Chapter 2

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Chapter 2

Potential Triggers for Strategic Environmental Management

2.1. Current Interest in Ethics-Centred Business Strategy

The conventional wisdom of strategic management shows obvious signs of value freedom, which explains the conspicuous absence of discourses on the ethical implications of strategy formulation, implementation and control. Notwithstanding the long-standing scepticism among corporate managers about integrating ethics into business strategy, lately, there is a mounting interest (I) in this direction because of five interrelated factors (Kaptein and Wempe, 2002: 31 as follows:

- Increasing stakeholder power in demanding greater corporate accountability (S);
- Increasing complexity of ethical issues confronting companies (C);
- More opportunities available for unethical behaviour by wilful avoidance of corporate responsibilities (O);
- Growing willingness of stakeholders to reward/punish ethical/unethical corporate conduct (R); and
- Improved evaluation of relative benefits/costs associated with responsible/irresponsible corporate conduct (E).

To put it symbolically, \( \Delta (↑) I = \Delta (↑) S \times \Delta (↑) C \times \Delta (↑) O \times \Delta (↑) R \times \Delta (↑) E \); where \( \Delta \) represents the rate of change and (↑) indicates increase.

2.2. Concept of a Trigger

The increasing intensity of the interplay of these factors in directing managerial attention to the ethical implications of business is not fortuitous but a culmination of wide-ranging, developments over the past
few decades. We refer to these contemporary, interdependent developments as "triggers" to the dynamic ethical posture of an organization.

The lexicographer's connotation of a "trigger" is anything that produces an immediate result. In the present context of strategic environmental management, a trigger refers to a combination of (1) changes in the external (social, cultural, political, legal, economic, ecological and technological) environment, collectively referred to as the "global forces of change", (2) mounting expectations of diverse stakeholder constituencies, and (3) evolution in the boundaries of managerial consciousness within business enterprises.

These triggers have collectively infused a more enlightened ethical stance within the stranglehold of traditional strategic thinking, obsessed with short-term profit maximization. These triggers also provide the raison d'être for strategic environmental management (SEM) as a dynamic business philosophy.

2.3. Significant Triggers in the Development of SEM

The most significant triggers identified in terms of their scope (from wide to narrow) for influencing the contemporary development of SEM as an appropriate business philosophy are:

- Evolving ecological orientation in the global socio-economic order
- Conceptualization of the economy as a living system
- Stewardship ethics for a stakeholder inclusive corporation
- "Fourth-Wave" World-view of corporate responsibility as planetary stewardship with Earth as the ultimate corporate stakeholder
- Assignment of stakeholder status to the natural environment
- Widening horizons of managerial intelligence
Emerging multi-stakeholder focus of corporate governance
Companies maturing into ethically transformed organisations
Prioritization of full cost accounting and management

2.3. 1. Ecological Orientation in the Global Socio-economic Order

Over the last three centuries, the philosophy of materialism has led to remarkable scientific and technological advancements. Unfortunately, these have caused an exploitative industrialism to create dramatic and traumatic impacts upon the 'chemistry of the atmosphere and the genetic diversity of the planet' (Carley and Christie, 1992:17), which would take natural processes or earlier human civilizations several millennia to achieve. Although three hundred years is minuscule in comparison with the life-span of the earth, this eventful period is marked by unimaginable acts of wanton destruction of Nature's symphonic beauty, unthought-of in the previous two millennia. Chaos, complexity, conflict and crisis characterise this interregnum symbolising the twilight of "sensate" (Sorokin, 1937-41) culture.

Sociologist Pitirim Sorokin, in his monumental four-volume work written between 1937 and 1941 maps out the cyclical waxing and waning of three basic value systems—sensate, ideational, and the idealistic—that lie at the foundations of a culture (Capra, 1982: 13) (End-note #1). He maintains that these three fundamental patterns of human culture have produced identifiable cycles in Western civilization. Based on Sorokin's analysis we surmise that the recent social upheavals and ecological crises signify one of the great transition phases—a profound cultural transformation—of rare occurrence. Capra (1982:14) views the present transformation as more dramatic than earlier ones because of the unprecedented pace and nature of
change now. Today, changes are extensive with a global reach, disruptive and discontinuous.

Current ecological crises (economic poverty, social disintegration, ecological imbalances, and moral erosion) are planet-size, and are not confined to individuals, governments or business. Capra (1982: 15) observes: ‘As individuals, as a society, as a civilization, and as a planetary ecosystem, we are reaching the turning point’ of cultural and socio-economic transformation for which a “paradigm shift” (Kuhn, 1970) must occur from the view of a closed circular flow economy (the paradigm of the past) to that of an open living system economy (the paradigm of the future) (Stead and Stead, 2004: 9-12).

This implies an elevation in human consciousness. The limited human consciousness has failed to capture the subtle, dynamic and complementary relationship of archetypal poles ("yin" and "yang") as the basis of the rhythm of creation (or "Tao") in the universe and natural systems subsumed within it, according to the ancient Taoist philosophy. Over-emphasizing "yang" over "yin" (Capra, 1982, p. 22) reflects a cultural imbalance in our values, behaviour, decisions and activities, as borne out by our prevailing priorities—rational knowledge over intuitive wisdom, ego-action over eco-action, analysis over synthesis, linearity over cyclicity, polarity over complementarity, competition over co-operation, and exploitation over preservation (Table 2.1).

Lopsided development of the human mind, i.e., over-use of the left-brain relative to the scarce use of the right-brain faculty has culminated in a mutually reinforcing system of academic, political, economic and social institutions that are oblivious of its dangers. Human society’s preference for yang over yin causes a cultural imbalance in our thoughts and feelings, attitudes and values, goals and aspirations, social and political structures,
as well as in technological and economic innovations. This is the crux of the current environmental predicament (End-note #2).

Table 2.1: Diametrically Opposite Attributes of Yin and Yang

<table>
<thead>
<tr>
<th>Yin</th>
<th>Yang</th>
</tr>
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<tbody>
<tr>
<td>Eco-action</td>
<td>Ego-action</td>
</tr>
<tr>
<td>Consciousness of the environment</td>
<td>Consciousness of the self</td>
</tr>
<tr>
<td>Preservation</td>
<td>Exploitation</td>
</tr>
<tr>
<td>Intuitive</td>
<td>Rational</td>
</tr>
<tr>
<td>Synthesis</td>
<td>Analysis</td>
</tr>
<tr>
<td>Responsive</td>
<td>Aggressive</td>
</tr>
<tr>
<td>Collaborative</td>
<td>Competitive</td>
</tr>
<tr>
<td>Contractive</td>
<td>Demanding</td>
</tr>
<tr>
<td>Feminine</td>
<td>Masculine</td>
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</table>

To awaken ecological consciousness for a better understanding of the natural environment, rational knowledge has to be combined with non-linear, intuitive wisdom. Science historian, Carolyn Merchant (1980: xvii), affirms: ‘In investigating the roots of our current environmental dilemma and its connections to science, technology and the economy, we must re-examine the formation of a world-view and a science which by reconceptualising reality as a machine rather than a living organism, sanctioned the domination of both nature and women’. Rational analysis, which interlaces our current scientific thinking, is anti-ecological.

Merchant (1992: 68-69) observes that the mechanistic “yang” worldview represents (1) matter and society as composed of individual components, (2) the whole (of society or any material entity) as equal to the sum of its parts, (3) objects as independent of their context (different cultures or experimental conditions), which should obey universally valid rules of society or laws of nature, (4) change as essentially the rearrangement of parts in the whole (energy in matter or individuals in society), and (5) thinking as dualistic (mind/matter, nature/society, subject/object) and (6)
objective thought as a possibility only with a separate human mind acting objectively according to rational laws that can describe, control and repair society and nature like the parts of a machine.

By contrast, the holistic, ecological “yin” world-view (Merchant, 1992: 76-77) underscores (1) connectedness of everything, with each part being defined by its relationship to the whole, and by everything else to the whole, (2) synergy of ecological systems and societies—the whole exceeds the sum of the parts, (3) dependence of knowledge on context so that working assumptions are necessary to derive objective scientific laws, and cultural contexts must be identified to understand ethics and human behaviour, (4) primacy of processes over parts, which are temporary structures within the continual flow of energy amongst open systems, and (5) monistic thinking that all opposites are different facets of one and the same thing. The social reality portrayed by these assumptions upholds cooperation, participation, trans-disciplinarity, diversity, sustainability, integration, and qualitative development.

At present, the mechanistic world-view, with its methodological underpinnings in standard empiricism and the philosophy of ‘informatized’ knowledge, pervades science-based research in universities, although there are strong suggestions in many quarters that the holistic, ecological view is scientifically sound, and that even modern physics as the most rationally oriented of all disciplines can effectively apply it and demonstrate this fact to other disciplines (Capra, 1982: 33).

If the ecological paradigm is accepted by physicists manifesting an extreme specialisation of the rational mind, then, progressively, all sciences based on the Newtonian/Cartesian framework (including social sciences like sociology, political science, economics, law, geography, finance, accounting and management) will have to change course to be
compatible with modern physics. Maxwell (1987: 276) observes that 'the intellectual revolution from knowledge to wisdom is already under way' in different avenues of intellectual pursuit.

2.3.2. Open Living System Economy

The mechanistic-reductionist paradigm focuses on the image of an economy as a closed circular flow, which has guided decision-makers for the past three centuries. According to this framework, the production-consumption cycle causes resources to be transformed by business enterprises into products and services that are purchased by consumers. Resources flow in the anti-clockwise direction and money flows in the clockwise direction. The problem with the closed circular flow model is its assumption of an economy that is isolated and independent of the social and ecological systems. Hence, the economy is assumed not to be subject to the physical laws of the universe, the natural processes and cycles of the ecosystem, or the values and expectations of society. Hence, this model of an economy can grow limitlessly as self-serving, rapacious consumers buy more from various corners of the globe to gratify their insatiable economic desires (Stead and Stead, 2004, pp. 9-10).

By contrast, the open living systems model starts with the assumption of the earth as a living system whose survival depends upon the attainment of a sustainable balance within its various sub-systems. This approach refutes the closed circular flow model in that it assumes the economy as integrated with other sub-systems of the Planet; hence, long-term economic health depends critically upon the contributory ecosystem and social system. Accordingly, global scale economic activities have to be performed by respecting the bio-geophysical and social thresholds imposed by our planet, considering that the earth is the ultimate source of natural and human capital for the economic system. In effect, strategic decision-
makers must operate such that the economy serves the intrinsic needs of the wider society within the constraints mandated by nature.

Owing to the dominance of human beings in the planetary ecosystem, our collective and cumulative decision-making is a key influence on the state of society and nature. The human capacity to make effective decisions in different collective contexts (i.e., families, business, academic institutions, government agencies and interest groups) depends upon the mental process adopted to make choices, which is conditioned by the assumptions and values we hold.

In economic decision-making, individuals make decisions in the capacity of members of supplier organizations producing goods/services, as well as consumers who purchase and use these goods/services. Thus, they dominate the entire production-consumption cycle of the circular flow model. However, in the open living system model the economy is assumed to be embedded within the social system and also the ecosystem. So, it depicts the solar flow of energy that provides fuel for the earth’s subsystems to operate, the terrestrial resources in nature that provide the materials and energy essential for economic activity. It also depicts the wastes generated during the course of economic activities that must be absorbed by the ecosystem. Nature, thus, occupies the pivot in this model, and organizations can create more value only if they emulate nature’s processes of design and waste absorption through “bio-mimicry”. Individuals, communities and societies in this model are value-driven living entities instead of value-free consumption-production machines.

2.3.3. Stewardship Ethics for the Stakeholder Inclusive Corporation

The early proponents of corporate social responsibility (CSR) in the 1960s, 1970s and 1980s, had an ambivalent attitude towards corporate profits
(Yankelovich, 2006: 13), which restricted CSR’s widespread acceptability to the corporate sector. These early CSR enthusiasts were largely from non-business segments of the society, who unthinkingly prescribed the achievement of a status of moral superiority at the cost of jeopardizing the competitive strength of a firm. The concept of stewardship ethics (Yankelovich, 2006: 13), by contrast, underscores profit as a top corporate priority, compatible with the psyche prevalent among the business community (Table 2.2), unlike most CSR initiatives that propagate higher social sensibilities and ethical standards by downplaying the compelling business realities.

Table 2.3: Stewardship Ethics versus Traditional CSR

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<tr>
<th></th>
<th>Traditional CSR</th>
<th>Stewardship Ethics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origin</td>
<td>Non-governmental organisations (NGOs)</td>
<td>Business community</td>
</tr>
<tr>
<td>Priorities</td>
<td>Social good over profits</td>
<td>Social benefit plus profits</td>
</tr>
<tr>
<td>Attitude towards profit-earning</td>
<td>Ambivalent; profits prevent managers from promoting social good</td>
<td>Supportive; profitability is ethically sound, but must result from socially and ecologically relevant activities</td>
</tr>
<tr>
<td>Implications for goal attainment</td>
<td>Adds ethical burden to achieving business goal</td>
<td>Reconciles caring, service and profitability</td>
</tr>
<tr>
<td>Ranking of “social good”</td>
<td>Assumes all socially good actions as equally desirable</td>
<td>Assumes good deeds must advance core corporate mission</td>
</tr>
<tr>
<td>Status of ethical acts of “care”</td>
<td>Not integrated with business purpose and strategy</td>
<td>Requires genuine and systemic transformation through proper institutionalization of ethical behaviour</td>
</tr>
</tbody>
</table>

However, stewardship ethics takes a further stand that the business sector must adopt the right kind of strategic analysis and initiatives to strike a sustainable balance between profit making on the one hand, and taking better care of an expanding circle of stakeholders beyond the shareholders. In short, it asks for mainstreaming corporate responsibility, i.e., embedding attention to corporate social and environmental impacts throughout the business (Smith and Lensen, 2009: 4) through an integrated
and actionable corporate agenda that will influence day-to-day decision-making and action at all organizational levels.

It may be expected that as CSR matures into a more globally-oriented concept of global business citizenship (GBC), it is likely espouse stewardship ethics more strongly than in the past. This will require business managers to think in terms of their combined roles as pragmatists and citizens rather than as unscrupulous laissez ideologues (Yankelovich, 2006: 101). In this sense, stewardship ethics may be reckoned as a contemporary form of enlightened or ethical egoism (Yankelovich, 2006: 149). The focus on enlightened self-interest under dynamic conditions could serve as a necessary stepping stone for organizations to mature steadily towards a position of planetary stewardship.

Following are some of the favourable impacts associated with the adoption of stewardship ethics (Yankelovich, 2006: 148):

- It involves stakeholder relationship management on a regular basis.
- It promotes the view of a corporation as a communitarian organization, and the need to embrace communitarian values.
- It leaves the organization better off than it was when the CEO's stewardship started.
- It responds spontaneously to the demands of society for a substantial positive social contribution.
- It represents a pro-active effort to reconcile long-term profitability with ecological and social benefits for improving enterprise performance.

The efficacy of stewardship ethics in business decision-making and action, can be clearly understood by contrasting the strategic thinking of two leading firms in the global passenger car industry—General Motors Corporation (GM) (headquartered in the USA) and Toyota Motor
Corporation (TMC) (headquartered in Japan). From an ethical standpoint, the strategic decisions of Detroit car manufacturer GM to earn quick short-term profits from manufacturing “gas-guzzling” sports utility vehicles (SUVs), is in denial of the realities of excessive use of carbon-based fossil fuels. Hence, both of these companies have trivialized the need for material and energy efficiency. Unenlightened self-interest that is not aligned with the interests of the society, has led to the sacrifice of the common interest.

Stewardship ethics poses before a company the foremost creative challenge of learning how to make profitability compatible with nature’s and society’s interest. In this respect, a company is faced with a choice of pursuing environmentally benign policies in the short run that go to undermine its profits, so as to ultimately jeopardize the natural environment in the long run as the business becomes economically unsustainable, or it may develop strategies and action grounded on a sustainability vision that ensures compatibility of profitability with care for the planet and its people.

GM manufactures two of the largest SUVs in the USA, the Escalade and Hummer, compared with the hybrid design of Toyota Prius. These two contrasting car designs spell out the contrast between unenlightened short-term profit-making versus stewardship ethics.

The Hummer and the Prius represent two different mind-sets. The Hummer represents a self-defeating business philosophy, exemplifying the typical flaws of traditional laissez-faire ideology of making and selling cars with high profit margins without any concern about the long-term ecological and social consequences, even staking the future well-being of the company. Prius, on the other hand, signifies the inherent Japanese business philosophy of preservation and resource conservation to solve a
significantly societal problem, while also making profit. When GM had a choice, so many years ago, to invest its resources either in acquiring Hummer or in making more fuel-efficient vehicles, it opted for Hummer as a low-risk/high margin short-term move. The Hummer is notoriously a gas-guzzling tank preferred by drivers who want to control the road. No doubt, it is one of the principal sources of high profit margins for GM, like many of the other SUVs the company manufactures, but, equipped with a truck chassis, it is material intensive, and is conspicuously wasteful of fuel. Retrospectively, it appears that GM would be better off today if it had made a judicious choice founded on the principles of stewardship ethics. By contrast, Toyota’s Hybrid car Prius falls at the other extreme of the spectrum, being economical and fuel-efficient. It is moderately priced, providing good quality and value for money. Overall, it is a quiet, well-designed car, symbolizing a well-intentioned and committed technological initiative to alleviate the global problem of fossil-fuel energy dependence and climate warming, without demanding too much of a sacrifice from the consumer. In the initial years of launching the Prius in the early 1990s, Toyota made no profits on this brand.

Toyota’s commitment to stewardship ethics is exemplary for bridging the gap between stakeholder expectations and corporate performance in respect of reducing climate change impacts, toxic emissions, and the precarious dependence on the Middle East OPEC countries for petroleum, and enabling stabilization of oil prices. It has learnt quickly that implementing stewardship ethics warrants the creation of special task-oriented work groups cutting across the traditional lines of the organization. Thus, diverse groups of people who may never have worked together previously, need to engage in strategic dialogue (Yankelovich, 2006: 167) for seeking the best way to take advantage of creating market opportunities for repositioning existing products or creating new products and services.
2.3.4. "Fourth Wave" World-view and Planetary Stewardship

Transformational change (i.e., third-order change) infuses new ways of thinking about the relationship among economic success, social welfare and ecological balance inside organizations. It is not incremental but radical, discontinuous and disruptive, requiring organizations to achieve and perpetuate a very different qualitative state of consciousness based on new values and assumptions (Stead and Stead, 2004: 14).

As business enterprises worldwide, evolve towards sustainability-oriented SEM, the Fourth Wave (Maynard et al., 1993) of progress in business history will unfold (End-note #3 as an ethical-spiritual sustainability revolution aimed at integrating all dimensions of life and responsibility through creative endeavour for the preservation of human and non-human living systems. This wave characterizes the domination of the Ecological Human Being to supplant the Hydrocarbon Man. The integration of everything and everyone is the secret of the Fourth Wave.

The emergence of the Fourth Wave (Table 2.3) evokes an ascent of human consciousness that is paradigmatic. Harman (1988) affirms that there is a resurgent spiritualization of work and life as people devote more of their energies searching for new values like love and compassion, truth and wisdom, meaning and purpose, self-worth and a sense of unity with others, and for new ways to express them. There is an increasing disenchantment with scientism i.e., the tendency of science to reduce all reality to mathematical descriptions of physical phenomena, and a growing reliance on inspiration, creativity and intuition i.e., ways of inner, self-mastery not readily measurable or explicable.
Table 2.3: Characteristics of 3rd and 4th Wave Corporation

<table>
<thead>
<tr>
<th>ATTRIBUTE</th>
<th>THIRD WAVE</th>
<th>FOURTH WAVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORPORATE ROLE</td>
<td>Value creation; learning; trust</td>
<td>Planetary stewardship; service; responsibility for the whole</td>
</tr>
<tr>
<td>CORPORATE WEALTH</td>
<td>Financial reward and improved QOL from</td>
<td>QOL, alignment with natural order; creativity; wisdom</td>
</tr>
<tr>
<td></td>
<td>intellectual capital</td>
<td></td>
</tr>
<tr>
<td>CORPORATE</td>
<td>Participatory; manager as</td>
<td>Consensual; manager as servant; trust; life-long</td>
</tr>
<tr>
<td>STRUCTURE</td>
<td>mentor and facilitator; openness and collaboration</td>
<td>learning; flexibility</td>
</tr>
<tr>
<td>CORPORATE</td>
<td>Growing bonds between people as families</td>
<td>People unified and mutually supportive as planetary</td>
</tr>
<tr>
<td>COMMUNITY</td>
<td></td>
<td>citizens</td>
</tr>
<tr>
<td>TECHNOLOGY</td>
<td>Responds to socio-economic realities; ethical</td>
<td>Appropriate technology; ethical concerns are</td>
</tr>
<tr>
<td></td>
<td>threshold justifies technological development</td>
<td>integrated with all aspects of life</td>
</tr>
<tr>
<td>ENVIRONMENT</td>
<td>Source of materials; ecosystem and economy</td>
<td>Living process and major stakeholder; ecosystem and</td>
</tr>
<tr>
<td></td>
<td>connected; focus on conservation and shallow</td>
<td>economy integrated; focus on preservation and &quot;deep green&quot; ecology</td>
</tr>
<tr>
<td></td>
<td>&quot;light green&quot; ecology</td>
<td></td>
</tr>
<tr>
<td>LEADERSHIP</td>
<td>Corporate/national/global; responsibility to</td>
<td>Corporate, social and planetary; responsibility to create global political order; bio-political action</td>
</tr>
<tr>
<td></td>
<td>contribute to quality of life; focus on non-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>financial performance</td>
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The Fourth Wave presages a new role of planetary stewardship for business. The corporation as a dominant business institution has to hasten its transition to a “serving” (Harman, 1992) and “transcendent” (Welford, 1995:192) organisation that assumes holistic responsibility for Planet Earth. This Fourth Wave enterprise inspired by planetary stewardship will:

- produce positive moral effects in its commitment to the society;
- advocate biotic rights of a living economy;
- seek the well-being of an expanding range of stakeholders;
- serve the global community as a global business citizen;
- pioneer sustainable value innovations;
- be a role-model of environmental excellence;
- be an exemplar for other social institutions; and
• engage in creative decision-making using the psychic mind

The responsibility of planetary stewardship will require corporate leaders to transcend clearly specified traditional fiduciary duties as defined in owner-manager, investor-borrower, employer-employee, and customer-supplier relationships. It applies unequivocally to all property on Earth. It presumes, what happens to be at the core of all religious philosophies, namely, the tenancy of humans on (the Creator’s) Earth. Hence, there is an imperative on the part of humanity to exercise stewardship as trustees of wealth, over all creation.

The term “stewardship”, implies caring for, restoring and improving all parts of the geo-bio-physical environment that is essential to planetary well-being. Accordingly, stewardship enjoins two major areas of application: firstly, it binds us into our personal duty of care and frugality over whatever is legally our own property, thereby foreclosing unnecessary use, damage, discard and waste of resources; secondly, it underscores a universal duty of care for all of creation by acts of environmental preservation that counter all exploitative motives of earning profits (Newton, 1997: 606-7). In this way, planetary stewardship constrains prodigal human beings, in our urge to dominate nature. It re-orient values away from materialism to spirituality—equity, honesty and co-operation prevail over greed, consumerism and competition. Likewise, economic, political and ecological imperialism will succumb to the pressures of global inter-dependence, economic justice and environmental sustainability (End-note #4).

The contemporary relevance of planetary stewardship may be appreciated from the fact that we inhabit the only planet proven to support life. Furthermore, environmental degradation and economic decline, as concomitant problems, inevitably spiral off into a politically
unmanageable vicious cycle. What is more, whilst we still face an option now of undoing our wanton follies, our progeny will probably be left without a choice. Thus, it is only apt that the whole issue of corporate leadership, strategy and governance be seen with a new lens of corporate responsibility that owes primary allegiance to Earth as the ultimate corporate stakeholder (Mookerjee, 1998: 200-207).

2.3.5. Nature as a Stakeholder under Planetary Ethics

The principles of planetary ethics for doing business in a sustainable biosphere are universal and timeless. They entail accountability to all life on the planet from an eco-centric perspective. Rights and obligations extend not only to social stakeholders like shareholders, employees, customers, business partners, and local communities, but also to the natural environment (Laszlo, 2005:23). As the climate change challenge reveals the planetary scale of human impact with industrialization, it compels an expansion in our vision and commitments to match this scale in our thought patterns, also. The “unit of consciousness” can no longer be restricted to the limits of a single company or a nation, but must stretch to the planet as a whole. The new planetary consciousness espouses a greater connectedness with the entire web of life. It asks for a deeper understanding of global problems that evoke the human capacities of emotions, intuition as well as rational thinking.

Planetary ethics requires clarification of a key issue of stakeholder legitimacy to deal unequivocally with the stakeholder identity of the natural environment and its champions/activists. Given that stakeholders include all constituencies from whom the organization has voluntarily accepted benefits and to whom, therefore, there arises a moral obligation, the stakeholder status may also be derived from the power to affect positively or adversely the organization and its normative stakeholders.
(Phillips, 2003: 135). From this angle, is the natural environment a corporate stakeholder?

We must acknowledge that the stakeholder status of the natural environment within a stakeholder theory framework is fraught with theoretical uncertainty. Although Starik (1995: 207-216) argues that the non-human natural environment merits stakeholder status, an adoption of the fairness-based approach proposed by Phillips (2003) adds ambiguity to the issue. Starik (1995: 209-13) provides three reasons for refuting the historical omission of the natural environment as a corporate stakeholder—(1) non-human nature is an integral part of the business environment, (2) Non-human nature is more than a political-economic entity and (3) Human environmental stakeholders are necessary but not sufficient for representing nature as a stakeholder. These reasons also help defend the stakeholder status of the natural environment.

Starik (1995: 207) argues that the conception of a world of business enterprises devoid of the natural environment is an unthinkable “non-reality”. Organizations are indispensably an integral part of the natural environment. Human elements of organizations are products as well as consumers of these natural environments.

The next logical question to address is (Starik, 1995: 207): “Why has non-human nature not been considered a stakeholder?” A primary explanation for the exclusion is the original anthropocentric definition of “stakeholder” by Freeman (1984: iv): ‘groups or individuals who affect or are affected by organizational performance’. Starik has three answers for eliciting support in favour of granting stakeholder status to the natural environment:

- The non-human, ecological environment is part of the business environment, because nature affects the organization, and that is a
sufficient condition for stakeholder status to many stakeholder theorists.

- The stakeholder concept has a strong political-economic orientation. While non-human nature cannot wield power in a political-economic sense, voice protests, it does possess economic value and this lends to it a political "voice" that "can be heard continuously throughout all its manifestations for all humans to heed (Starik, 1995: 210). Nature's position today is similar to historically disenfranchised groups such as slaves, indigenous peoples, women, minorities, the homeless, abused children, and political prisoners, who qualify as stakeholders even though they do not have any political voice. Leopold (1989) maintains that the environmental ethic of wise stewardship of natural resources implies that organizations are morally obligated to respect non-human nature's bounty and limits, and its role as a potential organizational stakeholder.

- Human environmental stakeholders (such as government, business and environmental activists) are necessary but not sufficient in granting stakeholder status to nature. The non-human environment can be represented by these groups, but it must also represent itself through the ongoing process of natural selection or evolution. Although the natural environment has many human and non-human stakeholders, their deteriorating quality indicates that those representing the natural environment are necessary but not sufficient to protect the "stakes" of non-human nature (End-note #5). Anthropocentric manifestations of human over-population and over-consumption that threaten the quality of life on our planet could be holistically dealt with if the non-human natural environment is identified in the organization's stakeholder map (Starik, 1993).

- Starik (1995: 213) cautions that if non-human nature attains primary stakeholder status, then the stakeholder management process must be adapted to make this accommodation with four positive outcomes.
(Starik, 1995: 214): (i) Panoramization, (ii) Prioritization; (iii) Politicization and (iv) Particularization All these potential benefits point out to the fact that granting stakeholder status to non-human nature would open up vistas for organizations to perceive their external environments more comprehensively, to impose a sensible prioritization on the complexity of environmental variables, to incorporate the environmental values or voices of non-human nature into organizational decision-making, and to improve the degree of sophistication involved in managing organizations vis-à-vis specific environmental stakeholders as environmental management components. Treating non-human nature as one or more stakeholders makes way for a more realistic, albeit complex conceptualization of an organization's business, and at the same time, a more eco-centric definition of "stakeholder".

2.3.6. Widening of Managerial Intelligence

Managing stakeholders effectively requires strategic managers to engage in systems thinking, inclusive leadership and network management (Stead et al., 2004: 42). This implies an intellectual revolution from knowledge to wisdom. The pursuit of sustainability at all levels of human endeavour requires a transformation from the 'philosophy of knowledge' to the "philosophy of wisdom", a kind of rational inquiry that has as its basic intellectual aim, to improve wisdom (Maxwell, 1987: 3-4). The power of wisdom can enhance our capacity to repair the intellectual disaster that underpins the core of western thought, science, and education. Knowledge (jñana) and wisdom (vishesh jñana or vi-jñana) are inherently different from one another. Sri Aurobindo (1992) clarifies that knowledge and wisdom are 'two allied powers' in man. Knowledge is divisive, as it underscores details and contrasts them; on the other hand, wisdom is integrative, and seeks to arrive at a unification of contrasts in a single harmony. 'Knowledge is so much of the truth, seen in a distorted medium,
as the mind arrives by groping; wisdom what the eye of divine vision sees in the spirit...what men call knowledge is reasoned acceptance of false appearances. Wisdom looks behind the veil and sees...' (Sri Aurobindo, 1992: 3-4)

Attainment of wisdom relies upon transcendent intelligence (TQ). Gardner (1985) and Handy (1995: 203-206) conceive of multiple intelligences residing within the human intellectual faculties. Gardner’s framework includes seven intelligences, and Handy’s consists of nine. These are factual intelligence, analytical intelligence, linguistic intelligence, spatial intelligence, musical intelligence, practical intelligence, physical intelligence, intuitive intelligence and interpersonal intelligence. Furthermore, Handy clarifies that none of the intelligences are essentially connected with the other.

TQ is capable of integrating intellectual intelligence quotient (IQ), emotional intelligence (EQ) and spiritual intelligence (SQ). IQ reflects the ability to solve logical problems; EQ represents a person’s awareness of other people’s feelings as well as their own; SQ is the human intelligence to solve problems of value and meaning (why we exist and what do our lives mean), putting their behaviours and lives within a larger context of meaning, which serves as the foundation of EQ and IQ. Human beings are the only species that search for meaning and value in what they do because they feel they are a part of a larger purpose towards which they must aspire. SQ allows a person to be creative and to challenge the status quo, think out-of-the-box, and to experiment with the stipulated limits of existence. The major distinguishing characteristic of SQ from IQ and EQ is the inherent transformative capacity. SQ enables individuals to question whether they would want to be in a particular state or situation, whereas IQ and EQ work within the boundaries of the situation. SQ provides a means to integrate mind, body and conscience.
Understanding SEM as a philosophy and praxis requires integration of all three types of intelligence—IQ is required for facilitating logical and strategic reasoning that is the basis of a firm's economic success. EQ creates the foundation for effective stakeholder management and the empathy required to recognise the adverse environmental and social impacts resulting from unsustainable consumption and inequitable distribution of wealth. SQ is used by visionary leaders to inspire others to sense that they are all part of the larger purpose of sustainability and preservation of our planet Earth. SQ equips strategic managers with an exalted spiritual perspective to look beyond the boundaries of the present and contemplate future possibilities. CEOs with high levels of spiritual intelligence can inspire others to think outside their existing domains in order to envision a sustainable company in the future.

2.3.7. Multi-stakeholder Focus of Corporate Governance

Implementing sustainability may involve a mechanistic/top-down or a systemic/inside-out approach. The former approach leads to a central focus on government agencies in regulating for corporate sustainability, whereas the latter approach focuses on the notion of governance as self-organizing alliances between companies, government and non-government stakeholders. In this connection, the popular notion of corporate governance represents structural arrangements in free market economies variously applied by regulators, financial institutions, NGOs and companies themselves to align their management and leadership with stakeholder expectations. As such, corporate governance entails improvement in the quality of leadership of corporate enterprises.

With a gradual transition of the global economy from financial capitalism to sustainable capitalism, the role of corporate governance in reflecting the tone at the top (i.e., top management's commitment towards the attainment
of integrity in corporate performance) is being debated. Progress towards sustainable capitalism has a high positive correlation with increase in the scope and quality of corporate governance systems.

This implies a shift from the traditional, narrow, shareholder-centric view of corporate governance to one that is broad and stakeholder-centric. This is testified by Sir Adrian Cadbury’s modified stakeholder-inclusive definition of corporate governance: ‘... holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources’. The paradigm shift in compliance, corporate governance, and business ethics is driven by demanding performance expectations, increasing stakeholder demands and growing public scrutiny in the aftermath of a series of corporate debacles around the globe (www.pricewaterhousecoopers.com,2005).

As the focus of corporate governance changes, the major concerns for institutionalizing corporate governance, too will change from exclusive focus on protection of shareholder/ investor rights, prescriptions about the Board of Directors, and standards for transparency and disclosure in published financial reports towards a prioritization of corporate responsibility, corporate sustainability, socially responsible investment, sustainable consumption, corporate citizenship, and sustainability reporting. These new priorities will require a new agenda focusing on issues of sustainable development—process and product design, design of corporations and their value chains, of business ecosystems and markets. The relevant requirements at the operational level have to be built into the corporate DNA from the very outset (Henriques and Richardson, 2004: 6).
2.3.8. Vision of the Ethically Transformed Organization

Often, many large business enterprises pursue ethical strategies (e.g., formal policies, codes of conduct, ethics committees etc.) to ensure compliance with regulatory requirements, but the commitment to these measures is superficial and "decoupled" from the corporate vision, strategy and policies (Weaver et. al., 1999). This widespread decoupled approach to ethics, is largely ineffective if we witness the vulnerability of contemporary organizations to irreversible ethical lapses (Lindsay and Irvine, 1996; Johnson, 2007: xiv-xv).

An alternative perspective is one that (1) acknowledges the moral dimension of every aspect of organizational life, and (2) demonstrates improved ethical performance. This new approach is variously labelled "integrated", "integrity-focused", "purpose-driven", "values-centred", or simply "transformational" (Burns, 2003:24).

Transformation places the ethics of sustainability at the core of organizational work performance to fundamentally alter the philosophy, culture, attitudes, behaviour, and systems of the organization. The ethically transformed organization is differs (Table 2.4) from the ethically decoupled enterprise in fundamental ways (Johnson, 2007, pp. xv-xvii).

Table 2.4: Ethically Decoupled versus Ethically Transformed Organization

<table>
<thead>
<tr>
<th>ETHICALLY DECOUPLED ORGANIZATIONS</th>
<th>ETHICALLY TRANSFORMED ORGANIZATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics is a means to an end</td>
<td>Ethics is an end in itself</td>
</tr>
<tr>
<td>&quot;Rotten apple&quot; approach to business ethics</td>
<td>&quot;Barrel approach&quot; to business ethics</td>
</tr>
<tr>
<td>Emphasizes regulatory compliance</td>
<td>Goes beyond/ exceeds regulatory compliance</td>
</tr>
<tr>
<td>Organizational behaviour is inconsistent with espoused values</td>
<td>Walks the talk by taking actions that reflect shared values</td>
</tr>
<tr>
<td>Lack of sensitivity to potential moral issues</td>
<td>High sensitivity to potential moral issues</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td>Control of behaviour through rules and penalties</td>
<td>Control of behaviour through commitment to shared values</td>
</tr>
<tr>
<td>Low awareness about ethical duties</td>
<td>High awareness of individual and collective ethical duties</td>
</tr>
<tr>
<td>Infrequent discussion of ethics and use of moral terminology</td>
<td>Routine discussion of ethics and use of moral terminology</td>
</tr>
<tr>
<td>Omission of ethics from daily decisions and actions</td>
<td>Ethics is an integral part of daily decisions and actions</td>
</tr>
<tr>
<td>Reactive to destructive behaviour</td>
<td>Prevents destructive behaviour</td>
</tr>
<tr>
<td>Driven by pragmatic (the bottom line) considerations</td>
<td>Driven by values and vision</td>
</tr>
<tr>
<td>Reward systems are ethically inconsistent</td>
<td>Reward systems promote ethical behaviour</td>
</tr>
<tr>
<td>Sacrifice of individual rights for organizational good</td>
<td>Honour and protection of individual rights</td>
</tr>
<tr>
<td>Demonstrates a high concern for self</td>
<td>Demonstrates a high concern for others</td>
</tr>
<tr>
<td>Engage in self-centred communication (monologue)</td>
<td>Engage in other-centred communication (dialogue)</td>
</tr>
<tr>
<td>Low trust and commitment levels</td>
<td>High trust and commitment levels</td>
</tr>
<tr>
<td>Hold and build power bases</td>
<td>Distribute power organization-wide</td>
</tr>
<tr>
<td>High concern for the organization</td>
<td>High concern for stakeholders, society and planet</td>
</tr>
<tr>
<td>Exhibits low level of moral reasoning</td>
<td>Bases reasoning on universal ethical principles</td>
</tr>
<tr>
<td>Inhibits organizational members from making moral choices</td>
<td>Equips organizational members to make moral choices</td>
</tr>
<tr>
<td>Responds to changes in the ethical environment</td>
<td>Anticipates changes in the ethical environment</td>
</tr>
<tr>
<td>Invests meagrely in creating a positive ethical context</td>
<td>Invests significantly in creating and maintaining an ethical workplace.</td>
</tr>
<tr>
<td>High risk exposure with respect to ethical misconduct and organizational scandals</td>
<td>Low risk exposure with respect to ethical misconduct and organizational scandals</td>
</tr>
</tbody>
</table>
23.9. Full Cost Accounting Perspective

Traditionally, business has overlooked stakeholders as key drivers of business value, relying heavily on ownership rights of shareholders as a key determinant of its wealth-generating capacity. Lately, many companies have started tracking and reporting their social and ecological performance by internalizing "externalities" as pertinent costs to the company in monetary and/or non-monetary terms. Alongside, they monetize the potential long-term benefits that can accrue through increased customer loyalty, employee motivation and productivity, and favourable investor attitudes. These companies try to synchronise their social and environmental initiatives with attempts to influence the government and other regulatory agencies to compel competitors to report the true sustainability costs of their business operations as well, to level the playing field through a thorough overhaul of accounting practice.

Aligning sustainability with business performance makes it necessary to link costs associated with improving social and environmental performance with a primary business purpose of creating sustainable value i.e., creating value for corporate shareholders as well as other stakeholders together. Sustainable value implies lasting value based on economic, social and environmental performance. Hence, social and environmental impacts require the use of a different set of metrics from those used to quantify purely financial impacts of a business. This need has led to a new accounting outlook on costs called "full cost accounting" (FCA) (Bebbington et. al., 2001) which blurs the dividing line between private and public costs. From an environmental perspective, FCA is a process of integrating an entity's internal costs (including all internal environmental costs) with the external costs relating to the impacts of the entity's activities, operations, products and/or services on the environment. FCA is
not an end in itself, but a means to “full cost pricing” i.e., describing how goods and services should be priced to reflect their true costs.

2.4. Conclusion

In this chapter, we attempted to arrange hierarchically, and subsequently explain the nature of significant triggers emanating from various levels of the business environment that have influenced the development of SEM as a time-relevant enterprise-level philosophy.

End-notes

#1: The sensate value system regards matter alone as the ultimate reality and spiritual phenomena as a manifestation of matter. Accordingly, all ethical values are relative, and sensory perception is the only source of knowledge and truth-seeking. The ideational value system holds that true reality lies beyond the material world, in the spiritual realm, and hence, the source of knowledge is inner experience. It subscribes to absolute ethical values and superhuman standards of justice, beauty and truth. In Sorokin’s view, the cyclical rhythms alternating between the sensate and ideational value systems generates an intermediate synthesizing stage, namely, the idealistic, which represents their harmonious blending. According to the idealistic value system, true reality has both sensory and super-sensory aspects, coexistent within an all-pervading unity. Idealistic cultural periods, therefore, produce balance, integration, and aesthetic fulfilment in art, philosophy, science and technology, and tend to attain the highest and noblest expressions of human culture.

#2: Ornstein and Ehrlich (1989: 45-46): ‘Humanity is living largely on .... the capital that we inherited included fossil fuels, high grade mineral ores, rich agricultural soils, groundwater stored up during the ice ages, and above all, the millions of species that inhabit the Earth along with us. Our total inheritance took billions of years to assemble; it is being squandered in decades.... We are a nouveau riche species struggling to become nouveau broke’.

#3: Grounded on Alvin Toffler’s (1980: 13-16) “revolutionary premise” using “wave-front” analysis, business history chronicles three waves of progress—the First Wave of the agricultural revolution, the Second Wave of the industrial revolution, and the Third Wave of the information revolution.
Noam Chomsky maintains (2006): ‘Globalization that does not prioritise the rights of people—real people of flesh and blood—will very likely degenerate into a form of tyranny’. Under globalization, ecological, social, cultural, political and economic patterns are rapidly being transformed by global commerce, without the considered assent or even conscious recognition of the people that are worst affected (Kline, 2005, p.1). MNC conglomerates dictate our aspirations and preferences, and control what we must do and what we must have on a worldwide basis. Nobel laureate, Amartya Sen (1999) contends that economists should comprehensively embrace moral issues to achieve the transformation of societies. Stiglitz, (1998) considers it is necessary to rework the globalization framework as responsible global capitalism (RGC). Dunning (2003: 11-18) clarifies that RGC does not only include global markets but also non-market institutions within which the market is embedded, and which together characterize a global society (Hamlin, 1995). However, at present, in the absence of a comprehensive system of supranational governance in a “borderless world” (Ohmae, 1990) for correcting cross-border injustices in the global marketplace, it is difficult to strongly address the moral dilemma of RGC.

History reveals that human stakeholders who champion the cause of non-human nature have either failed to be united in their efforts or are inadequate in their representation. For instance, environmental activists have suffered from resource deficiencies, and resistance from governmental agencies, business environmentalists, and the legislature. The result has been a compromise with dubious ecological justification.

References


**URLs**

*www.pricewaterhousecoopers.com*, 2005