8 Ecology and International Business

Online student resources

Additional materials

Comparative corporate responsibility

Green attitudes can best be analysed within the context of the explosion in interest for corporate responsibility (CR) that has occurred since the 1990. It is important to remember is CR is comprised of many subcategories, including, in addition to environmentalism, social investing, corporate governance, corruption, product responsibility and labour standards. Indeed, one recent study has shown that the latter two components are still most important, respectively, to consumers' estimation of a company's CR image and to their subsequent purchasing intentions – with corporate environmental responsibility having relatively little effect (Anselmsson and Johansson 2007) despite becoming CR's most widespread dimension. For many business ethics specialists, the environment is little more than one CR area of concern among several – although some have started to predict that it might soon replace labour issues as the leading concern in the world's industrialised countries due to the fact that is has the more direct effect on these populations' welfare (Vogel 2006).

Corporate responsibility itself tends to assume a number of different forms across the world. Many Continental European states, for instance, are characterised by stringent legislation outlining corporate executives' specific (and sometimes personal) liability in case they engage in actions at work that produce negative externalities for society as a whole. This is particularly true in countries marked by a civil law tradition strictly delineating citizens' duties and obligations (e.g. note the Germany legal concept of *Eigentum verpflichtet,* loosely translated as the idea that 'Ownership implies duties' and not just benefits). According to one school of thought (Matten and Moon 2004), it is specifically because of this legal straitjacket that consumers in Western Europe expect companies to act ethically and therefore require fewer overt manifestations of CR from them. This is not to say that consumers in this part of the world do not appreciate CR signals such as the ones conveyed via fair trade advertising or green marketing. Quite the contrary, given the generally more collective nature of European cultures (Hofstede 2009), there is much appreciation in this part of the world for campaigns where companies portray themselves as fully fledged citizens of the wider society.

In the United States, on the other hand, there is a view that executives have historically had incentives to avoid taking responsibility for the consequences of their actions because they could "hide behind the corporate veil" of limited liability (Stiglitz 2006) – or at least, they could do this before the Sarbanes-Oxley corporate governance bill became law in 2002. In response to such abuses, the US developed a deep-seated culture of public scrutiny, dating back at least as far as Upton Sinclair's 'muck-raking' denunciations of corporate malfeasance in the Chicago stockyards at the turn of the 20th century. Moreover, given the country's tradition of interpretative common law, companies might feel greater pressure to prove their CR credentials through overt actions (Matten and Moon 2004). One example of this is the way that McDonalds has taken to publishing its ingredient quality standards to prove that they surpass Food and Drug Administration minima that US consumers might not find sufficiently reassuring otherwise. Another is the intensive CR work done by American companies like Ben and Jerry's and American Apparel who have tried to turn public scepticism with most other firms to their advantage by highlighting their own progressive values and sustainability commitment. CR has provided a new niche for a whole range of companies and many US firms that lagged behind the world's first movers in CR marketing have worked very hard in recent years to catch up and surpass their rivals.

Elsewhere, Japan's CR profile resembles Europe's to the extent that this is by and large a collective culture (Hofstede 2009) where citizens are taught that social and natural harmony, a deep-seated Asian value enshrined in the writings of the philosopher Confucius, take precedence over self-interest. Still, there are many countries in Asia that share elements of Japan's Confucian culture without CR being as prevalent as it is here – providing further proof of the difficulties of characterising CR in national terms. Many countries have a contradictory profile in this respect, one being China, where a government haunted by the spectre of ecocide against a background of over-population and accelerated industrialisation has started to disseminate a number of eco-consciousness programmes (Zanier 2008) even as it worked to undermine the 2009 Copenhagen climate change conference. To a large extent, the emergence from material poverty remains a priority across much of Asia, Latin American and Asia. It is not that developing country citizens do not have the same needs or sensitivities as their wealthier counterparts. The real obstacle is the desperate view of many people in poorer societies that CR is a luxury of the affluent.

Yet things would appear to be changing. In the social arena, modern globalisation is increasingly accused of aggravating global income distribution, creating interest in CR solutions such as fair trade that try to resolve this problem. In the environmental arena, announcements like the 2005 Intergovernmental Panel on Climate Change (IPCC) verdict that global warming is very real and potentially catastrophic have served to raise the awareness of citizens worldwide. However, growing interest in CR is not necessarily a prelude to concrete action on the ground, since the best intentions will often only materialise if the worst actions are subject to effective policing. The problem is that whereas much international business occurs on an intranational plane in the space between national jurisdictions, it is still the case the corporate irresponsibilty can largely be sanctioned only within a national framework where everyone answers to a single governmental authority. International organizations such as the EU or WTO may be able to punch wrongdoers on a few limited occasions but generally lack the power to enforce transgressions on a regular basis. Note that there is a strong argument that it is in the world's interests to unify its "fragmented legal systems [since] making firms pay for the damage they inflict [gives them] greater incentive to act more responsibly and ensure their employees do" (Stiglitz 2006: 205-7). One step in this direction would be to let companies be sanctioned in one country for their actions elsewhere (i.e. the suit launched against Unocal in California for its conduct in Myanmar). There is also the possibility of holding MNEs accountable for unethical actions they have committed in the past – as exemplified by the lawsuit that human rights group Khulamani has launched against MNEs accused of supporting South Africa's oppressive former apartheid regime (Evans 2008). For the moment, however, with the exception of global NGO campaigns aimed at raising global consumers' ethical awareness, CR is mainly enforced within the boundaries of the nation-state.

For this reason, some MNEs actively exploit international variations in CR to avoid having to apply (expensive) best practices in all of the countries where they operate. The problem with this minimialist commitment is that an MNE's misconduct in one part of the world can (and actually should) damage its brand image elsewhere. The correlation will be less than perfect given the existence of ***CR proximity effects***, but in an era of instantaneous global communications, there are countless ways for concerned consumers to remain informed of how the companies with whom they do business are behaving. In the 1980s, for instance, the great consumer protests organised against Nestle in Western Europe and in the US were actually in opposition to actions that this giant MNE had undertaken in distant locations such as Latin America and Bangladesh (where its advertisement were alleged to have induced mothers to mix unhealthy local tap water with milk powder). Shell's public image nose-dived in the 1990s, particularly in Germany, when it announced plans for the deep-sea burial of spent oil platforms in the North Sea's Brent Spar fields. Indeed, during the 2000s it was the very concept of distance itself that

CR proximity effects – The positive correlation between consumers' sensitivity to CR actions and their cultural and/or geographic distance.

sparked widespread consumer outrage, with many global retailers (Wal-mart in the US, Carrefour in France, Tesco in the UK and Edeka in Germany) being severely criticised for the high carbon footprint associated with their sourcing goods across the world. Informed consumers will have less tolerance for companies' CR failures.

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■ Fair trade vs. organic produce

It is important to differentiate between fair trade products and green (i.e. organic) perishables. Many observers amalgamate the two because they both fit under the heading of CR products and appeal to consumers' sense of altruism. Yet as justifiable as it is to describe both segments as 'ethical', the fact remains that fair trade focuses on the material benefits that a transaction offers producers, whereas the green message associated with consumer perishables rarely refers to other parties' welfare, highlighting instead the goods' naturalness and/or health benefits for the buyer. Nor do the two markets necessarily have the same macro-economic profile. Rather than the health of the ecosphere, fair trade speaks to a social justice agenda and is largely shaped by international trade concerns such as exchange rates and supply chain organisation. Moreover, it often involves transporting commodities over great distances – a fundamentally unsustainable activity (if only due to the expenditure of energy resources in the form of transportation fuel) that is also at odds with a more ecologically rational system based on the consumption of seasonal local produce.

In addition, the markets for fair trade and organic products react differently to general economic conditions. In many countries, for instance, the 2008/2009 recession hit organic goods much harder than it affected fair trade – possibly because the former category is commonly viewed as personal luxury, whereas the latter classified more often as a moral commitment. Note that the two sectors do not have the same target markets, with fair trade consumers tending to resemble the overall profile of purchasers in many societies. Organic products, on the other hand, tend to be more popular among older populations – a category more concerned with personal health and which, above all, with greater spending power.

Like organic produce, fair trade remains a marginal market, accounting for less than 1 percent of all retail sales in the OECD countries. The sector's fortunes have risen in recent years, however, as exemplified by its 47 percent growth rate in the UK just in 2008, where a number of household brand names like Cadbury's or Tate & Lyle have taken steps to enter a market that used to be driven by a few specialist SMEs (Wiggins 2009). It is true that this expansion mainly occurred before consumers felt the full effects of the 2009 recession.

Another similarity between fair trade and organic products is that both remain relatively unknown and therefore require external signs of validation to reinforce their authenticity in potential consumers' minds. Like green marketing, the fair trade sector has been largely structured by the efforts of certification bodies, first and foremost being FLO International (www.fairtrade.net), whose oversight includes "20 labelling initiatives in 21 countries [along with] producer networks representing Fairtrade Certified Producer Organizations in Central and South America, Africa and Asia". Labels associated with such codification efforts are key in convincing potential buyers of the utility of paying more for fair trade goods than they would for more standard alternatives – a counter-intuitive decision that green consumers also face. The mark-up on fair trade goods will vary but is often around 30 percent – somewhat less than the surcharge customarily levied on organic products in comparison with non-green varieties. The reason why fair trade products command less of a mark-up than organics could reside in the more explicitly altruistic nature of the former in comparison with the latter. There are limitations in the surcharge that people can be expected to pay if they are not deriving a direct personal benefit from a transaction.

On the other hand, the long-term outlook for fair trade is less promising than for organic products. Whereas the ecological imperative is destined, in all likelihood, to worsen in the decades to come – an argument substantiated throughout this book – fair trade is predicated on an appreciation of revenue transfer mechanisms that albeit laudable in their generosity may in fact have the undesired effect of harming the very people whom it is trying to help. This is because fair trade is tantamount to subsidising expanded production of goods (typically based on commodities such as coffee, tea or cotton) for which a glut already exists – partially explaining the low prices from which producers suffer. Instead of promoting actors' exit from an overcrowded sector, fair trade enables them to temporarily survive while aggravating current imbalances. An exemple is the coffee sector, where global output – which already outstrips demand – is expected to "hit a record 138.4 million bags, up from 120 million last year. That oversupply could make things worse for most farmers, who don't have a Fairtrade deal". (Clarke 2009) Such dysfunctions could lead over time to greater cynicism about the usefulness of fair trade as a principle of market organisation.

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Revision tips

- With sum total of global trade and/or FDI accounting for more than half of total wealth creation in many of the world's leading economies nowadays, robust analysis of the evolving relationship between Ecology and Management is only possible if the international aspects are taken into account. This is especially important given significant variations in the global dispersion of resource endowments and consumption, combined with a wide array of national environmental paradigms.
- The sheer size of multinational enterprises (MNEs) means that their behaviour and decisions have a disproportionate effect on the global ecosphere. The lack of a unified environmental legal framework – or of any body empowered to police international decisions in this area – means that if MNEs so desire they can sometimes arbitrage one regime against another to avoid being subjected to stringent (thus expensive) environmental controls. Both they and national governments are aware of MNEs' mobility, putting them in a position where they can sometimes dictate market entry conditions (especially in very poor countries desperate for inwards investment). This can lead to a 'race to the bottom', although it is questionable whether such outcomes actually benefit MNEs, since they allows them to avoid engaging in the difficult green adaptation efforts that will be forced upon them sooner or later, undermining their long-term competitiveness.
- An MNE's willingness to embrace the ecological imperative fully, regardless of the regulatory context prevailing in a particular country, depends in part on whether its strategic directions are being set by global headquarters or by national subsidiaries – and which is more willing to adopt sustainable practices. The growing fragmentation of MNE operations hinders corporate greening by making it harder to measure the overall group footprint and allocate responsibilities.
- Long-distrance supply chains run counter to the proximity logic inherent to industrial ecology clusters. Widely dispersed MNE networks have high fric-

tional costs. There has been a recent trend towards 'nearsourcing'. Note that MNEs from different parts of world tend to vary in supply chain greening focus.

- Classical economics argues in favour of locating production in sites based on their 'absolute' or 'comparative advantage'. This creates an international division of labour that can have negative environmental impacts: greater reliance on transportation (pollution); monoculture (biodiversity loss); more need for packaging, etc. The fact that the WTO also prioritises free trade principles means that national governments are restricted in their ability to support green business or sanction unenvironmental practices.
- To avoid protectionist 'beggar thy neighbour' strategies such as pollution havens, in the absence of global governance there will need to be voluntary convergence between trading partners' environmental frameworks. The problem is that countries at different stages of socioeconomic development will vary in their prioritisation of sustainability (c.f. Kuznets model). Citizens' expectations also change as income levels rise (Maslow Hierarchy)
- There is a question regarding which group of MNEs will lead the future green industrial revolution. The vast majority of patents continue to be registered in the Global North, but the Global South is starting to dominate world manufacturing. This is dangerous for the ecosphere insofar as dirty and/or energy-intensive technologies are being used here. Even so, the Global North is generally unwilling to fund sustainability in the emerging world. China has already become the world's leading producer of solar panels. There is a question whether the American private venture capital model will be as effective at launching eco-industries as the 'state capitalism' model that prevails elsewhere.

Online case study: The dark side of multinational expansion in Africa

One weakness of the standard Mercator map is that it under-represents the size of some regions – starting with Africa, whose landmass and resource base are much more extensive than is commonly realised. Following several centuries marked by (neo-)colonial exploitation of the continent's mining resources, there has been greater focus in recent years on Africa's Sub-Saharan offshore oil deposits. These fields may amount to as much as 10% of global reserves and are therefore drawing attention from a number of multinational energy firms. Unsurprisingly, many international business observers predict that Africa will become one of the world's leading recipients of foreign direction investment (FDI) over the course of the 21st century.

The problem is that many impoverished African nation-states lack the institutional and/or policing capabilities to prevent these resource extraction activities from damaging their ecosphere or causing public health problems. Desperate for inwards investment capital and prone to the kind of embedded corruption that is often a by-product of economic under-development, African politicians negotiating terms with multinational enterprises (MNEs) will often demand lower environmental standards than the ones applied in wealthier, more self-confident countries. In turn, MNEs are aware of these vulnerabilities and often force their African counterparts into a race to the bottom by threatening to invest elsewhere unless regulatory standards are eased - a bargaining strategy known as regime arbitrage. The end result has been an accumulation of international business-driven eco-disasters whose recurrence has raised serious doubts about Africa's development trajectory.

Shell's operations in Nigeria provide one example of longstanding MNE misconduct in Africa. Much has been written over the past 20 years about the damage that eminently avoidable spillages from this giant oil company's drilling activities have done to Nigeria's Ogoni region, destroying local farmers' livelihoods and provoking civil unrest repressed with murderous force. It is true that Shell has tried in recent years to engage more positively with the main movement representing Ogoni interests (http://www.mosop.org/). At the same time, a more recent investigation (Howden 2010) has revealed that facilities such as Shell's Opolo-Epie operations in the Niger Delta continue to engage in noxious gas flaring practices where the gas associated with oil pumping operations is simply burned off without further treatment. This practice, which has been illegal since 1984, not only causes a massive emission of greenhouse gases but also constitutes a pure waste of energy – and this in a society already lacking the resources for its own development needs.

The Ivory Coast was another victim of MNE misconduct in 2006 when Trafigura, a Dutch trading firm with "high-level connections to the [British] Conservative Party" (Leigh 2009), knowingly transferred hazardous waste to a cheap Ivoirian contractor lacking the experience or facilities to process toxic substances. The end result is that the waste was tipped all around the capital city of Abidjan, causing several deaths and poisoning upwards of 31,000 residents living near the chosen dump sites. From Trafigura's perspective, the interest of dealing with sub-standard African partners was clear: at the time, the asking price for toxic waste disposal was $1,000 per cubic metre in the Netherlands, versus $35 in the Ivory Coast. This differential meant that Trafigura traders could hope to make a total of $21 million from the three cargoes that its chosen partners were discarding so irresponsibly. Recent disclosures of emails have confirmed the Dutch company's focus on bottom line considerations rather than African populations' environmental interests.

There are many other stories of Africa being used as a dumping ground for spent products, ranging from nuclear waste dumped illegally off the shores of

Somalia to mountains of e-waste accumulating across the continent instead of being recycled in the region of origin (usually Europe or the US). Such dumping is in clear breach of the Basel Convention (www.basel.int/), whose purpose is to control the transboundary movement and disposal of hazardous waste. The consequence of this litany of misdeeds is that an increasing number of voices have started to protest against the ecological costs of Africa's interactions with certain forces of globalisation. One such voice is Wangari Maathai, who won the Nobel Peace Prize in 2004 for her ongoing battle in favour of biodiversity, encapsulated in the efforts of a Kenyan non-profit association called the Green Belt Movement. Another is Gabonese activist Marc Ona (Time 2009), who has publicly opposed many aspects of Chinese company CMEC's iron-ore project due to the extremely damaging environmental consequences for his country's Ivindo National Park, one of the largest rainforests in the world. Ona's success in forcing the authorities to scale the project back is a rare example of green priorities overriding economic considerations in a region of great poverty. The hope is that future growth in Africa (and indeed, in the rest of the developing world) can marry these two perspectives.

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Leigh, D. (17 September 2009), "Special report: They hoped to make a fortune. Instead they caused a tragedy", The Guardian, pp. 4/5

Time Magazine (5 October 2009), Heroes of the Environment special report

■ Case study questions:

A. Why are some observers concerned about the way in which Africa's natural resources are being exploited

B. To what extent can Shell be blamed for the problem's of Nigeria's Ogoni region?

C. What is the outlook for ecology and management in Africa?

■ Other references

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