losers (Howarth, 2000). This is extremely difficult to achieve over intergenerational time scales making it difficult to achieve the goal of an equitable distribution of climate related positive and negative consequences between generations.

Utilitarians use utility (or welfare) rather than money as the unit of account on which social decisions should be made. Table 1 provides a utilitarian comparison of the business decision to decarbonise or delay action on climate change across 12 decision criteria. The main consequences are identified for each decision criteria and discussed following the table.

Table 1 Utilitarian decision analysis

Decision criteria	**Consequences**	
	Decarbonise	**Delay action**
Economic		
Cost	Cost of immediate decarbonisation	Future cost of decarbonisation and increased anthropogenic impact on climate
Efficiency	Natural resource conservation	Low short term energy cost
Energy supply	Insufficient infrastructure	Fossil fuel reserves
Legal	Historic culpability for emissions	Historic and future culpability
Socio-political		
Social	Health impact of fossil fuels	Maximise material wealth in short term
Political	Negative consumer reaction to higher prices	Pressure from consumer and environmental organisations
Climate risk		
Environmental	Reduce carbon pollution and anthropogenic impact on climate	Manage each climate event & adapt
Risk management	Precautionary principle	Climate science inexact
Organisational		
Strategy	First mover advantage	Business as usual
Managerial	Implement change incrementally	Allocate managerial resources to non carbon projects
Leadership	Increase momentum for global change	Prisoner's dilemma
Sustainability	Convergence of long term business viability with sustainability	Environmental benefits traded off against economic benefits

Economic

Economics is central to the decision taken by many business organisations to delay response to climate change. All of the criteria in Table 1 have economic implications however the first four decision criteria are fundamental to the economics of climate response.

Nordhaus (2007) suggests immediate reductions in carbon emissions will cost more than their expected benefits, an argument supported by Lomborg (2001). However both Stern (2006) and Garnaut (2008) take a different view suggesting action now will cost less than delaying and taking action later. The different conclusion is explained mostly by their choices of discount rates. Nordhaus bases his choice of discount rate on prevailing money market interest rates. Stern and Garnaut use extremely low discount rates thereby valuing the rights of generations almost equally over time.

Their approach is consistent with the utilitarian rule which places equal weight on the welfare of every individual, including those yet to be born, whilst considering the economic practice of discounting inequitable from an intergenerational perspective. Parfit (1983, p. 31) argues

...the moral importance of future events does not decline at n percent per year. A mere difference in timing is in itself morally neutral.

The discount rate would take on more relevance if impacts of climate change were purely economic. However many of the projected consequences of climate change concern life or death, poverty and starvation, the inequitable distribution of the benefits from burning fossil fuels compared to the harm caused, the plight of environmental refugees, the long term viability of humankind and other species. Such extreme consequences cannot morally be considered irrelevant no matter how far in the future they are projected to occur.

Decarbonisation is part of an overall efficiency strategy focusing on the sustainable use of natural resources by business. Central to the goal of sustainable business is the design of closed loop economic systems where waste is eliminated with production and distribution systems powered from sustainable and renewable energy sources (Lovins, *et al* 1999; McDonough and Braungart, 2002).

The sustainable business strategy is promoted as a way of using natural resource inputs more efficiently to generate increased economic returns (Lovins, *et al* 1999). Some scepticism is appropriate (Trainer, 2000) given the cost of building the infrastructure for a decarbonised economy including zero emission transport, renewable energy generation, and the redesign of economic production systems would be significant.

However it should be acknowledged that the alternative delay strategy which prioritises the utilisation of low economic cost energy sourced from fossil fuels is only available as a cheap option given the environmental and social costs (of pollution, ecosystem degradation and human health impacts *etc*.) are externalised and excluded from prices. Whilst there may be an incentive in the short term to externalise costs by polluting the global commons, there is no long term economic rationale in destroying the ecological systems that enable the economy to exist.

The third decision criteria in Table 1 (supply of energy) provides an additional strong motivation for business to delay action due to the ready availability of fossil fuel generated energy; whereas low to zero carbon energy supply requires large scale investment in infrastructure. This needs to be balanced against the reducing supply of non renewable resources which appears to be a medium term problem for oil and gas, and a longer term problem for coal (Bardi, 2009; Shafiee and Topal, 2009).

Critical to a consequential analysis of climate change response by business, is the potential liability for environmental and social impacts caused by carbon emissions. Neumayer (2000) argues strongly for historic culpability of nation states for carbon emissions based on the strength and widespread acceptance of climate science; the polluter pays principle; and equality of opportunity to use the global atmospheric commons, as those that pollute it or overuse it will be forced to pay compensation to those harmed by these actions.

The rights based analysis provides an ethical argument for climate change response to include both mitigation and adaptation financed by the large historic polluters. From what point this responsibility is activated is controversial. Regardless of culpability for historic emissions, culpability for future carbon emissions can be avoided by decarbonisation.

Socio-political

Social consequences of the decision to decarbonise or delay action match the benefits of reducing the negative health impacts of burning fossil fuels against the socio-economic benefits of prioritising economic growth in the short term. Delaying decarbonisation allows business to produce more goods and services leading to the material benefits that follow from lower priced consumer goods. The physical and psychological health problems caused by excess consumption of consumer goods (Hamilton and Denniss 2005) reduce some of the benefits of higher production.

Haines *et al.* (2006) report the impact of increasingly regular and severe weather events causing death and destruction in Europe and the USA, as well as increased likelihood of infection from vector-borne diseases. They conclude the major effect of climate change on human health will be felt in developing countries and within more vulnerable groups (the elderly, poor and very young) in developed countries. Additional negative occupational health and safety consequences from mining coal, oil and gas should also be factored in to the analysis.

Organisations which decarbonise and pass increased energy costs through to consumers may encounter strong negative reaction against higher prices; or alternatively environmental organisations and environmentally motivated consumer groups may apply political pressure for change to those companies which continue business as usual. In either case this may lead to consumer boycotts and/or loss of market standing.

Climate risk

The environmental benefits of decarbonisation involve the reduced contribution of humankind's fossil fuel based economy to climate change. Carbon is not the only pollution problem caused by the combustion of fossil fuels. Emissions of sulphur dioxide, nitrous oxide, carbon monoxide, and heavy metals such as lead, cadmium and mercury are all released into the air from fossil fuel combustion (Olivier and Berdowski, 2001).

Delaying action would enable more resources in the short term for adaptation and managing climate events as they occur. However decarbonisation reduces the risk of climate change and is consistent with the precautionary principle; that is

…the commitment of resources now to safeguard against the potentially adverse future outcomes of some decision (Perrings, 1991).

A risk-based argument for delaying action is that climate response can be taken further in the future when knowledge of climate change and effective solutions are better understood, avoiding taking action now which may have unintended and negative consequences or prove to be unnecessary. However this argument is contrary to the increasing climate threat reported by the IPCC (Smith *et al.*, 2009).

Organisational

The strategic consequence of delaying action is to enable business-as-usual for as long as legally or ecologically possible. However the business-as-usual strategy forfeits potential benefits from being an early adopter of low and zero carbon technologies. These potential *first mover* benefits include access to the green market segment and the longer term benefits of having the company's brand associated with climate solutions.

Gardiner (2010, p 61) challenges resistance to carbon mitigation by business

…it would be easier for economic institutions to cope with sensibly managed regulation than with specific climate impacts, since the former could be designed to be gradual, predictable, and incremental, whereas the latter are likely to be sudden, unpredictable, and potentially large-scale.

The managerial divide between the decarbonise or delay options reflect the proactive decarbonisation agenda where management determine the timetable and process of change versus delayed action to reduce carbon emissions in response to legislation or natural constraints. Less time and opportunity for effectively managing and implementing change exists under the delayed response option.

Ultimately a global solution is required to eliminate as much as possible the human caused component of climate change. The leadership strategy that maximises the possibility of a global solution is to demonstrate the viability of zero or low carbon economic production models. Currently most economic actors are standing back waiting for someone else to move. This standoff increases the cost of future action, hastens climate change and encourages other actors to delay their response.

Gardiner (2006) describes this standoff as a *Prisoner's dilemma* involving a natural resource. The dilemma is due to the paradox that collectively all agents are better off if they restrict carbon pollution but individually it is rational to externalise the immediate cost of pollution and benefit from the cheap short term supply of fossil fuels. By acting rationally from an individual perspective, business organisations undermine their own long term viability and are thus caught within a *tragedy of the commons* scenario (Hardin 1968).

Organisations which choose to decarbonise will recognise the link between their long term economic viability and the need to redesign economic systems to be compatible with the preservation of the ecological systems which enable human and economic development. Organisations which delay will believe there is a trade off between environmental gains and economic gains, continuing to prioritise economic goals. However in the long term, economic viability is only feasible within an economy designed for sustainability, otherwise it is inherently self destructive.

Conclusions from ethical analysis

The preceding rights analysis concludes there is a right to non interference where interference causes suffering from the impacts of climate change. Where this right is violated moral grounds for compensation are supported by the *polluter pays principle* and *beneficiary pays principle*. Business organisations as major contributors to and beneficiaries from anthropogenic climate change have a moral obligation to aggressively reduce carbon emissions, or else risk claims for compensation from those whose rights they violate.

Various scenarios to allocate the carbon budget were explored. The future right to emit carbon would logically lie with nations and their citizens, and under this scenario business would need to purchase the right to emit carbon. The most morally convincing climate solution defines an equal per capita right to emit carbon at an agreed target date. At that time national per capita emission rates converge, or nations above the per capita allowance purchase unused quota from nations below the per capita allowance, enabling the global carbon emission target to be met.

The utilitarian analysis identifies two influential reasons for business to delay action; these are the short term economic benefits of exploiting low cost fossil fuels and ready availability of fossil fuel reserves and energy infrastructure.

The most significant positive consequences for decarbonisation are the -

- Potential strategic and financial first mover benefits
- Avoidance of future liability for climate change damages
- Resource conservation and efficiency benefits of adopting the natural capitalism sustainable business model
- Social and environmental health benefits of reducing pollution
- Managerial benefits of managing change incrementally rather than reactively in response to a climate emergency or Government imposed regulations.

The major economic benefit for organisations to delay action needs to be assessed in the light of the reports by economists Nicholas Stern and Ross Garnaut. In both reports the conclusion is that the economic cost to society rises with delay. If this is correct the business decision to delay action does not lead to an optimal economic outcome for society as a whole and fails the utilitarian rule of the *greatest good for the greatest number.*

This emphasises the need for Governments to align business decision making which is usually focused on achieving self interest short term goals with the longer term well being of society and future generations. A range of policy responses aimed at encouraging business to meet their moral responsibility to decarbonise their production systems and relevant ethical issues are considered in the next section of this paper.

The ethics of climate policy

Stern (2007) identifies the three essential elements of government climate change policy as carbon pricing, technology development and the promotion of behavioural change. These options together with major ethical implications are discussed in this section.

Carbon pricing can be used as a mechanism to include the cost of carbon emissions in market prices of goods and services. The difficulties of calculating the social cost of carbon pollution (i.e. the estimated cost of the damage caused by each additional unit of carbon emitted) are well accepted (Hope and Newbery, 2007). Various economic models are available which provide estimates of the economic damage of carbon pollution; however these models must be viewed as best guesses rather than precise measurements (Pearce, 2003). Uncertainty in calculating the actual cost of carbon increases the difficulty for policy makers when designing carbon pricing systems, as there will be considerable political pressures to implement a high or low carbon price depending on the values and vested interests concerned (Griffiths et al., 2007).

Imposing a carbon tax on business organisations which emit carbon represents an application of the polluter pays principle. Earlier in this paper this principle was used to support the moral case for compensation to those whose rights have been violated by the effects of carbon pollution. However carbon pricing whether implemented using a carbon tax or emissions trading scheme, requires the cost of pollution to be paid up front by the polluter. Typically the cost of carbon paid by the polluter is passed on to consumers through market prices. Due to the regressive nature of the tax, there is a social case for tax revenue collected to be used to compensate low income earners who can least afford the extra cost.

Emissions trading schemes provide another means of aligning business and societal goals through imputation of a carbon price. An ethical argument against ‘cap and trade’ carbon schemes is the concern they create a property right over the atmosphere enabling carbon emission into the global commons.

In response to this concern some licences to emit carbon are defined so as not to be construed as a property right (for example the US Regional Greenhouse Gas Initiative trading scheme); but rather as temporary agreements enabling the licence (or permit) to emit carbon to be removed at any time without compensation (Hamilton and Muller, 2007).

Linking domestic carbon markets to create an international carbon market where carbon permits and credits are traded would facilitate a flow of investor funds from richer to poorer nations to fund clean energy development in developing nations. However transfers must be authentic and lead to increased welfare in poorer nations. An ethical problem with emissions trading is the capital inflows into poorer countries may not benefit the poor but rather be siphoned off by corrupt officials (Singer 2002); thus making transparent control and audit mechanisms to avoid potential corruption essential.

Emission trading schemes usually allow for some level of carbon offsetting using approved carbon credit schemes (see for example the Kyoto Clean Development Mechanism). Carbon offsets although controversial in nature (He and Morse, 2010) provide scope for an ethical response whereby carbon polluters provide funds to construct renewable energy infrastructure in developing countries. Potentially this can achieve the environmental goal of reducing global carbon pollution at the same time as the social goal of reducing poverty, by providing developing countries with economic infrastructure powered by renewable energy.

The intended outcome of carbon pricing schemes is to stimulate the transition to clean, renewable energy alternatives; although there is no clear evidence from countries such as Norway, Denmark and Sweden that have had high carbon prices for many years that a carbon price will be successful in achieving this outcome (Bruvoll and Larsen, 2004). The success of the carbon price in creating change to renewable energy depends on the level of the carbon price and the responsiveness of demand for carbon intensive goods and services to price increases. Bunn and Fezzi (2007) found a strong relationship between changes in the carbon price under the EU Emissions Trading Scheme and electricity prices in the UK, suggesting a direct relationship does exist.

A major ethical issue for Government relates to how the revenue they collect from carbon pricing schemes is distributed. Possible uses of carbon tax revenue include

- Technology research and development: this includes clean and renewable energy options; technologies to increase carbon sink capacity; carbon sequestration; and zero emission transport systems.
- Build renewable energy infrastructure (such as electricity generation plants and electric vehicle recharge stations).
- Reduce deforestation (for example farmers could be paid to maintain rather than destroy forests on land they occupy).
- Compensate low income households (as already discussed to offset the effect of carbon prices being passed onto consumers).
- Buy off political opponents to climate change legislation (which may include large energy suppliers, large emitters of carbon and companies in the fossil fuel industries).
- Fund climate change adaptation in both economically developed and developing countries.

Compensation to polluting industries is difficult to support ethically and appears to be a political act to reduce opposition to the policy. However tax proceeds paid to polluters could be tied to clean energy research and development and employee assistance and retraining programs, as workers are required to shift out of fossil fuel industries into the renewable energy sector.

As climate change is inevitable, adaptation measures are also required. Given the high carbon emitting nations are also the world's wealthiest nations, requiring these nations to give up some of their wealth to fix this problem would lead to less reductions in benefits than if developing nations are asked to share or carry the burden of financing the solution (Singer, 2002).

Developing countries are looking to the historically high carbon emitting and wealthier countries to lead and fund the transition to low carbon economic production given their *ability to pay* and *moral culpability* in contributing to anthropogenic global warming. Potential climate adaptation programs are vast and include for example heat wave management, water and cooling systems, more climate robust farming methods, energy and climate efficient housing.

The third component of Government climate policy is to promote behavioural change to reduce both waste and unnecessary consumption. Policy options include

- Removing incentives and subsidies to pollute (refer Reidy, 2007 for a detailed list).
- Penalising waste at point of consumption (this can be achieved by increasing prices for consumer goods by carbon pricing).
- Education and information dissemination regarding energy efficiency (for example smart travel, insulation, efficient lighting and appliance options; Stern, 2006).

Behavioural change is considered the quickest and most cost effective way of reducing carbon emissions. However the success of these programs may be tied to the long term process of changing values whereby energy is seen to be a scarce natural resource where consumption is limited by a strong conservation ethic, emphasising the educational and long term dimensions of climate change policy.

Conclusions

Business has a deontological responsibility to stop contributing to anthropogenic climate change which violates the right of non interference to meet human needs and a utilitarian obligation to assist the transition to a low carbon economy as this is consistent with the greater good. This moral conclusion is consistent with an immediate business strategy to decarbonise its economic production and distribution systems and cooperate with Government which needs to implement a broad range of policies including carbon pricing, technology development and the promotion of behavioural change to encourage the transition to sustainable business to take place.

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Foreign Direct Investment and the Pollution Haven Hypothesis in Indonesia

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ABSTRACT

This paper investigates the validity of the pollution haven hypothesis in the context of Foreign Direct Investment (FDI) in Indonesia by determining the correlations between carbon emission and foreign direct investment, gross domestic product, and population size between 1975 and 2009 in that country. Statistical results from Spearman's correlation analysis show that CO_2 emission has a statistically significant negative relationship with real Gross Domestic Product (GDP), and a statistically significant positive relationship with population size in the Indonesian economy between 1975 and 2009. However, there is a weak and insignificant relationship between CO_2 emission and real FDI during this period which indicates weak support for the pollution haven hypothesis because FDI does not appear to be as strong a contributing factor to CO_2 emission as the activities of the population in Indonesia.

KEYWORDS

Climate change, carbon emissions, pollution, foreign direct investment, haven hypothesis

INTRODUCTION

Until the 1960s, the understanding of the impact of Foreign direct investment (FDI) was largely grounded on the theory of international factor movements, which was itself founded on the premise that differences in the relative capital endowments and marginal efficiency of capital among countries will lead to flows of investment from rich to poor countries (Hennart, 1982). Over the subsequent decades, the growing interest in FDI (for its growth-enhancing potential in economic development) has led to the development of various theories and approaches attempting to explain why Multinational Enterprises (MNEs) engaged in FDI (Moosa, 2002). The theories all offer theoretical paradigms to explain the causes and consequences of FDI and include eclectic theory (Dunning, 1981); internalisation theory (Buckley and Casson, 1976); product life cycle theory (Vernon, 1966; Hirsch, 1976); multinational enterprise theory (Buckley and Casson, 1981; 1991); and market imperfections theory (Kindleberger, 1969). While market size and potential, trade barriers, trade opportunities (exports and imports), exchange rates, interest rates, wage rates, inflation rates, and country risk were some of the main FDI determinants explicitly identified by these theories, environmental-based factors (such as differential environmental regulations) were not conceived as strong determinants of FDI until the 1990s when environmental concerns became an important topic in the global trade agenda (Jayadevappa and Chhatre, 2000).

Although awareness of the relationship between environmental quality and international trade was initially raised in the late 1970s, public debate on this relationship only began to surface in the 1980s, during negotiation rounds of the North American Free Trade Agreement (NAFTA), the Uruguay round of the General Agreement on Tariffs and trade (GATT) negotiations, and the formation of the World Trade Organization (WTO) (Jayadevappa and Chhatre, 2000). FDI is a field of discipline within the broad area of international

trade and the environmental impact of FDI inflow on developing countries had also begun to attract polemical and polarised debates among scholars, policy makers, foreign investors, environmentalists and free trade supporters by the 1980s. Academic debate on the 'pollution haven phenomenon' began to emerge in publications in the 1990s (Neumayer, 2001). This concept postulates that foreign investors from industrial countries are attracted to weak environmental regulations in developing countries, and thus turn the latter into "havens" for the world's polluting industries. At the same time, this debate also gave rise to the 'pollution halo theory', a notion that is in stark contrast to the pollution haven phenomenon. The 'pollution halo theory' suggests that foreign firms can improve the environmental performance in host countries by their transfer of superior technology and management principles from their home countries to these countries. Proponents of freer trade have argued that FDI has increased economic growth and transferred new knowledge and technologies to developing countries, as well as encouraging the adoption of integrated economies in host countries (Bora, 2002; Blaine 2009; MacDermott, 2009a). Although there has been a plethora of literature attempting to determine the validity of either of the pollution haven or pollution halo hypotheses, empirical evidence on the environmental impact of FDI inflow on developing countries has been inconclusive.

Pollution Haven Hypothesis and Pollution Halo Hypothesis

The pollution haven phenomenon hypothesizes that foreign investors tend to move to countries that apply lower environmental standards than in their own country and that such host countries tend to be less developed and to have relatively lax environmental protection (Copeland and Taylor, 1994). The end result is that poorer nations become 'pollution havens'. Copeland and Taylor (1994) were the first researchers to model this hypothesis and their work was supported by other studies by He (2006), Spatareanu (2007), Cave and Blomquist (2008) and MacDermott (2009b). However, other studies were unable to support this claim (Jayadevappa and Chhatre, 2000). Research undertaken by Dean (1992), Wheeler and Moddy (1992), Zarsky (1999), Eskeland and Harrison (2003), Smarzynska and Wei (2004), and Dean, et al. (2005) found little evidence for the pollution haven hypothesis. Conversely, some studies in support of the pollution halo hypothesis reported that foreign direct investment brings improvements in environmental performance in developing countries. Blackman and Wu (1998) found that foreign investment in electricity generation in China increased energy efficiency and reduced emissions. Letchumanan and Kodama's (2000) case study found anecdotal evidence of a transfer of cleaner products and processes by a foreign investor to a developing host country. Eskeland and Harrison's (2003) study argued that foreign firms are significantly more energy efficient and adopt cleaner types of energy than local firms.

About this Paper and the Variables

This paper aims to investigate the validity of the pollution haven hypothesis in the context of FDI in Indonesia. It utilizes Spearman's correlation to investigate the relationship between carbon emission and foreign direct investment, gross domestic product, and population size between 1975 and 2009.

In 2009, Indonesia's National Climate Change Council reported that the country was the world's third largest greenhouse emitter (Fogarty, 2009). Besides rainforests and forest fires, the industry segment was also identified as a responsible party in greenhouse gas emission in the Indonesian economy (Resosudarmo and Irhamni, 2008). The problem of CO_2 emission in Indonesia was first noted in the 1970s when the industrial sector started to grow and in 2002, the industrial environmental performance in several large cities in Java (where FDI has been concentrated in this region) were showing CO_2 emission as high as 10 million tonnes. In terms of CO_2 intensity for all sectors within the economy, there was an increase of 31 percent in metric tonnes per US$2,000 of GDP between 1990 and 2002. However, this problem must also be seen as a function of population growth. Hence, in this study CO_2 emissions are treated as the dependent variable with population, GDP and FDI as independent variables in a Spearman correlation analysis.

Indonesia

FDI inflows to Indonesia constituted 1.9 percent of GDP in 2010, which can be considered relatively low, compared to 2.3 percent in Brazil and more than 7 percent in Chile (The World Bank, 2011). Indonesia used to enjoy a robust flow of FDI into its economy prior to a period of economic and political instability in 1999 and 2000. In 1989, it had 40 percent of the FDI in ASEAN (Association of South East Asian Nation)[1] and was the third largest recipient after Singapore and Malaysia. Indonesia had also been a major recipient of FDI for the three decades prior to the 1997 Asian financial crisis (Ramasamy & Yeung 2004). Despite the regional downturn between 1997 and 1998, Indonesia was able to accumulate US$60 billion and become the most favoured FDI location in ASEAN. However, inflows of FDI into Indonesia declined substantially during the period of economic and political instability in 1999 and 2000 (Ramasamy and Yeung, 2004; Adiningsih, 2007; Ismail, 2009). The flows of FDI into this country slowly began to recover during the early 2000s, but although they helped to re-stimulate the economy (Ramasamy and Yeung, 2004), the influx and its impact failed to match its past vigour. The cumulative inflows in 2010 amounted to US$13.3 billion, less than one-quarter of the amount achieved between 1997 and 1998(The World Bank, 2011).

The Indonesian government has recognized FDI as a potential source of economic development and growth, and poverty alleviation (The World Bank 2011). At the same time, it also faces challenges from these FDI inflows – one of which relates to the environmental sustainability of the investment. Although FDI flows have been facilitating Indonesia's economic growth, they have also been associated with alarming levels of environmental pollution (Resosudarmo & Irhamni 2008). The environmental degradation has been predicted to escalate by more than 50 percent between 2010 and 2020 (Hitipieuw 2011). Some of the factors aggravating this environmental deterioration have been identified by Hitipeuw (2011). They include the unrestrained issuance of operational licenses to big mining and paper companies by both central and local governments, weak enforcement of disposal threshold for companies' waste, and the absence of government regulations on spatial planning and guidelines for environmental research. Abimanyu (2000) and Bedner (2010) highlighted that weak enforcement of legislation and regulations, absence of government support for environmental sustainability planning and research in Indonesia, a trade liberalisation policy, and the consequences of decentralisation in Indonesian provinces may give an impression to foreign investors that the country has relatively lax environmental standards.

However, there have been indications in recent years that the Indonesian government is taking a more serious stand on domestic environmental issues. The number of emission warnings issued by the government to foreign companies has increased. Five foreign companies were issued with emission warnings from the Indonesian government in 2010, but twenty-two such warnings were issued between January and July 2011. However, it should not be immediately inferred that foreign companies are primarily responsible for damaging the environment; those companies issued with a warning constituted only 1.5% (in 2010) and 6.9% (in 2011) of the foreign investing community in Indonesia, which are not significant proportions when all domestic and foreign businesses are taken into consideration. In its move to tighten environmental control, the government has suspended the operations of some foreign companies which failed to comply with the first warning, and has tried to launch legal proceeding against two companies which were suspected of serious environmental pollution. For example, in one high-profile case the Newmont Mining Corporation, the world's biggest gold producer, and its Indonesian chief executive were put on criminal trial in August 2004 for contaminating one of Indonesia's water bays, poisoning marine life and inflicting health problems on villagers residing in the area. This case was closely observed by the foreign investor community, business groups and

[1]ASEAN members are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

environmentalists worldwide, because its verdict promised to have considerable impact on future FDI inflows and judicial implications for similar cases involving foreign corporations. On November 15, 2005, the Indonesian court dismissed the suit on the technical grounds that the government had breached the terms of its contract with Newmont Mining Corporation by taking legal action before seeking arbitration. To date, there have been few such attempts to prosecute foreign companies for environmental damage, and with little success. In terms of empirical evidence and data, there is still little concrete proof of FDI being responsible for environmental damage in Indonesia.

Methodology, Variables, and Results

Table 1 shows the descriptive statistics on CO_2 emission, real GDP, population size, and real FDI in Indonesia between 1975 and 2009. The data distribution for foreign direct investment suggests a skewed distribution. As a result, this paper utilizes Spearman's correlation to investigate the relationship between Indonesia's carbon emission and foreign direct investment, gross domestic product, and population between 1975 and 2009. This nonparametric correlation method is used because it is not constrained by the distribution of the data.

Table 1: Descriptive statistics on CO_2 emission, real GDP, Population and real FDI in Indonesia between 1975 and 2009.

	Mean	Median	Standard deviation	N
CO_2 emission (in metric tonnes)	204,015,518.28	202,410,358.63	110,163,466.63	35
Real GDP (in US$ million), base year =2009	819,216.76	895,694.33	346,985.59	35
Population	182,043,000	183,119,000	29,747,000	35
Real FDI (in US$ million), base year =2009	38,092.92	21,829.69	46,309.30	35

Figure 1 shows an upward trend in CO_2 emission between 1975 and 2009. The estimated average increase in CO_2 emission per year was 10,409,007.77 metric ton. This graph shows a reduction in CO_2 emission between 1998 and 2000 followed by renewed growth from 2001 onwards.

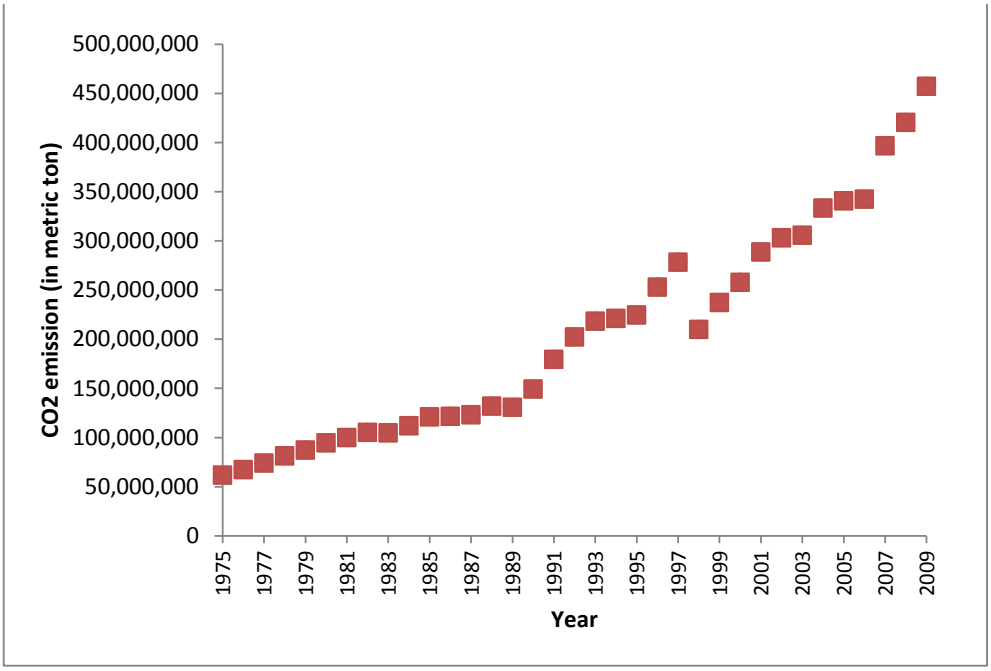

Figure 1: CO_2 emission (in metric ton) between 1975 and 2009

Table 2: Results from Spearman's correlation.

	CO_2 emission	N
Real GDP	-0.759**	35
Population	0.993**	35
Real FDI	0.070	35

**Correlation is significant at the 0.01 level.

The Spearman's correlation coefficients show CO_2 emission having a statistically significant negative relationship ($p<0.01$) with real GDP, and a statistically significant positive relationship ($p<0.01$) with population size in the Indonesian economy between 1975 and 2009. However, there is a weak and insignificant relationship between CO_2 emission and real FDI during this period. The statistically significant negative relationship between CO_2 emission and real GDP suggests that CO_2 emission decreases as real GDP increases, while the statistically significant positive relationship between CO2 emission and population size suggests that CO_2 emission increases with the growth in population.

Discussion

The Spearman's correlation results suggest that FDI may not as strong an influence on CO_2 emission as the activities of the population (population size being the proxy variable) in Indonesia. The statistical results appeared not to be supportive of the pollution haven hypothesis, because FDI does not have a significant relationship with CO_2 emission.

Some studies suggest that environmental regulation is not the only reason behind the decision of a MNE to relocate its plants, and that other factors may be involved. Tole and Koop (2011) find that preferences among

multinational gold mining firms to relocate their operations are contingent upon proximity to head office, provision of a business environment characterised by low levels of financial risk and high levels of political stability, and predictability in mining operations. Pargal and Mani (2000) similarly find that plant owners choose a new location based on aspects like low land price and rich natural resources. Dean (2001) and Jaffe et al (1995) reveal that environmental stringency is just one factor in location decisions, and not a very significant one, compared to other country factor endowments such as cheap and skilled labour amd quality of infrastructure. Similarly, Mani's (1996) study on plant location decisions found that plant relocation is not affected by the level of environmental stringency in the home country. Bommer (1999) also shows evidence that stringent environmental control in the home country is not the only reason for a firm to relocate to other countries with relatively lax environmental regulations; relocation may be based on strategic reasons such as opportunities to reduce production costs, increase profits and increase market value.

Hence, further research at the micro level is recommended to increase understanding of the environmental sustainability of FDI in Indonesia and to determine the relevance of the pollution halo hypothesis in regard to such investment. Collins and Harris (2002) found plant-level evidence suggesting that foreign-owned firms spend more on pollution abatement to improve the environment than do domestic-owned firms, after controlling for productivity efficiency and pollution control policies issued by governments. Their study attributed such spending behaviour to characteristics of ownership and efficiency in a firm's decision making. Similarly, Bhagwati (2004) argued that some industrial firms which originate from richer countries, have higher environmental standards and adopt more innovative processes and newer and cleaner technology in order to produce environmentally-friendly products. These firms were also found to have implemented the strict environmental sustainability rules of their home countries even in locations where the environmental standards were weak. Konar and Cohen (2001) investigated the relationship between the environmental sustainability behaviour of firms and their financial performance, in an attempt to measure their market value. They found that some large companies which are listed in stock exchanges market such as the New York Stock Exchange (NYSE) would spend money on improving their environmental reputation in order to enhance their market values. These companies tend to voluntarily over-comply with environmental regulations and seek to portray an external image of being environmentally concerned. This suggests that the pollution haven hypothesis is not applicable when such companies sought to increase their corporate values by being environmentally responsible. The pollution halo hypothesis, on the other hand, may have relatively more validity in such situation.

Another area that also warrants future investigation is the relationship between CO_2 emission and real GDP under the Environmental Kuznets Curve (EKC). This may offer an explanation for the weak support of the pollution haven hypothesis offered by the data presented in this paper. The EKC describes the relationship between economic growth and pollution level when a developing country becomes a developed nation, specifically, it suggests that economic growth initially increases the pollution level, until an economy reaches a certain size, and decreases thereafter (Grossman and Krueger, 1995; Kearsley and Riddel, 2010). According to the EKC, this relationship between economic growth and pollution level should present as an inverted U-shaped. The curve postulates that pollution decreases when a developing nation becomes a developed nation, because of enhanced economies of scale and trade openness policy. Cole (2004) found that when a country achieves a higher level of income, it may increase both its demand for environmental regulations and its investment in abatement technologies, which results in a negative relationship between economic growth and pollution level. If this concept is valid and the host country improves its environment regulations, MNE will be forced to step into line, thus negating the pollution problem once this country achieved developed nation status. The statistically significant negative relationship between CO_2 emission and real GDP appears to follow the downward slope of the EKC. However, Indonesia is clearly still a developing country, not a developed country on the downward slope of the EKC, which warrants further investigation. In fact, the EKC appears to have weak empirical support and has not successfully been proven to apply to all pollutants or environmental impacts (Dasgupta et al., 2022; Perman and Stern, 2003) and therefore may not exist.

CONCLUSION

This paper investigates the validity of the pollution haven hypothesis in the context of FDI by determining the correlations between Indonesia's carbon emission and foreign direct investment, gross domestic product, and

population size between 1975 and 2009. Statistical results from Spearman's correlation analysis show that CO_2 emission has a statistically significant negative relationship with real GDP, and a statistically significant positive relationship with population size in the Indonesian economy between 1975 and 2009. However, there is a weak and insignificant relationship between CO_2 emission and real FDI during this period which suggests weak support for the pollution haven hypothesis because FDI does not appear to be as strong a contributing factor to CO_2 emission as the activities of the population (population size being the proxy variable) in Indonesia. The paper proposes further research investigation into the environmental sustainability of FDI in Indonesia through firm-level data analysis, particularly for determining the relevance of the pollution halo hypothesis to FDI in this country. The paper also suggests further work to investigate the applicability of the EKC on the statistically significant negative relationship between CO_2 emission and real GDP in Indonesia. This may offer a different perspective on, or explanation of the validity of the pollution haven hypothesis for FDI in Indonesia, as well as that of the EKC theory itself, since Indonesia still holds a developing nation status.

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Ethical Dilemmas in Management: An African Perspective

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Abstract

The modern workplace is composed of people with diverse backgrounds in terms of nationality, culture, religion, age, education and socioeconomic status. Each of these people enters the work with different values, goals, and perceptions of acceptable behaviours. The diverse background creates ethical challenges for individuals as well as managers. There are issues and decisions that are to be made by workers in the organization that have implications for their job security and salary, and success of the organization. Pressure may be on the workers to protect their own interests, sometimes at the risk of losing personal and corporate integrity. This paper attempts to evaluate ethical dilemmas and conflicts from an Africa perspective, bearing in mind different value systems between western and African nations.

Keywords

Ethics, ethical dilemmas, corruption

Introduction

There has been increasing demand on business and their managers to behave responsibly and ethically in the conduct of their business activities. This seems understandable since members of society are an input into business process and are in turn affected by the output of business processes. Also, enormous resources are at the disposal of business to prosecute their objectives in a very competitive environment. In positive and negative ways business touches society. Therefore, it becomes reasonable for society to demand that they are socially responsive.

Business is concern with the issue of ethics. This is because businesses are realizing that ethical misconduct by management can be extremely costly not only for the organization but also to society as a whole. For these reasons, global companies and managers need to behave as responsible citizens, that upheld human rights and safeguard the environment, while protecting their own business interests.

Their priorities, it seems are to emphasize "appropriate behaviour" that meet corporate expectations without violating the rights of others (Holt, 1998). The problem, however, in international management is that laws, customs, values and expectations vary across societies. This is so because the practice and approach of business activities vary from one country to another. Thus, maintaining consistent guidelines and ethical codes of satisfactory behaviour in cross-country management in the countries of Africa has been quite challenging.

Ethics is based on broad principles of integrity, transparency, accountability, responsibility and fairness and focuses on internal stakeholder issues such as product quality, customer satisfaction, employee wages and benefits, and local community and environmental responsibilities. These are issues that a company can influence.

About Nigeria

There is an evident need in Nigeria: the need to raise the level of standard of living of the populace. For example, in 2004, the Nigerian incidence of poverty was put at 54% while rural poverty was 63.27% (National Bureau of Statistics, 2005). This exposed a situation that has sometimes produced intense economic struggle, emulation of the affluence of the western world and unwholesome practice of 'cutting corners'(Olorunfemi, 2008). According to Oshikoya (2008) Nigeria has experienced a prolonged period of economic stagnation, rising poverty levels and decline in ethical values. In 2006, Nigeria was voted as the third most corrupt nation in the world by Transparency International. Nigeria is the world's eighth largest producer of petroleum and has the seventh largest reserves of natural gas. Despite its oil wealth Nigeria is ranked among the twenty-five poorest countries in the world in terms of social indicators (Oshikoya, 2008). This has led to continued concern for ethical issues in the conduct of business activities in the country.

Ethical judgments in Africa and particularly in Nigeria are derived from community values and cultural differences (Gichure, 2006). The high dependency of the economics of African nations on government raises ethical dilemmas that require special attention (Rossouw, 2000). By western standards, ethical lapses occur all over African countries (Gichure, 2000) but particularly in Nigeria. This is so because the level of ethical lapses can be traced to the level of corruption, collapse of moral standards, high level of permissiveness, unemployment and poverty (Oshikoya, 2008).

The Concept of Business Ethics

Ethics is the discipline dealing with what is good and bad and with moral duty and obligations. Ethics is also defined as a system of moral principles and rules of conduct. Ethical rules of conduct therefore generally attempt to provide guidelines of human behaviours that will preserve a society and its individual mmembers. Put differently, ethics refers to the moral principles that govern the action of an individual or a group. It can mean a set of principles constituting a code of behavior which defines what is good (to be done) or bad and wrong (and thus to be avoided). (Koslowski and Shionoya, 1994).

Business ethics is essentially the study of morality and standards of business conduct (Hodgetls and Luthans 2003). It is simply the application of general ethical rules to business behaviours. Business ethics set standards for conduct perceived to be right and moral by individuals within an enterprise, taking into account the welfare of those affected by business decisions and behaviours (Boatright, 1998). In a major way business ethics concerns itself with the relationship between business goals and practice and the goals of society.

Ethical standards describe expectations to which companies and individuals must conform to remain consistent with widely accepted modes of conduct (Holts, 1998). Business decisions and behaviour may be judged ethical or unethical, depending on whether the decisions and acts promote or threaten the values and standards of individuals and the societies in which a business firm operates.

However, since individuals and societies are constantly evolving and changing their systems of values and beliefs also change. Therefore, ethical standards are not static ideals but dynamic patterns of human conduct, a fact that makes values in a foreign managers' home country, often at odds with the values obtained in the host country. This makes business ethics a complex issue for management across the nations of Africa. Ethical standards, therefore, reflect not a universally accepted code but rather the end product of a process of defining and clarifying the nature and content of human interaction. Unlike noncompliance with a law, a violation of ethical issues does not attract legal sanctions since they appeal more to one's conscience (Charis, 2007).

Efficiency, Competitiveness and Ethics

Business in its broadest sense involves provisions of services and goods to customers. There is a sense in which every business activity requires a certain level of efficiency and competitiveness. Efficiency refers to the ability, on the part of the entrepreneur or enterprise, to deliver goods and services well to customers,

without wasting time or resources. This includes, the use of skills, tools, systems, etc. which are needed to produce satisfactory results. Therefore, an efficient firm is one which delivers the highest quality of products and services to its customers, in the shortest possible time, at the lowest possible cost to the enterprise. Competition in business according to Ivancevich, Lorenzi, Skinner and Crosby (1994) is the degree to which a nation or firm can, under free and fair market conditions, produce goods and services that meet the test of international markets, while simultaneously maintaining or expand the real income of its citizens or the firm.

Ethics is as important to the survival of a business as efficiency and competitiveness. Efficiency and competition are business factors. The survival of the society and firms rests on fair and honesty dealings of members of that society to one another. According to Akers (1989) common unethical issues in the western world include back-stabbing through price wars, stealing of corporate plans, and litigation arising from violation of patent rights. Apart from the above, African nations face greater ethical issues that arise out of cultural requirements.

Cultural elements and practices in Africa sometime place African managers in awkward situations: nepotism and employment placement based on ethnic or family ties rather than merit, total disregard for time and appointment in what is referred to as 'African time', leadership cults, complacency, bribery, fraud and paying of 'kickback' (Jaja, 1995).

The Need

According to Abratt and Penman (2002) the need to study business ethics within the African context becomes imperative because of the following five reasons:

i. Various systems of values and views in the African society about what is right and wrong are reflected in the value systems of individual businessmen and affect business practice. Foreign managers coming from a different value setting may see the need to 'adjust' their behaviour in order to adapt to foreign environments.
ii. Business is a major activity in a society and influence morals both in terms of what it does and through the products it produces.
iii. There are a number of ethical systems in the African society bearing different injunctions to the businessman. As a result, doubts often arise in the mind of the businessman about what is and what is not ethical. As a matter of fact, ethical behaviour in one country sometimes is viewed as unethical behaviour in other countries.
iv. It is difficult to understand business or business-society relationships without knowledge of the ethics and ethical problems of businessmen and what society thinks is the state of business ethics compared with what society expects from business.
v. The benefits derivable from ethics by customers, employees, organizations and the industry demand the study of ethics. Customers on the strength of company's ethical codes can expect that business transactions will be conducted in a fair and honest manner; consequently, confidence in dealing with the enterprise is established.

For employees, ethical codes for managerial and non-managerial behaviour reduce uncertainties; employees are strengthened by the code in their refusal to engage in unethical practice. Organizations' ethical practices serve as a sales and public relations device. As a matter of fact effective self-regulation may serve to prevent external control and government actions.

Approaches to Ethics

In his analysis of international business ethics De George (1994) identified three main approaches to ethical issues. These are fundamental ethical approaches for executives:

(a). Utilitarian Approach

This approach focuses on the consequences of an action. The underlying principle is that actions should produce the greater goal for the greatest number of people. Managers who adopt the utilitarian approach judge the effect of a particular action in terms of what provides the greatest good for the greater number of people. This approach in essence, focuses on action rather than on motives behind the action.

Operationally, this approach weighs potentially positive results against potentially negative results. If the former outweighs the latter the manager under this approach will most likely proceed with the action. That some people might be adversely affected by the action is accepted as inevitable.

(b). Moral Right Approach/Deontology

This approach focuses on the examination of the moral standing of actions independent of their consequences. The question is whether the action is right or immoral, not whether it is beneficial. Thus, managers who subscribe to this approach judge whether decisions and actions are in keeping with the maintenance of fundamental individual and group rights and privileges.
The moral right approach extends/includes the rights of human beings to life and safety, a standard of truthfulness, privacy, freedom of speech and private property.

(c). **Social Justice Approach**

This approach judges actions on the strength of how consistent they are with equity, fairness and impartiality in the distribution of rewards and costs among individuals and groups. These ideas stem from two principles: liberty/individual rights principle and the difference principle.

The Liberty/Individual Rights Principle holds that individuals have certain basic liberties and rights compatible with similar rights and liberty by other people. Simply put, one should never take any action that infringes on others' agreed-on rights. Put differently, everyone should act to ensure greater freedom of choice, for this promotes a market exchange which is essential for social productivity.

The difference principle holds that social and economic inequalities must be addressed to achieve a more equitable principle; three implementing principles are essential to the social justice approach: distributive-justice, fairness and natural duty principles.

According to the distributive justice principle, individual should not be treated differently on the basis of arbitrary characteristics such as race, sex, religion or natural origin. On this principle one should act to ensure more equitable distribution of benefits, this promotes individual self-respects, which is essential for social cooperation.

The fairness principle indicates that employees must be expected to engage in cooperative activities according to the rules of the company, assuming that the company's rules are deemed fair (to protect mutual interest of the company themselves and other workers there is a limit to freedom to be absent from work). The natural duty principle is a product of the general obligation of the need to help others who are in need or in danger, the duty not to cause unnecessary suffering and the duty to comply with just rules of an institution.

There are those who base ethical behaviour on the opinions and behaviour of relevant other people (Relativism). They acknowledge the existence of different ethical viewpoints and turns to other people for advice, input and opinions. Group consensus is sought.

International Management Ethical Dilemmas in Africa

A universal standard or prescription of rights and wrongs seem difficult to come by when not every culture endorses the same ethical standards. A common phenomenon, however, is the almost universal condemnation of business conduct that violates human rights to live or causes 'excessive' depletion or degradation of the environment. The problem in management across the nations of Africa however, is that human rights or the so-called universal rights are subject to different interpretations. What is valued as right in a country may not be so in another. Thus, few laws apply on an international scale to provide substantial guidelines for corporate conduct (De George, 1994).

Notwithstanding, international management has been concerned with ethical relationships with people who are directly affected by the decisions of foreign companies. This concern ranged from competitive conduct (such as predatory pricing, fraud, bribery, industrial espionage or patent infringements), to environmental protection measures, community relations and financial activities (Holt, 1998). The moral dimensions and consequences (positive and negative) of these issues nevertheless vary across cultures.

These problems are magnified for foreign managers working in Africa in that their foreign assignments, most time, expose conflicts between lifetime of personal moral judgments and standards for decisions in unfamiliar environments. Product safety, for example, may have substantially different meanings in some African countries. Consequently, the personal values of other people and societies often clash with those of expatriate managers.

Furthermore, the roles imposed by foreign assignments may require substantially different expectations than those at home. Often there are contrasts between individual beliefs about ethical behaviour and expectations about behaviour imposed as part of roles or job positions. For example, certain moral obligations inherent in the work roles in foreign assignments often create expectations distinct from people's personal moral beliefs (e.g. Doctors, Lawyers, Engineers, Sales professionals).

Admittedly, domestic managers also encounter role conflict problems but the work roles of a foreign manager in Africa impose far more complex conflicts. This is so because foreign managers need to comply with unfamiliar expectations. The demand of the local environment managers, even in foreign fields, is expected to favour the priorities of stockholders and invests in their decisions. Conflicts, however, arise when other constituent interests arise. For example, decisions by a commercially profitable operation in a foreign field such as oil exploitation in Nigeria's Niger Delta may conflict with the ethical conventions of stockholders in the home country or that of the foreign managers. Managers in consequence may resign or seek to be transferred out of an uncomfortable position. This is so because irrespective of the ethical pressures a company's management and stakeholders expect the manager to perform profitably.

It is on record that international alliances, mergers, and acquisitions can create awkward ethical dilemmas cases of this nature is expressed clearly in situations where foreign subsidiaries, which were as a result of acquisitions, for example, are neck deep in inappropriate business behaviour such as cloning competitors products, bribery, etc. It then became difficult to implement specific sets standards throughout the organization.

Foreign managers, too, become the target of ethical fanaticism where prevailing attitudes recognize one right way of doing business, preempting foreign ideas or laws. Managers from the developed nations encounter difficult relationship in less-developed nations of Africa where conflicting ideologies do not allow stable forms of governance. Foreign managers' attempts to intervene in local policies, improve managerial conduct or address a host country's social issues are often resisted as they are perceived as attempts to impose foreign standards.

Selected Ethical Issues in Africa

Ludlum and Pichop's (2008) analysis of business ethics identified certain ethical issues that are prevalent in Africa. These issues include:

(a). **Corruption And Bribery**

The practice of paying money or providing benefits to someone in business or government to obtain an inappropriate market, workplace or economic advantage is widely condemned as an unethical practice. This is due mainly to the evil effects of corruption, bribery and fraud. In the true sense these vices convey secret advantages to some competitors on projects, proposals, and bids. This practice is wide spread in most African nations. It is so institutionalized in a number of Africa nations as the only effective way of doing business. In too many cases, bribery in African nations transcends the level of being referred to as unethical to being a common practice (Unruh and Arreola, 2009).

Therefore it reduces innovation and creativity advantages in that it takes business away from a merit-based system. Corruption, bribery, and fraud stymie the economic development resulting from free market competiton. Evidence seems to suggest that these vices especially in the developing nations of Africa hamper the creation of an acceptable legal system, encourage red tape and bureaucracy (Urnruh and Arreola, 2009). They also erode public confidence and trust, and block the development of the infrastructure on which organizations depend.

In view of the destructive influences of corruption, bribery and fraud, companies and individuals are increasingly under demand to adhere to international and national laws governing corruption, bribery and fraud. To eliminate corruption, the Nigerian government established the Independent Corrupt Practices Commission (ICPC) and Economics and Financial Crime Commission (EFCC) while International development agencies such as the World Bank and the International Monetary Fund (IMF) have linked aid disbursement to improvements in administrative practices. Monitoring groups such as Transparency International, through its rankings, draw negative attention to corrupt nations. Overseas banks used by recipients of bribes are been forced to disclose such accounts and freeze them on court orders.

(b). **Piracy and Counterfeiting**

Counterfeiting refers to the un-authorized production and sale of exact copies of genuine goods, down to the trademarks. Piracy is mostly used in relation to intellectual property (patents, copyrights and trademarks) and refers to illegal duplication of books, computer programmes, and videotapes. These unethical practices are more prevalent in some countries and are greatly abhorred in some others. This is attributable to the degree of willingness or otherwise of countries to enforce the international copyright pacts that ban illegal duplication and sales of intellectual property.

Piracy and counterfeiting affects society. The firm whose products are being duplicated without receiving royalty or licenses payments losses revenue. Also, there is a high possibility to purchase and use defective components in the production process and final products of genuine products. Fake parts are made of inferior materials and have a shorter life than the genuine article and the usage can be injurious.

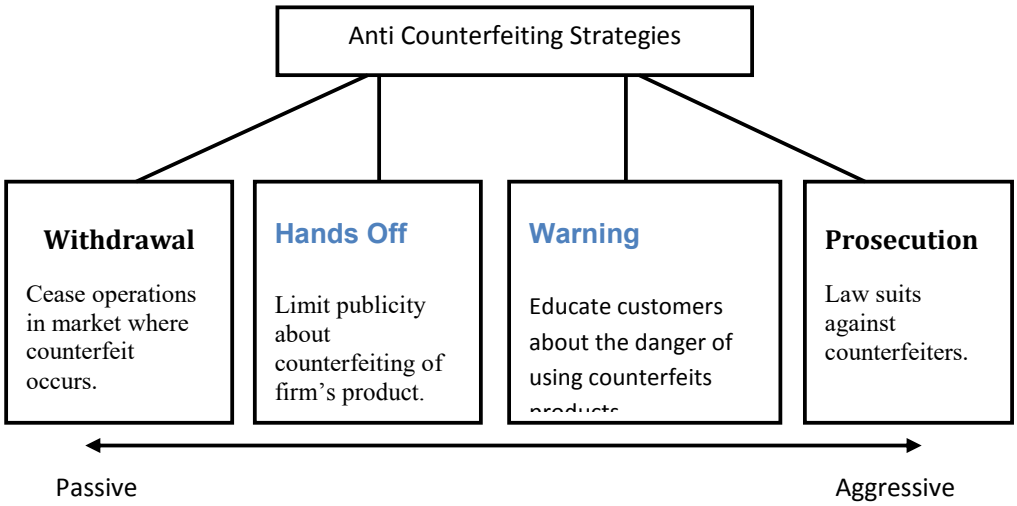

Figure 1. Anti-Counterfeiting Strategies. Source: Sanyal (2001)

Sanyal (2000) identifies four sets of anti –counterfeiting strategies are available to companies.

Withdrawal Strategy: **In the withdrawal strategy, the firm exercises greater control over or limit the distribution of their products in the market where the practice is rampant. The withdrawal strategy defends the firm's products and pushes the market consequently; law enforcement agencies may be spurred to take action, especially for strategic goods, e.g. pharmaceutical products. However, in the events of government inaction, counterfeiters may become more established.**

Warning Strategy requires that the firm alert consumers about counterfeits of its products. Advertisement and seminars may be undertaken to educate consumers in the features and distinguishing marks of fake and genuine products. The focus is to de-market the fake products by emphasizing the legal and dire consequences of buying counterfeits (components failure, safety risks, and negation of warranty).

Prosecution Strategy: This is an aggressive stand against counterfeiting. The firm focuses on pursuing criminal litigation against the counterfeiters' demands and lobbying government officials and legislators to investigate and prosecute unscrupulous firms and dealers of fake products.

Hand – off Strategy: A company pursues a low-key campaign to curb counterfeiting. The company is unwilling to let consumers know that illegal duplicates of its products are in the market; the fear is that a consumer may switch to the competitors whose authenticity may be less suspect.

(c) Economic Espionage

This is the obtaining of trade secrets and strategic plans of a competitor by spying; the objective is to obtain vital economic information (Sanyal, 2001). A more mobile workforce and development in information technology that allows vast amount of information to be compressed into small packages and smuggled out of offices and across boarders have aided economic espionage.

It is not uncommon for government intellectual and security agencies to direct their resources to obtain economic information about other works and companies on behalf of domestic firms and industries. The purpose is to secure advantage for their countries and enterprises in competition. Spies look for vital information in R&D strategies, new product and processes of manufacturing and marketing plans and customer lists. A host of methods are being used: wire tap or planting of individuals as employees in a competing foreign firm without revealing their true allegiance; theft (vital equipment theft) or bribing of employees; "netspionage" or computer-based espionage has emerged a new security risk for companies. Talented computer hackers can copy data stored in digital format without leaving a trace that they broke into a computer.

A variation of computer-based espionage is using Competitive Intelligence to mine public sources of information and then using appropriate analytical techniques to tie information together creatively. However, firms sometimes resort to industrial espionage to obtain competitive intelligence.

The sum total is the need for multinational corporations to strike a delicate balance between local perceptions of the right things to do and expectations promoted under a parent company's law. The international codes of conduct for corporations can serve as a useful guide in approaching ethical issues in the international arena.

There are a number of obstacles in Africa that frustrate the quest for good corporate governance. Prominent on the list of obstacles are the lack of effective regulatory and institutional frameworks that can ensure the enforcement of the standards of good corporate governance. Lack of transparency and market discipline in those countries without a sound regulatory environment also deter privately owned companies from evolving internally and universally acceptable ethical practices.

(c). Immorality, Force Labour, Discrimination in Employment

Across the globe the issue of sexual harassment in the workplace is a concern. Further, women managers confront a "glass ceiling" in their attempts to reach top management ranks in some countries. This is not a product of women deficiencies but mainly because of cultural stereotypes, restricted opportunities and discrimination.

Employing prisoners to produce output and restricting employees from leaving a job are ethical problems common to most developing countries.

(d). Price Fixing or 'Cartels' [Competitive Conduct]

Division of markets among competitors and collusion to fix prices are considered as attempts to unlawfully hurt consumers. Keeping competitors out of the market by excessive control of the marketing channels is also considered unethical.

Conclusion

A reflection on ethical dilemmas shows inherent conflicts in their resolution. The conflict is more pronounced for managers working in other countries under different cultural orientations. However, ethical dilemma can be resolved through discussion, analysis and collective decision making processes that define the lines of boundaries for foreign managers, taking into consideration organizations' and their managers' personal value systems. This is so because ethical dilemma resolutions may be between two or more personally held values and values held by another person or organization, basic principles and the need to achieve a desired outcome and between two or more individuals or groups to whom one has an obligation (Kirrane, 2009). Resolving ethical issues require the inputs of all stakeholders: multidisciplinary and dimensional approach.

Resolving ethical dilemma, therefore, requires interpersonal and negotiation skills as well as a new application of employability skills: honesty, ability to work cooperatively, respect for others, pride in one's work, willingness to learn, dependability, responsibility for one's actions, integrity and loyalty (Lankard, 2008). Businesses are training their employees in critical analysis and conflict resolution skills required for ethical decision making. More importantly, new employees are sought with these skills and school curricula have also

stressed the importance these skills to management. The best way to resolve ethical dilemmas is through development of ethical programmes at all levels of an organization.

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