Strategic Management

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Business Ethics/ Social Responsibility/ Environmental Sustainability
A note from David

Although the three sections of this chapter (Business Ethics, Social Responsibility, and Sustainability) are distinct, the topics are quite related. Many people, for example, consider it unethical for a firm to be socially irresponsible. Social responsibility refers to actions an organization takes beyond what is legally required to protect or enhance the well-being of living things. Sustainability refers to the extent that an organization's operations and actions protect, mend, and preserve rather than harm or destroy the natural environment. Polluting the environment, for example, is unethical, irresponsible, and in many cases illegal. Business ethics, social responsibility, and sustainability issues therefore are interrelated and impact all areas of the comprehensive strategicmanagement model, as illustrated in Figure 10.1 on page 312.

A sample company that adheres to the highest ethical standards and that has excelled during the recent weak economy is Walt Disney. Disney in March 2009 published an elaborate corporate social responsibility/business ethics/sustainability report that can be found online at http://disney.go.com/crreport/home.html. In that report, the Disney CEO says:

Our Corporate Responsibility team has developed a cohesive strategy for the company with that in mind, incorporating existing outreach, safety, nutrition, environmental and labor programs and working with executives across Disney, ABC and ESPN to coordinate and strengthen our company-wide efforts. They've organized our approach around five broad areas—Children & Family, Content & Products, Environment, Community and Workplaces—with the goal of further embedding corporate responsibility into Disney's business DNA, making sure it continues to be taken into consideration in decisions big and small.1

Business Ethics

Good ethics is good business. Bad ethics can derail even the best strategic plans. This chapter provides an overview of the importance of business ethics in strategic management. Business ethics can be defined as principles of conduct within organizations that guide decision making and behavior. Good business ethics is a prerequisite for good strategic management; good ethics is just good business!

A rising tide of consciousness about the importance of business ethics is sweeping the United States and the rest of the world. Strategists such as CEOs and business owners are the individuals primarily responsible for ensuring that high ethical principles are espoused and practiced in an organization. All strategy formulation, implementation, and evaluation decisions have ethical ramifications.

Newspapers and business magazines daily report legal and moral breaches of ethical conduct by both public and private organizations. Being unethical can be very expensive. For example, some of the largest payouts for class-action legal fraud suits ever were against Enron ($7.16 billion), WorldCom ($6.16 billion), Cendant ($3.53 billion), Tyco ($2.98 billion), AOL Time Warner ($2.5 billion), Nortel Networks ($2.47 billion), and Royal Ahold ($1.09 billion). A company named Coast IRB LLC in Colorado recently was forced to close after the Food and Drug Administration (FDA) discovered in a sting operation that the firm conducted a fake medical study.

Coast is one of many firms paid by pharmaceutical firms to oversee clinical trials and independently ensure that patient safety is protected.

Other business actions considered to be unethical include misleading advertising or labeling, causing environmental harm, poor product or service safety, padding expense accounts, insider trading, dumping banned or flawed products in foreign markets, not providing equal opportunities for women and minorities, overpricing, moving jobs overseas, and sexual harassment.

Code of Business Ethics

A new wave of ethics issues related to product safety, employee health, sexual harassment, AIDS in the workplace, smoking, acid rain, affirmative action, waste disposal, foreign business practices, cover-ups, takeover tactics, conflicts of interest, employee privacy, inappropriate gifts, and security of company records has accentuated the need for strategists to develop a clear code of business ethics. Internet fraud, hacking into company computers, spreading viruses, and identity theft are other unethical activities that plague every sector of online commerce.

United Technologies has a 21-page code of ethics and a vice president of business ethics. Baxter Travenol Laboratories, IBM, Caterpillar Tractor, Chemical Bank, ExxonMobil, Dow Corning, and Celanese are firms that have formal codes of business ethics. A code of business ethics is a document that provides behavioral guidelines that cover daily activities and decisions within an organization.

Merely having a code of ethics, however, is not sufficient to ensure ethical business behavior. A code of ethics can be viewed as a public relations gimmick, a set of platitudes, or window dressing. To ensure that the code is read, understood, believed, and remembered, periodic ethics workshops are needed to sensitize people to workplace circumstances in which ethics issues may arise.2 If employees see examples of punishment for violating the code as well as rewards for upholding the code, this reinforces the importance of a firm's code of ethics. The Web site www.ethicsweb.ca/codes provides guidelines on how to write an effective code of ethics.

An Ethics Culture

An ethics "culture" needs to permeate organizations! To help create an ethics culture, Citicorp developed a business ethics board game that is played by thousands of employees worldwide. Called "The Word Ethic," this game asks players business ethics questions, such as how do you deal with a customer who offers you football tickets in exchange for a new, backdated IRA? Diana Robertson at the Wharton School of Business believes the game is effective because it is interactive. Many organizations have developed a codeof-conduct manual outlining ethical expectations and giving examples of situations that commonly arise in their businesses.

Harris Corporation and other firms warn managers and employees that failing to report an ethical violation by others could bring discharge. The Securities and Exchange Commission (SEC) recently strengthened its whistle-blowing policies, virtually mandating that anyone seeing unethical activity report such behavior. Whistle-blowing refers to policies that require employees to report any unethical violations they discover or see in the firm.

An unidentified whistle-blower in 2009 filed a lawsuit against Amgen Inc., accusing the biotechnology company of illegal marketing of its blockbuster drugs Enbrel and Aranesp. The drug company Wyeth co-markets Enbrel with Amgen, and was named as a defendant too, along with wholesale drug distributor

AmerisourceBergen Corp., online health-information provider WebMD Health Corp., and others. The federal whistle-blower law protects the identity of the plaintiff. In the drug industry, such suits are often filed by former employees.

One reason strategists' salaries are high is that they must take the moral risks of the firm. Strategists are responsible for developing, communicating, and enforcing the code of business ethics for their organizations. Although primary responsibility for ensuring ethical behavior rests with a firm's strategists, an integral part of the responsibility of all managers is to provide ethics leadership by constant example and demonstration. Managers hold positions that enable them to influence and educate many people. This makes managers responsible for developing and implementing ethical decision making. Gellerman and Drucker, respectively, offer some good advice for managers:

All managers risk giving too much because of what their companies demand from them. But the same superiors, who keep pressing you to do more, or to do it better, or faster, or less expensively, will turn on you should you cross that fuzzy line between right and wrong. They will blame you for exceeding instructions or for ignoring their warnings. The smartest managers already know that the best answer to the question "How far is too far?" is don't try to find out.3

A man (or woman) might know too little, perform poorly, lack judgment and ability, and yet not do too much damage as a manager. But if that person lacks character and integrity—no matter how knowledgeable, how brilliant, how successful— he destroys. He destroys people, the most valuable resource of the enterprise. He destroys spirit. And he destroys performance. This is particularly true of the people at the head of an enterprise. For the spirit of an organization is created from the top. If an organization is great in spirit, it is because the spirit of its top people is great. If it decays, it does so because the top rots. As the proverb has it, "Trees die from the top." No one should ever become a strategist unless he or she is willing to have his or her character serve as the model for subordinates.4

No society anywhere in the world can compete very long or successfully with people stealing from one another or not trusting one another, with every bit of information requiring notarized confirmation, with every disagreement ending up in litigation, or with government having to regulate businesses to keep them honest. Being unethical is a recipe for headaches, inefficiency, and waste. History has proven that the greater the trust and confidence of people in the ethics of an institution or society, the greater its economic strength. Business relationships are built mostly on mutual trust and reputation. Shortterm decisions based on greed and questionable ethics will preclude the necessary selfrespect to gain the trust of others. More and more firms believe that ethics training and an ethics culture create strategic advantage.

Ethics training programs should include messages from the CEO or owner of the business emphasizing ethical business practices, the development and discussion of codes of ethics, and procedures for discussing and reporting unethical behavior. Firms can align ethical and strategic decision making by incorporating ethical considerations into longterm planning, by integrating ethical decision making into the performance appraisal process, by encouraging whistle-blowing or the reporting of unethical practices, and by monitoring departmental and corporate performance regarding ethical issues.

Bribes

Bribery is defined by Black's Law Dictionary as the offering, giving, receiving, or soliciting of any item of value to influence the actions of an official or other person in discharge of a public or legal duty. A bribe is a gift bestowed to influence a recipient's conduct. The gift may be any money, good, right in action, property, preferment, privilege, emolument, object of value, advantage, or merely a promise or undertaking to induce or influence the action, vote, or influence of a person in an official or public capacity. Bribery is a crime in most countries of the world, including the United States.5

Siemens AG, the large German engineering firm, recently was fined $800 million for routinely offering bribes to various companies around the world to win overseas contracts. The U.S. Justice Department and the SEC brought suit against Siemens under the U.S. Foreign Corruptions Act. The Siemens fine was 20 times larger than any previous bribery penalty. The SEC claimed that Siemens made at least 4,283 bribe payments totaling $1.4 billion between 2001 and 2007. These bribes allegedly were paid to government officials in 10 countries.

Paying bribes is considered both illegal and unethical in the United States, but in some foreign countries, paying bribes and kickbacks is acceptable. Tipping is even considered bribery in some countries. Important antibribery and extortion initiatives are advocated by many organizations, including the World Bank, the International Monetary Fund, the European Union, the Council of Europe, the Organization of American States, the Pacific Basin Economic Council, the Global Coalition for Africa, and the United Nations.

The U.S. Justice Department in mid-2009 increased its prosecutions of alleged acts of foreign bribery. Businesses have to be much more careful these days. For years, taking business associates to lavish dinners and giving them expensive holiday gifts and even outright cash may be expected in many countries, such as South Korea and China, but there is now stepped-up enforcement of bribery laws. Kellogg Brown and Root (KBR) and Halliburton recently paid $579 million for bribing officials in Nigeria.

Love Affairs at Work

A recent Wall Street Journal article recapped current American standards regarding bosssubordinate love affairs at work.6 Only 5 percent of all firms sampled had no restrictions on such relationships; 80 percent of firms have policies that prohibit relationships between a supervisor and a subordinate. Only 4 percent of firms strictly prohibited such relationships, but 39 percent of firms had policies that required individuals to inform their supervisors whenever a romantic relationship begins with a coworker. Only 24 percent of firms required the two persons to be in different departments.

In Europe, romantic relationships at work are largely viewed as private matters and most firms have no policies on the practice. However, European firms are increasingly adopting explicit, American-style sexual harassment laws. The U.S. military strictly bans officers from dating or having sexual relationships with enlistees. At the World Bank, sexual relations between a supervisor and an employee are considered "a de facto conflict of interest which must be resolved to avoid favoritism." World Bank president Paul Wolfowitz recently was forced to resign due to a relationship he had with a bank staff person.

The United Nations (UN) in mid-2009 was struggling with its own sexual-harassment complaints as many women employees say the organization's current system for handling complaints is arbitrary, unfair, and mired in bureaucracy. Sexual harassment cases at the UN can take years to adjudicate, and accusers have no access to investigative reports. The UN plans to "soon" make changes to its internal justice system for handling harassment complaints; the UN aspires to protect human rights around the world.

Social Responsibility

Some strategists agree with Ralph Nader, who proclaims that organizations have tremendous social obligations. Nader points out, for example, that Exxon/Mobil has more assets than most countries, and because of this such firms have an obligation to help society cure its many ills. Other people, however, agree with the economist Milton Friedman, who asserts that organizations have no obligation to do any more for society than is legally required. Friedman may contend that it is irresponsible for a firm to give monies to charity.

Do you agree more with Nader or Friedman? Surely we can all agree that the first social responsibility of any business must be to make enough profit to cover the costs of the future because if this is not achieved, no other social responsibility can be met. Indeed, no social need can be met by the firm if the firm fails.

Strategists should examine social problems in terms of potential costs and benefits to the firm, and focus on social issues that could benefit the firm most. For example, should a firm avoid laying off employees so as to protect the employees' livelihood, when that decision may force the firm to liquidate?

Social Policy

The term social policyembraces managerial philosophy and thinking at the highest level of the firm, which is why the topic is covered in this textbook. Social policy concerns what responsibilities the firm has to employees, consumers, environmentalists, minorities, communities, shareholders, and other groups. After decades of debate, many firms still struggle to determine appropriate social policies.

The impact of society on business and vice versa is becoming more pronounced each year. Corporate social policy should be designed and articulated during strategy formulation, set and administered during strategy implementation, and reaffirmed or changed during strategy evaluation.7

In 2009, the most admired companies for social responsibility according to Fortune magazine were as follows:

1. Anheuser-Busch
2. Marriott International
3. Integrys Energy Group
4. Walt Disney
5. Herman Miller
6. Edison
7. Starbucks
8. Steelcase
9. Union Pacific
10. Fortune Brands8

From a social responsibility perspective, these were the least admired companies in 2009:

1. Circuit City Stores
2. Family Dollar Stores

3. Dillard's
4. Sears Holdings
5. Tribune
6. Hon Hai Precision Industry
7. Fiat 8. PEMEX 9. Surgutneftegas
8. Huawei Technologies9

Firms should strive to engage in social activities that have economic benefits. Merck & Co. once developed the drug ivermectin for treating river blindness, a disease caused by a fly-borne parasitic worm endemic in poor tropical areas of Africa, the Middle East, and Latin America. In an unprecedented gesture that reflected its corporate commitment to social responsibility, Merck then made ivermectin available at no cost to medical personnel throughout the world. Merck's action highlights the dilemma of orphan drugs, which offer pharmaceutical companies no economic incentive for profitable development and distribution. Merck did however garner substantial goodwill among its stakeholders for its actions.

Social Policies on Retirement

Some countries around the world are facing severe workforce shortages associated with their aging populations. The percentage of persons age 65 or older exceeds 20 percent in Japan, Italy, and Germany—and will reach 20 percent in 2018 in France. In 2036, the percentage of persons age 65 or older will reach 20 percent in the United States and China. Unlike the United States, Japan is reluctant to rely on large-scale immigration to bolster its workforce. Instead, Japan provides incentives for its elderly to work until ages 65 to 75. Western European countries are doing the opposite, providing incentives for its elderly to retire at ages 55 to 60. The International Labor Organization says 71 percent of Japanese men ages 60 to 64 work, compared to 57 percent of American men and just 17 percent of French men in the same age group.

Sachiko Ichioka, a typical 67-year-old man in Japan, says, "I want to work as long as I'm healthy. The extra money means I can go on trips, and I'm not a burden on my children." Better diet and health care have raised Japan's life expectancy now to 82, the highest in the world. Japanese women are having on average only 1.28 children compared to 2.04 in the United States. Keeping the elderly at work, coupled with reversing the old-fashioned trend of keeping women at home, are Japan's two key remedies for sustaining its workforce in factories and businesses. This prescription for dealing with problems associated with an aging society should be considered by many countries around the world. The Japanese government is phasing in a shift from age 60 to age 65 as the date when a person may begin receiving a pension, and premiums paid by Japanese employees are rising while payouts are falling. Unlike the United States, Japan has no law against discrimination based on age.

Japan's huge national debt, 175 percent of gross domestic product (GDP) compared to 65 percent for the United States, is difficult to lower with a falling population because Japan has fewer taxpaying workers. Worker productivity increases in Japan are not able to offset declines in number of workers, thus resulting in a decline in overall economic production. Like many countries, Japan does not view immigration as a good way to solve this problem.

Japan's shrinking workforce has become such a concern that the government just recently allowed an unspecified number of Indonesian and Filipino nurses and caregivers to work in Japan for two years. The number of working-age Japanese—those between ages 15 and 64—is projected to shrink to 70 million by 2030, from 82 million in 2009. Using foreign workers is known as gaikokujin roudousha in Japanese. Many Filipinos have recently been hired now to work in agriculture and factories throughout Japan. The percentage of foreign workers to the total population is 20 percent in the United States, nearly 10 percent in Germany, 5 percent in the United Kingdom, and less than 1 percent in Japan. But most Japanese now acknowledge that this percentage must move upward, and perhaps quickly, for their nation's economy to prosper.10

Environmental Sustainability

The strategies of both companies and countries are increasingly scrutinized and evaluated from a nautral environment perspective. Companies such as Wal-Mart now monitor not only the price its vendors offer for products, but also how those products are made in terms of environmental practices. A growing number of business schools offer separate courses and even a concentration in environmental management.

Businesses must not exploit and decimate the natural environment. Mark Starik at George Washington University says, "Halting and reversing worldwide ecological destruction and deterioration is a strategic issue that needs immediate and substantive attention by all businesses and managers. According to the International Standards Organization (ISO), the word environment is defined as "surroundings in which an organization operates, including air, water, land, natural resources, flora, fauna, humans, and their interrelation." This chapter illustrates how many firms are gaining competitive advantage by being good stewards of the natural environment.

Employees, consumers, governments, and society are especially resentful of firms that harm rather than protect the natural environment. Conversely people today are especially appreciative of firms that conduct operations in a way that mends, conserves, and preserves the natural environment. Consumer interest in businesses preserving nature's ecological balance and fostering a clean, healthy environment is high.

No business wants a reputation as being a polluter. A bad sustainability record will hurt the firm in the market, jeopardize its standing in the community, and invite scrutiny by regulators, investors, and environmentalists. Governments increasingly require businesses to behave responsibly and require, for example, that businesses publicly report the pollutants and wastes their facilities produce.

In terms of megawatts of wind power generated by various states in the United States, Iowa's 2,791 recently overtook California's 2,517, but Texas's 7,118 megawatts dwarfs all other states. Minnesota also is making substantial progress in wind power generation. New Jersey recently outfitted 200,000 utility poles with solar panels, which made it the nation's second-largest producer of solar energy behind California. New Jersey is also adding solar panels to corporate rooftops. The state's $514 million solar program will double its solar capacity to 160 megawatts by 2013. The state's goal is to obtain 3 percent of its electricity from the sun and 12 percent from offshore wind by 2020.

What Is a Sustainability Report?

Wal-Mart Stores is one among many companies today that annually provides a sustainability report that reveals how the firm's operations impact the natural environment. This document discloses to shareholders information about Wal-Mart's firm's labor practices, product sourcing, energy efficiency, environmental impact, and business ethics practices.

It is good business for a business to provide a sustainability report annually to the public. With 60,000 suppliers and over $350 billion in annual sales, Wal-Mart works with its suppliers to make sure they provide such reports. Wal-Mart monitors not only prices its vendors' offer for products, but also the vendors' social-responsibility and environmental practices. Many firms use the Wal-Mart sustainability report as a benchmark, guideline, and model to follow in preparing their own report.

The Global Reporting Initiative recently issued a set of detailed reporting guidelines specifying what information should go into sustainability reports. The proxy advisory firm Institutional Shareholder Services reports that an increasing number of shareholder groups are pushing firms to provide sustainability information annually.

Wal-Mart also now encourages and expects its 1.35 million U.S. employees to adopt what it calls Personal Sustainability Projects, which include such measures as organizing weight-loss or smoking-cessation support groups, biking to work, or starting recycling programs. Employee wellness can be a part of sustainability.

Wal-Mart is installing solar panels on its stores in California and Hawaii, providing as much as 30 percent of the power in some stores. Wal-Mart may go national with solar power if this test works well. Also moving to solar energy is department-store chain Kohl's Corp., which is converting 64 of its 80 California stores to using solar power. There are big subsidies for solar installations in some states.

Home Depot, the world's second largest retailer behind Wal-Mart, recently more than doubled its offering of environmentally friendly products such as all-natural insect repellent. Home Depot has made it much easier for consumers to find its organic products by using special labels similar to Timberland's (the outdoor company) Green Index tags. Another huge retailer, Target, now offers more than 500 choices of organic certified food and has 18 buildings in California alone powered only by solar energy. The largest solar power plant in North America is the one in Nevada that powers Nellis Air Force Base outside Las Vegas.11

Managers and employees of firms must be careful not to become scapegoats blamed for company environmental wrongdoings. Harming the natural environment can be unethical, illegal, and costly. When organizations today face criminal charges for polluting the environment, they increasingly turn on their managers and employees to win leniency. Employee firings and demotions are becoming common in pollution-related legal suits. Managers were fired at Darling International, Inc., and Niagara Mohawk Power Corporation for being indirectly responsible for their firms polluting water. Managers and employees today must be careful not to ignore, conceal, or disregard a pollution problem, or they may find themselves personally liable.

Lack of Standards Changing

A few years ago, firms could get away with placing "green" terminology on their products and labels using such terms as organic, green, safe, earth-friendly, nontoxic, and/or natural because there were no legal or generally accepted definitions. Today, however, such terms as these carry much more specific connotations and expectations. Uniform standards defining environmentally responsible company actions are rapidly being incorporated into our legal landscape. It has become more and more difficult for firms to make "green" claims when their actions are not substantive, comprehensive, or even true. Lack of standards once made consumers cynical about corporate environmental claims, but those claims today are increasingly being challenged in courts. Joel Makower says, "One of the main reasons to truly become a green firm is for your employees. They're the first group that needs assurance than any claims you make hold water."12

Around the world, political and corporate leaders now realize that the "business green" topic will not go away and in fact is gaining ground rapidly. Strategically, companies more than ever must demonstrate to their customers and stakeholders that their green efforts are substantive and set the firm apart from competitors. A firm's performance facts and figures must back up their rhetoric and be consistent with sustainability standards.

Obama Regulations

The Obama administration is imposing strict regulations requiring firms to conserve energy. Federal government buildings are being refitted with energy-efficient improvements. Alternative-energy firms are busy with new customers every day as the federal stimulus package includes adding alternative-energy infrastructure. Venture capitalists and lenders are funding new "clean technology" business start-ups, including solar power, wind power, biofuels, and insulation firms. Such firms are boosting marketing efforts, expanding geographically, and hiring more staff. Venture capital investments in clean technology companies totaled $8.4 billion in 2008, up nearly 40 percent from 2007.

A wide variety of firms are participating in this clean energy growth business, such as Seattle-based Verdiem Corporation. That firm sells software that provides centralized control over power consumption, such as remotely turning off computer monitors left on overnight.13 General Electric plans to achieve $20 billion in sales by 2011 in eco-friendly technologies that include cleaner coal-fired power plants, a diesel-and-electric hybrid locomotive, and agricultural silicon that cuts the amount of water and pesticide used in spraying fields. This is double GE's sales today in "green" products. GE has a goal to improve its energy efficiency by 30 percent between 2005 and 2012.

The Environmental Protection Agency recently reported that U.S. citizens and organizations annually spend more than about $200 billion on pollution abatement. Environmental concerns touch all aspects of a business's operations, including workplace risk exposures, packaging, waste reduction, energy use, alternative fuels, environmental cost accounting, and recycling practices.

Managing Environmental

Affairs in the Firm The ecological challenge facing all organizations requires managers to formulate strategies that preserve and conserve natural resources and control pollution. Special natural environment issues include ozone depletion, global warming, depletion of rain forests, destruction of animal habitats, protecting endangered species, developing biodegradable products and packages, waste management, clean air, clean water, erosion, destruction of natural resources, and pollution control. Firms increasingly are developing green product lines that are biodegradable and/or are made from recycled products. Green products sell well.

Managing as if "health of the planet" matters requires an understanding of how international trade, competitiveness, and global resources are connected. Managing environmental affairs can no longer be simply a technical function performed by specialists in a firm; more emphasis must be placed on developing an environmental perspective among all employees and managers of the firm. Many companies are moving environmental affairs from the staff side of the organization to the line side, thus making the corporate environmental group report directly to the chief operating officer. Firms that manage environmental affairs will enhance relations with consumers, regulators, vendors, and other industry players, substantially improving their prospects of success.

Environmental strategies could include developing or acquiring green businesses, divesting or altering environment-damaging businesses, striving to become a low-cost producer through waste minimization and energy conservation, and pursuing a differentiation strategy through green-product features. In addition, firms could include an environmental representative on their board of directors, conduct regular envrionmental audits, implement bonuses for favorable environmental results, become involved in environmental issues and programs, incorporate environmental values in mission statements, establish environmentally oriented objectives, acquire environmental skills, and provide environmental training programs for company employees and managers.

Should Students Receive Environmental Training?

The Wall Street Journal reports that companies actively consider environmental training in employees they hire. A recent study reported that 77 percent of corporate recruiters said “it is important to hire students with an awareness of social and environmental responsibility.” According to Ford Motor Company’s director of corporate governance, “We want students who will help us find solutions to societal challenges and we have trouble hiring students with such skills.”

The Aspen Institute contends that most business schools currently do not, but should, incorporate environmental training in all facets of their core curriculum, not just in special elective courses. The institute reports that the University of Texas, the University of North Carolina, and the University of Michigan, among others, are at the cutting edge in providing environmental coverage at their respective MBA levels. Companies favor hiring graduates from such universities.

Findings from research suggest that business schools at the undergraduate level are doing a poor job of educating students on environmental issues. Business students with limited knowledge on environmental issues may make poor decisions, so business schools should address environmental issues more in their curricula. Failure to do so could result in graduates making inappropriate business decisions in regard to the natural environment. Failing to provide adequate coverage of natural environment issues and decisions in their training could make those students less attractive to employers.14

Reasons Why Firms Should “Be Green”

Preserving the environment should be a permanent part of doing business for the following reasons:

1. Consumer demand for environmentally safe products and packages is high.
2. Public opinion demanding that firms conduct business in ways that preserve the natural environment is strong.
3. Environmental advocacy groups now have over 20 million Americans as members.
4. Federal and state environmental regulations are changing rapidly and becoming more complex.
5. More lenders are examining the environmental liabilities of businesses seeking loans.

6. Many consumers, suppliers, distributors, and investors shun doing business with environmentally weak firms.
7. Liability suits and fines against firms having environmental problems are on the rise.

Be Proactive,Not Reactive

More firms are becoming environmentally proactive—doing more than the bare minimum to develop and implement strategies that preserve the environment. The old undesirable alternative of being environmentally reactive—changing practices only when forced to do so by law or consumer pressure more often today leads to high cleanup costs, liability suits, reduced market share, reduced customer loyalty, and higher medical costs. In contrast, a proactive policy views environmental pressures as opportunities and includes such actions as developing green products and packages, conserving energy, reducing waste, recycling, and creating a corporate culture that is environmentally sensitive.

New required diesel technology has reduced emissions by up to 98 percent in all new big trucks, at an average cost increase of $12,000 per truck. “Clean air is not free,” says Rich Moskowitz, who handles regulatory affairs for the American Trucking Association, which supports the transition.15

ISO 14000/14001 Certification

Based in Geneva, Switzerland, the International Organization for Standardization (ISO) is a network of the national standards institutes of 147 countries, one member per country. ISO is the world’s largest developer of sustainability standards. Widely accepted all over the world, ISO standards are voluntary because ISO has no legal authority to enforce their implementation. ISO itself does not regulate or legislate.

Governmental agencies in various countries, such as the Environmental Protection Agency (EPA) in the United States, have adopted ISO standards as part of their regulatory framework, and the standards are the basis of much legislation. Adoptions are sovereign decisions by the regulatory authorities, governments, and/or companies concerned.

ISO 14000refers to a series of voluntary standards in the environmental field. The ISO 14000 family of standards concerns the extent to which a firm minimizes harmful effects on the environment caused by its activities and continually monitors and improves its own environmental performance. Included in the ISO 14000 series are the ISO 14001 standards in fields such as environmental auditing, environmental performance evaluation, environmental labeling, and life-cycle assessment.

ISO 14001 is a set of standards adopted by thousands of firms worldwide to certify to their constituencies that they are conducting business in an environmentally friendly manner. ISO 14001 standards offer a universal technical standard for environmental compliance that more and more firms are requiring not only of themselves but also of their suppliers and distributors.

The ISO 14001 standard requires that a community or organization put in place and implement a series of practices and procedures that, when taken together, result in an environmental management system (EMS). ISO 14001 is not a technical standard and as such does not in any way replace technical requirements embodied in statutes or regulations. It also does not set prescribed standards of performance for organizations. Not being ISO 14001 certified can be a strategic disadvantage for towns, counties, and companies because people today expect organizations to minimize or, even better, to eliminate environmental harm they cause.16 The major requirements of an EMS under ISO 14001 include the following:

1. Show commitments to prevention of pollution, continual improvement in overall environmental performance, and compliance with all applicable statutory and regulatory requirements.
2. Identify all aspects of the organization's activities, products, and services that could have a significant impact on the environment, including those that are not regulated.
3. Set performance objectives and targets for the management system that link back to three policies: (1) prevention of pollution, (2) continual improvement, and (3) compliance.
4. Meet environmental objectives that include training employees, establishing work instructions and practices, and establishing the actual metrics by which the objectives and targets will be measured.
5. Conduct an audit operation of the EMS.
6. Take corrective actions when deviations from the EMS occur.

Electric Car Networks Are Coming

In August 2009, President Obama announced $2.4 billion in funding for electric car manufacturing. Grants will go to 11 companies in Michigan and 7 in Indiana that are matching the funds. The company Better Place is building a network of 250,000 electric car recharging stations in the San Francisco/Oakland Bay Area. Each station is about the size of a parking meter.

The company has already built such networks in Denmark, Israel, and Australia. City officials in the Bay Area expect that region to lead the United States in electric cars in the near future. The stations are essential because most electric cars need recharging after about 40 miles. Better Place is also building about 200 stations in the Bay Area where electric car batteries can be switched out within 15 minutes, so no waiting is needed for recharging. Even with petroleum prices at low levels, expectations are for the United States and other countries to switch to electric cars quite aggressively over the next 10 years—for pollution minimization reasons and to take advantage of government incentives and eventual mandates.

General Motors and Chrysler are pouring money into developing electric plug-in vehicles. GM is expected to launch its Chevy Volt in late 2010 in the United States. Nissan Motor Co. and Toyota Motor Co. are also quickly developing electric cars.

The Chinese auto maker BYD Co. recently unveiled the country's first all-electric vehicle for mass market. The company's F3DM vehicle runs off batteries that can be charged from a regular electrical outlet. BYD plans to sell this car in the United States in 2010. BYD sold about 10,000 F3DMs in 2009 at a price of 150,000 yuan, or $22,000 each. BYD is headquartered in Shenzhen.

Hawaii is creating an electric car network for the islands that by 2012 is expected to wean the state from near-complete dependence on oil for its energy needs. The firm Better Place is creating 70,000 to 100,000 recharging points throughout the islands to support plug-in electric cars. Under the Hawaii Clean Energy Initiative, the state intends to cut its dependence on oil to 30 percent by 2030. Hawaiians pay very high electricity prices because costly oil is burned to produce power. Electric cars have a driving range of 40 miles between charges, which is suitable for Hawaii.17

AT&T Inc. in 2009 committed to spend $565 million over 10 years to replace its 7,100 passenger cars with 8,000 hybrid-electric and natural gas vans to perform its installation and repair activities. The company is paying on average 29 percent more for these vehicles than it would for gasoline-powered models, but this expense will be offset by lower fuel costs, less emissions, and enhanced public image. The AT&T strategy will reduce carbon emissions by 211,000 metric tons over 10 years. AT&T is working with natural gas providers to build up to 40 fueling stations across its operating region. There are only about 110,000 natural gas vehicles in the United States compared to over 10 million such vehicles worldwide. This bold move by AT&T expands on similar initiatives by United Parcel Service and PG&E.18

The March 2009 Copenhagen Meeting

More than 2,000 scientists convened together in Copenhagen in March 2009 and warned the world that global warming is worse than expected. They strongly encouraged companies and governments to "vigorously" implement all economic and technological tools available to cut emissions of heat-trapping greenhouse gases. By the end of this century, scientists warn, sea levels will rise at least 20 inches and possibly as much as 39 inches unless companies and governments implement policies to radically reduce greenhouse gas emissions.

The Kyoto Protocal expires in 2012, and the results of this March 2009 Copenhagen Meeting are expected to replace that agreement. Near-coastal areas worldwide will be under water by the end of this century if drastic actions are not implemented soon worldwide to curb greenhouse gas emissions from companies, cars, trucks, power-generating plants, and planes.

Table 10-1 reveals the impact that bad environmental policies have on two of nature's many ecosystems.

TABLE 10-1 Songbirds and Coral Reefs Need Help

Songbirds
Be a good steward of the natural environment to save our songbirds. Bluebirds are one of 76 songbird species in the United States that have dramatically declined in numbers in the last two decades. Not all birds are considered songbirds, and why birds sing is not clear. Some scientists say they sing when calling for mates or warning of danger, but many scientists now contend that birds sing for sheer pleasure. Songbirds include chickadees, orioles, swallows, mockingbirds, warblers, sparrows, vireos, and the wood thrush. "These birds are telling us there's a problem, something's out of balance in our environment," says Jeff Wells, bird conservation director for the National Audubon Society. Songbirds may be telling us that their air or water is too dirty or that we are destroying too much of their habitat. People collect Picasso paintings and save historic buildings. "Songbirds are part of our natural heritage. Why should we be willing to watch songbirds destroyed any more than allowing a great work of art to be destroyed?" asks Wells. Whatever message songbirds are singing to us today about their natural environment, the message is becoming less and less heard nationwide. Listen when you go outside today. Each of us as individuals, companies, states, and countries should do what we reasonably can to help improve the natural environment for songbirds.[19] A recent study concludes that 67 of the 800 bird species in the United States are endangered, and another 184 species are designated of "conservation concern." The birds of Hawaii are in the greatest peril.
Coral Reefs
Be a good steward of the natural environment to save our coral reefs. The ocean covers more than 71 percent of the earth. The destructive effect of commercial fishing on ocean habitats coupled with increasing pollution runoff into the ocean and global warming of the ocean have decimated fisheries, marine life, and coral reefs around the world. The unfortunate consequence of fishing over the last century has been overfishing, with the principal reasons being politics and greed. Trawl fishing with nets destroys coral reefs and has been compared to catching squirrels by cutting down forests because bottom nets scour and destroy vast areas of the ocean. The great proportion of marine life caught in a trawl is "by-catch" juvenile fish and other life that are killed and discarded. Warming of the ocean due to carbon dioxide emissions also kills thousands of acres of coral reefs annually. The total area of fully protected marine habitats in the United States is only about 50 square miles, compared to some 93 million acres of national wildlife refuges and national parks on the nation's land. A healthy ocean is vital to the economic and social future of the nation—and, indeed, all countries of the world. Everything we do on land ends up in the ocean, so we all must become better stewards of this last frontier on earth in order to sustain human survival and the quality of life.[20]