

**Ethics and Critical Thinking Journal**

**Special Issue  
Global Landscapes: Business, Ethics and Sustainability  
in the 21<sup>st</sup> Century**



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## Editors' Comments

Welcome to this special issue of *Ethics and Critical Thinking*. The articles included in this volume served as the basis for presentations at the interdisciplinary conference “Global Landscapes: Business, Ethics, and Sustainability in the 21<sup>st</sup> Century”, held at King’s College on April 16 and 17, 2009. Each paper draws the reader into a critical thinking process while addressing a contemporary issue that reflects some dimension(s) of the conference theme.

Godwin leads off the volume with a treatment of conscious consumerism and sustainability, considering the way what consumers value influences their decisions. Next, Ehrensperger & Kepner discuss the intersection of psychological development, ethics, and economics when considering the problem of advertising to children.

In separate articles, several authors take on the ethics of the global finance and investment. While Fallon contrasts the treatment of perpetrators in recent scandals with the treatment of workers charged with violating immigration laws, Zohny argues for the inclusion of ethical decision-making in order to sustain the global financial system. Paul and Portes also contribute to the discussion in their article on corruption and foreign direct investment (FDI), examining the linkage between a high degree of corruption and the level of FDI in a country.

Corporate social responsibility is central to the article by Okpara, as well as that by Setley and Miller. While Setley and Miller offer a framework for a study of the attitudes of entrepreneurs towards corporate social responsibility, Okpara discusses the results of his survey of Nigerian corporate leaders on the subject.

The importance of international studies is reinforced by Nolan’s research on the development of student understanding of ethics and the environment through a study abroad program in Costa Rica. As her results show, immersion in a fragile ecosystem, especially for students from an urban background, can increase appreciation for and a commitment to protect and sustain the natural environment.

We hope you will enjoy reading the articles in this special issue and will join us for future Global Landscapes Conferences at King’s College.

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# Ethics and Critical Thinking Journal

## Special Issue

### Global Landscapes: Business, Ethics and Sustainability in the 21<sup>st</sup> Century

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## **Conscious Consumerism: The Cash Value of Values**

Meaghan P. Godwin, Marywood University, Scranton, Pennsylvania

### **Abstract:**

*The complex issue of personnel, market and environmental sustainability, as with many business issues, rests partly or perhaps squarely on the shoulders of the consumer. What consumers consume, why and how chart the course for the future of both the product and service sectors. Patterns of consumption vary but have become relatively easy to manipulate; rather than seeing a need and filling it, many contemporary businesses are involved in creating desires and filling them, a fine example of which is cell phone technology. This sort of create and fill business-model is not sustainable, however, as evidenced by the recession that has much of the developed world in crisis mode. As consumers, we were convinced to consume more than we could afford, and in return got much more than we expected: debt, joblessness and instability.*

*Still, in this recent spate of opulence and excess, a consumer demographic emerged that has at its core values and ethics rather than gluttony and greed: the conscious consumer. Studies suggest that, as of 2005, their ranks numbered 63 million and according to a report in the New York Times in 2000, the market for conscious consumerism had reached \$230 billion. Given the recent rise in crude oil and therefore gasoline prices (which are again climbing from their recent fall) combined with global warming as the cause célèbre, both the numbers of what are sometimes referred to as values-driven consumers and the consequent market they create has risen to comprise an even larger part of the US marketplace if not the global market. Remember the nine-month waiting list for the Prius? Have you experienced the glamour associated with having a Whole Foods in your neighborhood? The online popularity of GAIAM, the salon product phenomenon Aveda, and the fair-trade coffee movement are also prime examples of the values-driven or ethical market development and its viability.*

*Questions remain however, particularly in light of the aforementioned recession. Green products are still rather pricey. Walmart continues to dominate in retail sales despite its reliance on cheaply produced goods which are decidedly unfriendly to both the environment and human beings on a number of levels. And even though 63 million shoppers represent perhaps 30% of the adult population, 70% are still consuming the old fashioned way. What really is conscious consumerism? What businesses cater to such a movement? Is it profitable? How does conscious consumerism fit into the triple-bottom line? If it can be proven to be a benefit to society and business, how can it become a mainstream movement?*

*Education is integral to any shift, be it philosophical, political, or financial. This paper will suggest that in order for sustainability to function, consumer patterns need to change in the direction of values-driven consumption. In order for this to happen, a cultural shift in valuation may need to take place. What do we value? What ought we to value and how ought we to value it? Pragmatism will be presented as a possible solution to the issue of valuation and by extension the issue of fostering conscious consumerism in the United States and beyond.*

## Introduction:

*Never in the history of industrial society was value a subject of more vital interest than it is today.* This sentence opened an article in *The Quarterly Journal of Economics* in 1922.<sup>1</sup> While the main thrust of that argument dealt with pecuniary or monetary value, something with which we in 2009 find ourselves preoccupied as of late, the argument of this paper will focus on a different sort of value: value as it pertains to values-driven consumption or Conscious Consumerism, sustainability, and the possibility of pragmatism playing a vital role in the re-evaluation of how and what Americans value.

The complex issue of sustainability<sup>2</sup> in business rests partly or perhaps squarely on the shoulders of the consumer. Monetary profit sustainability depends largely upon whether or not consumers are willing to continue to pay for a given product or service. For decades this has been the main concern of business, certainly of capitalism by definition by way of supply and demand. However, what has more recently been the case is that of consumer manipulation through the perversion of creating a demand then supplying. Contemporary businesses have for the most part been involved in marketing and product development that involves creating a desire rather than seeing a need, a fine example of which is digital music technology. While it has become possible to download and store up to thirty-thousand songs on the largest version of the iPod, is it truly necessary to do so? What value is there in the capability of having thirty-thousand songs at your disposal other than the desire to possess more material, intellectual or actual? Does not this constitute a model of product development that is based on frivolous want rather than valuable need? The current global recession is evidence of how this sort of business model and its correlative monetary profits cannot be sustained. Consumers were convinced under this model to consume more than we could afford largely on credit (a topic that merits its own study), and in return got much more than that for which we bargained, *viz.* bailouts, job losses, and fear.

Still, despite this recent spate of opulence and excess, a consumer demographic has emerged that has at its core values and ethics rather than gluttony and greed: the conscious consumer. Studies suggest that, as of 2005, their ranks numbered 63 million and according to a report in the *New York Times* in 2000, the market for conscious consumerism had reached \$230 billion.<sup>3</sup> According to BBMG, marketing firm to names like CNN and the Gates Foundation, as of 2007 “more than one-third of Americans say that ‘conscious consumer’ describes them very well and nearly 9 in 10 say the term describes them well.”<sup>4</sup> This group of consumers may yet

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<sup>1</sup> David Friday, “An Extension of Value Theory,” *The Quarterly Journal of Economics*, Vol. 36, No.2 (Feb., 1922), 197-219.

<sup>2</sup> An inherently paradoxical issue as pointed out by Luis T. Gutierrez in his reference to the following quote as published on *The E-Journal of Solidarity, Sustainability and Nonviolence*, “The paradoxical nature of sustainable development is already discernible in the [Brundlandt Commission Report \(Chapter 2, Section 1, Item 15\)](#), United Nations, 1987: ‘In essence, sustainable development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations.’”

<sup>3</sup> Patricia Aburdene, *Megatrends 2010: The Rise of Conscious Capitalism* (Charlottesville, VA: Hampton Roads, 2005), 93.

<sup>4</sup> BBMG, “Conscious Consumers Are Changing the Rules of Marketing. Are you ready? Highlights from the BBMG Conscious Consumer Report,” [www.bbm.com](http://www.bbm.com), 1.

have the largest noticeable impact on monetary profit as well as other incarnations of sustainability.

### **What is conscious consumerism?**

Conscious consumerism is a trend being driven by consumers who make purchasing decisions based on their core values rather than “income, demographics, geography or other factors.”<sup>5</sup> Marketing consulting firm WSL Strategic Retail’s “How America Shops 2008” market research study includes a “Shopper’s Bill of Rights” which lists the first right as, “Value my values as a shopper. New values are being defined by the fast moving trends toward health and wellbeing – for me, my family and my world.”<sup>6</sup>

In a blog on one of the ever more copious eco-life websites, Bianca Alexander, consumer advocate and spokesperson for sustainable living, states “The more we purchase eco-friendly products sold by conscious companies that value people and the planet as much as they value profits, the more we support ourselves, our world, and our society at large. This is conscious consumption at work.”<sup>7</sup> BBMG lists the five core values that drive conscious consumers:

*“Health and safety:* Conscious consumers seek natural, organic and unmodified products that meet their essential health and nutrition needs. They avoid chemicals or pesticides that can harm their health or the planet. They are looking for standards and safeguards to ensure the quality of the products they consume. *Honesty:* Conscious consumers [...] will reward companies that are honest about processes and practices, authentic about products and accountable for their impact on the environment and larger society. Making unsubstantiated green claims or over promising benefits risks breeding cynicism and distrust. *Convenience:* Faced with increasing constraints on their time and household budgets, conscious consumers are practical about purchasing decisions, balancing price with needs and desires and demanding quality. These consumers want to do what’s easy, what’s essential for getting by and make decisions that fit their lifestyles and budget. *Relationships:* Who made it? Where does it come from? Am I getting back what I put into it? These consumers want more meaningful relationships with the brands in their lives. They seek out opportunities to support the local economy when given the chance, want to know the source of the products they buy and desire more personal interactions when doing business. *Doing good:* Finally, conscious consumers are concerned about the world and want to do their part to make it a better place. From seeking out environmentally-friendly products to rewarding companies’ fair trade and labor practices, they are making purchasing choices that can help others. These consumers want to make a difference, and they want brands to do the same.”<sup>8</sup>

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<sup>5</sup> Aburdene, 92.

<sup>6</sup> WSL Strategic Retail, “How America Shops 2008: anarchy,” [www.wslstrategicretail.com](http://www.wslstrategicretail.com)

<sup>7</sup> Bianca Alexander, “Conscious Consumerism: Power to the People,” Conscious Living TV, [consciouslivingtv.com/blog/2007/10/conscious-consumerism](http://consciouslivingtv.com/blog/2007/10/conscious-consumerism). Other such websites include [www.newdream.org](http://www.newdream.org) and [www.treehugger.com](http://www.treehugger.com).

<sup>8</sup> BBMG, “Conscious Consumers,” 2. Other sources have compiled similar lists, such as those that can be found in Aburdene’s book and in an article on green marketing published on July 8, 2008 in the *Financial Times* but all of these lists make conclusions similar enough to be represented by BBMG’s list presented herein.

## **Are there businesses that cater to this movement? In other words, is it financially profitable right now to be a conscious company?**

Maybe this question would best be approached by first mentioning a caveat about how profit ought to be defined. Profit may now rightly refer to a triple-bottom line: people, planet and (monetary) profit. In as much as a business agrees to define profit in this tripartite way, a more comprehensive profit motive is able to be brought to the fore of the conscious consumer conversation. For example, regarding the retail food industry, Connie Robbins Gentry quoted an industry insider in a December, 2006 issue of *Chain Store Age* as saying, “Consumers want to know where premium products such as organic foods originated [*sic*], and this can become a selling advantage for the retailer. When retailers identify the source, it increases consumer confidence in the product and in the retailer’s brand.”<sup>9</sup> In turn, this confidence will result in the consumer becoming a loyal shopper who will spread the word causing an increase in the retailer’s consumer base and thereby its bottom line.<sup>10</sup>

Once the purview of smaller, specialty shops or forward thinking firms such as Patagonia (a sportswear manufacturer) and Method (a soaps/detergents manufacturer), attention paid to the conscious consumer has coalesced in the Whole Foods phenomenon and, according to the December 02, 2006 issue of *The Economist*, is changing the way companies from Nordstrom to Wal-Mart do business.<sup>11</sup> Even banks are getting in on the trend in as much as they are turning to the Internet rather than paper for transactions and following the lead of Bank of America and PNC by raising new buildings built and billed as green structures. A concern about the sustainability of two of the three components of the triple-bottom line, people and planet, are built into the mantra of conscious consumerism. If businesses play their hands correctly, that third component, monetary profit, will be generated over time by virtue of a loyal and expanding conscious consumer customer base.<sup>12</sup>

## **Should conscious consumerism be encouraged (is it a good idea)?**

In order to answer this question fully, one must take into account the possible downsides of conscious consumerism, the most looming of which are decreased sales in the short term, the need for businesses to invest in new technology and marketing strategies and a somewhat massive cultural restructuring.

Conscious consumers will take more time to make purchasing decisions, buy less on impulse, and will be less susceptible to flashy advertising or marketing fluff particularly in the next few months and possibly years. In fact, given the current economic trends, WSL released a new study on “How America Shops in Crisis” outlining the dramatic cuts taking place in

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<sup>9</sup> C.R. Gentry, “Retail Forensics,” *Chain Store Age*, Vol. 82 Issue 12 (12/2006), 106.

<sup>10</sup> This sort of labeling has, as of Monday March 16<sup>th</sup>, 2009 become policy in the United States and pertains to most fresh meats as well as some fruits, vegetables and other foods. The policy, originated by the Bush administration as part of a larger farm bill, was fueled in part by food safety lobbyists but also northern ranchers who compete with Canada for business, according to the Associated Press.

<sup>11</sup> “How green is your wardrobe?,” *Economist* Vol. 381, Issue 8506 (12/2/2006), 67-68 details how organic cotton products are becoming more valuable to retailers.

<sup>12</sup> Exemplifying how Wal-Mart’s human resources model already fits into this trend is an article by Charles Platt, “Fly on the Wal,” as written for the New York Post, February 7, 2009.

personal spending habits, even among the more affluent.<sup>13</sup> What is clear is that consumers are increasingly starting to think before they buy. They will do more research and be willing to postpone purchases until their value laden demands are satisfied, thus the likely need for businesses to invest in new technology and marketing, particularly if their internet presence had previously been slim to none. We may experience a complete up-ending of business as usual: a more consumer driven economy opposed to what had been status quo which, as stated above, can be arguably defined as creating desires then filling them toward the end of massive pecuniary profit with little attention paid to anything else.

Key demographics may also undergo a shift in that where once youth was king, moderation and reevaluation may reign. WSL stresses the growing importance of “pre-owned” as well as what they term the “3 emerging trends in shopping life,” the first and perhaps most important of which is “Just say ‘No.’ [...] shoppers are learning to say, ‘No,’ as in, ‘No, I don’t really need that.’”<sup>14</sup> To this could be added, “No, that doesn’t coincide with my values.” The values of health and safety, honesty, convenience, relationships and doing good are ageless and if properly ingrained into younger generations will last indefinitely providing a much more sustainable business/ consumption model by more firmly defining the requirements of the consumer base. These values, when properly acted upon, will likely be shown to improve the wellbeing not only of the planet but also of one of the planets most vital natural resources, people. If human beings are healthier they will own a sense of well-being which in turn will cause them to be more productive and more willing to do what is necessary to improve what still needs improving.<sup>15</sup> For these reasons and probably others, conscious consumerism ought very much to be engendered.

### **How can we engender the conscious consumer movement and its business component, conscious capitalism?**

As mentioned earlier only one-third of the American shopping public considered itself *very well* defined by the term “conscious consumer.” Nine in ten say the term reflects them well but as any philosopher will admit, terms like “well” can have a spectrum of meanings. Add to this the Bradley effect wherein people polled tend to tell the pollster what they perceive to be the “right” answer even when that answer may not be the truth, and conscious consumerism may become less appealing from the point of view of the manufacturer/ retailer. If companies are expected to expend time, money and resources toward becoming more appealing to this conscious consumer demographic, there might be more incentive if the American culture could be shown to be active in its embracing of this trend. Large scale acceptance of conscious consumerism would require a cultural shift away from cheap, easy and superfluous toward the above mentioned values. Economic shock and strife are already having an impact toward this end in that people are spending less on those products and services deemed unnecessary.

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<sup>13</sup> WSL Strategic Retail, “How America Shops in Crisis,” (2009), [www.wslstrategicretail.com](http://www.wslstrategicretail.com).

<sup>14</sup> Ibid.

<sup>15</sup> LL Bean encourages 10 minute stretch/ exercise breaks and Wegmans announced stretch breaks periodically over their intercom system toward this end. See also the following URL for a Kansas State University study on the correlation between employee well-being and productivity: [esciencenews.com/articles/2009/02/03/k.state.researcher.says.happy.employees.are.critical.organizations.success](http://esciencenews.com/articles/2009/02/03/k.state.researcher.says.happy.employees.are.critical.organizations.success)

However, key to any integral cultural shift is education<sup>16</sup> and, particularly in regarding conscious consumerism, a shift in valuation.

### **What do Americans currently value?**

If we measure our values by following our money, we value entertainment above all else. We can find what we value in the monetary compensation of sports figures, film stars, and popular music makers. The advertising revenue generated by television and the growing popularity of video games is also where some of the big money is to be found. Americans claim to value police officers, educators<sup>17</sup> and families but this sort of valuation has proven to be largely lip service considering the pecuniary compensation in these areas. Even the medical profession, because of legal fees, insurance and taxation, has seen a drop in interested candidates due to concerns about reasonable recompense. Why are the people and professions of the former examples valued so highly? This is an excellent question with an undoubtedly complex answer having to do with grosses and royalties and the value of escapism in an over-worked society. For the purposes of this paper, it may suffice to state that a system of value with superfluous frivolity at its apex is not sustainable because when the economic hammer falls, frivolity is usually one of the primary casualties.

As far as economic valuation is concerned, there continues to be an argument between the Classical and Keynesian approaches among others, and proponents on all sides make interesting and even possibly cogent claims. Perhaps rather than *what* we ought to value, the question to be considered first should be *how* we ought to value; for once a decision has been made about how we value we will find ourselves in a better position to discover what it is that we should be valuing.

### **The Cash-Value of Values**

Pragmatism is a philosophy that allows for situational approaches to a variety of circumstances. Charles Sanders Peirce originated the movement by formulating his pragmatic principle, “Consider what effects, that conceivably might have practical bearings, we conceive the object of our conception to have. Then our conception of these effects is the whole of our conception of the object.”<sup>18</sup> William James, a contemporary of Peirce and arguably the larger presence in American pragmatism, restated pragmatism as follows: “The pragmatic method is primarily a method of settling metaphysical disputes that otherwise might be interminable. [...] The pragmatic method in such cases is to try to interpret each notion by tracing its respective practical consequences. What difference would it practically make to any one if this notion rather than that one were true? If no practical difference whatever can be traced, then the

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<sup>16</sup> Precisely how to utilize a pragmatic approach to education for various value conscious ends may be explored in a subsequent paper.

<sup>17</sup> It is understood that civil servants and public school educators are compensated through a system of value not predicated on the free market but perhaps this too should change to a merit based system predicated on pragmatic value.

<sup>18</sup> *Collected Papers of Charles Peirce*, C. Hartshorn and P. Weiss, eds. (Cambridge, MA: Harvard Univ. Press, 1931-1958).

<sup>19</sup> William James, *Pragmatism*, Bruce Kuklick, ed. (Indianapolis: Hackett, 1988), 25-26.

alternatives mean practically the same thing, and all dispute is idle. Whenever a dispute is serious, we ought to be able to show some practical difference that must follow from one side or the other's being right."<sup>19</sup> In a discussion of truth, James argued that pragmatism would say, "Grant an idea or belief to be true [...] what concrete difference will its being true make in any one's actual life? How will the truth be realized? [...] What, in short, is that truth's *cash-value* in experiential terms?"<sup>20</sup> It is the suggestion of this paper that pragmatism, as defined by both Pierce and James, may have the most to offer regarding the formulation and actualization of an American cultural values paradigm shift.

What is the Jamesian "cash-value" of that which we value today? It has already been asserted herein that much of what we value is inherently frivolous and therefore problematic. Add to that list liquidity, real estate, and the stock market and one has a veritable laundry list of what is now greatly devalued if not essentially value-less, pecuniary and otherwise. No one seems to know where "the bottom" is which translates to no one knowing the true actual, realizable value of what was once desired for its ability to generate ever increasing amounts of financial income. The seemingly bottomless nature of the current economic downturn has thrown people who would otherwise stick to their principles of valuation, regardless of moniker, for quite the loop. Pragmatism slips nicely into this current morass for, in the words of James, "an attitude of orientation is what the pragmatic method means. *The attitude of looking away from first things, principles, 'categories,' supposed necessities; and of looking towards last things, fruits, consequences, facts.*"<sup>21</sup> Rather than attempt to approach the economy and conscious consumption from a position of principle that defines what *should* be or *once was* valuable, pragmatism asks us to approach it from the orientation that inquires what would work best if it were to be valued.

### **How can pragmatism be utilized to support a more concretized movement toward revaluing what Americans value?**

Pragmatism allows for an evolving yet non-linear relationship between human beings and the information that we use to understand how to best navigate a world in which the only constant is change. This is because, as Rorty points out, the pragmatism of James (and John Dewey) denies the existence of a center, of a grounding, of principles of experience as such. This sort of pragmatism is "anti-essentialism" in that it refutes the existence of the absolutes and ultimates associated with principles.<sup>22</sup> As a philosophical methodology, pragmatism provides people with an orientation suited to deal with change in a way that is demonstrably more effective than principle-based guesses at what are at best uncertain outcomes. Assertions made on principles may serve a purpose yet fade in utility when circumstances arise that challenge their efficacy.<sup>23</sup> The pragmatic orientation provides the flexibility necessary to sustain viability despite volatility.

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<sup>20</sup> *The Writings of William James: A comprehensive edition*, John J. McDermott, ed. (Chicago: Univ. of Chicago Press, 1977), 430. My emphasis.

<sup>21</sup> *Ibid.* 380.

<sup>22</sup> Richard Rorty, "Pragmatism, Relativism, Irrationalism," *Consequences of Pragmatism* (Minneapolis: Univ. of Minn Press, 1982) 161-162.

<sup>23</sup> For example, see the current asset valuation debate over "mark to market."

The point is how we orient ourselves philosophically regarding a given variable. Pragmatism allows for a fluidity that denies relativism, making adaptation easier. Relativism does not allow for progress between variables in so far as it asserts that variables exist atomistically as self-contained entities. Pragmatism seeks progress in so far as progress is measured by what works within a given circumstance even when what works changes within that circumstance over time. Conscious Consumerism is a change, one of several challenges to the circumstance of the contemporary economy and its various sectors such as manufacturing, retail and labor relations. Many businesses are already responding. In addition to those mentioned above, L.L. Bean has instituted exercise breaks to increase employee health and productivity, IBM has initiated what it calls the “Smarter Planet Series” at [ibm.com/think](http://ibm.com/think), and in what might be the best example of conscious valuation in recent years, Leonard Abess Jr, “after selling a majority stake in Miami-based National Bancshares” gave \$60 million of the proceeds in bonuses, some in excess of \$100,000 to “everyone on the payroll” including “72 former employees.”<sup>24</sup>

**What would work best if it were appropriately valued? In other words, what values have the most cash-value, both literally and figuratively?**

If we define what works as that which adds sustainable value to the triple-bottom line of people, planet and profit, that which we have valued in the recent decades of global growth has shown itself not to work. We are currently poorer economically, environmentally and holistically as human beings for all of the activity in which we have been engaged. While this may be a result of the cyclical influences of the market, pragmatic concerns regarding whether or not this sort of finances-only system works in a Jamesian sense have been troubling philosophers and sociologists for nearly one hundred years.<sup>25</sup> Rather than focus on merely monetary returns, pragmatism in this case directs us to think about which values would help people, maintain the planet *and* make money for the businesses involved. Here our attention ought again to be aimed toward the five values of conscious consumerism: health and safety, honesty, convenience, relationships and doing good. These values encompass concerns regarding the entirety of the triple-bottom line in that if businesses adhere to them, consumers will consume their products and services in possibly the short but certainly the long terms even in a decimated economy because of the added value of values. Evidence in favor of the growth of the conscious consumerism includes the work that huge marketing firms like BBMG and WSL Strategic Retail are doing by devoting their own resources to research ways by which businesses may capitalize on this movement of consciousness. Perhaps with the added push of a pragmatic cultural reevaluation strategy the values of conscious consumerism will prove themselves to have enormous cash-value both literally and figuratively in our lifetimes.

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<sup>24</sup> Martha Brannigan, “Miami Banker gives \$60 million of his own to employees,” *Miami Herald*, posted 2/14/2009 at [www.miamiherald.com](http://www.miamiherald.com).

<sup>25</sup> See the arguments presented by Charles Cooley, Albion Small, George H. Mead et al as presented in John Patrick Diggins, *The Promise of Pragmatism*, (Chicago: Univ. of Chicago Press, 1994) 363-371.

## **Free Will and Consumer Sovereignty: The Problem of Advertising to Children**

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### **Abstract:**

*Advertising to children is typically considered a normal part of the business of selling goods and services. While resistance to such advertising exists, the advertisers and producers counter that children have the intellectual fortitude to resist the advertisements; if the fortitude does not exist, then the responsibility should reside with the parents, not the advertisers. Advertisers may also reply that, while the advertising may harm the individual, it is for the good of the economy and capitalism in general. However, this argument could be met by pointing out that it is only for the good of the advertiser, the client, and the sphere(s) they influence. This does not take into account higher-order consequences (e.g. advertisers support a system that uses scarce resources not to produce something that the child actually needs, but only desires after the desire is created by the advertisers). Advertised products may not be necessary to the survival of the species at all, and they are often produced at a high cost to the environment. Finally, the concept of consumer sovereignty is lost once advertisers admit they aim to influence children's overall buying habits, weakening a major mainstream economic assumption of sovereignty in the economic sphere.*

### **Introduction:**

The issue of advertising to children is very thorny in that it is exceedingly complex. First, there is the context in which children buy goods, or the market, and how they obtain information about these goods through advertising. Second, there is the problematic notion of freedom that comes with consumer sovereignty that children supposedly have in this environment in the context of their psychological development. We hold that there is a contradiction here in that children do not have the capacity for freedom, which necessarily includes free will, to adequately process advertisements such that they can wholly identify with the desires the advertising produces. This paper will examine how children lack and cannot be taught this capacity until psychological maturity, and subsequently make recommendations for both ethicists and advertisers.

It can be argued that the United States is the most consumer-oriented society in the world today (Schor, p. 9, 2004). For example, Schor provides evidence demonstrating that American teens and tweens overwhelmingly believe that their clothes and brands define who they are (p. 13, 2004). The free market system, which supplies the goods to these teens and tweens, is often held up as the best economic system for the distribution of goods and services. It can be argued that the free market system, as it currently operates, contributes to this personal identification with goods through advertising which many have come to accept as a necessary part of the whole system. However, a critical assumption of this free market system is the idea of consumer sovereignty, or that consumers ultimately determine the goods and services that are provided (Boyes & Melvin, p. 75, 2008). This makes for a tension between the varying parts of the system because advertising tends to create consumer wants, which goes against the idea that consumers are actually sovereign.

Within mainstream economics, five essential questions are posed regarding the effectiveness of any particular economic system. What goods and services will an economy produce is one of those questions (McConnell, Brue & Flynn, p. 34, 2009). If the question is asked of a capitalistic economic system, the answer necessarily includes the concept of consumer sovereignty.

When consumers choose to purchase particular goods and services, they reveal their preferences for those goods and services. Consumers are, thereby, purported to have the ultimate authority in dictating the activities of a free-market economic system (Boyes & Melvin, p. 75, 2008). For if firms are making profits in the course of production, these firms will remain as going-concerns, and firms suffering losses as a result of consumers failing to purchase their products will necessarily cease operations with the now idle resources transferred to more profitable industries (McConnell, Brue & Flynn, p. 35, 2009). This demonstrates the power of the concept of consumer sovereignty. The idea that consumers, and not government officials, central planners, or business owners, are making the purchasing decisions that answer the question of what will be produced is a highly regarded feature of the free-market system (Boyes & Melvin, p. 75, 2008).

In practice, we would argue that consumers are not strictly sovereign. It does not seem reasonable to assert that business owners, for example, do not have at least some influence on the purchasing decisions of consumers. Looking specifically at the advertising industry, it seems that the sole purpose of advertising is to influence a consumer to purchase the good (or service) being advertised.

To be raised in the United States is to be raised a consumer, i.e., we are proposing that individuals are not born consumers but are socialized to be consumers. The consumer socialization process corresponds with specific stages of psychological development. Advertising is one such aspect of the consumer socialization process that seems to have incorporated a child's psychological development in a way that results in an even stronger desire for goods. Yet, advertisers tend to shirk the inherent responsibility advertising plays in the consumer socialization process.

Preschoolers, for example, have the psychological capacity to distinguish commercials from regular programming through observed characteristics, such as length of a commercial, but the persuasive nature of a commercial is not fully understood and utilized until the age of ten. Around the age of eight, the child is capable of recognizing the advertisers' desire to persuade, but the information is not regularly used to evaluate the commercials viewed. The ability to consider one's own viewpoint while simultaneously reflecting on another's is necessary for legitimate social interaction, specifically interaction involving persuasion or negotiation. (As we will see with Frankfurt's ideas below, this reflection requires an identification with one's own desires that children simply do not have). It is not until children reach early adolescence that they are capable of distinguishing advertisers' urgings and ploys (John, pp. 185-186, 1999).

Consumer socialization is theorized to take place over the course of three stages, the perceptual, analytical, and reflective stages. The first stage, perceptual, typically occurs between

the ages of three and seven years of age. During this stage, children are aware of marketplace concepts, such as brands, but can be expected to make choices based on only one important product characteristic. Children at this stage of development cannot be expected to consider another's perspective while considering one's own (John, p. 186-187, 1999).

The analytical stage occurs between the ages of seven and eleven. At this point, children are more responsive and adaptive, and they now employ decision-making strategies that incorporate more than just one important product characteristic. Children are also developing strategies for negotiation of what they want.

The last stage is the reflective stage. This stage happens for children between the ages of eleven and sixteen. As adolescents, children are becoming more focused on the social meaning associated with consumption. Others' perspectives become more important while conforming to the group and developing one's own identity gains importance as well. Children can be expected to be making a shift toward more reflective consumption (John, p. 187, 1999).

Metaphysically, consumer sovereignty assumes a simple conception of freedom in which there are no barriers to action – consumers who make purchases are assumed to be free because of that fact. We hold, however, that freedom in an ethical context involving full persons, or rational actors, needs to be much more robust involving both freedom of desire and freedom of will. Such a concept of freedom can be found in the works of Harry Frankfurt, who argues that people need to be able to have opinions about their initial desires, and be able to wholly identify with those desires. Individuals who cannot do so are considered wantons, and “the class of wantons includes all nonhuman animals that have desires and all very young children” (Frankfurt, p. 16, 1988). To explain wantons more fully, we turn to desires and the capacity for reflection.

Frankfurt describes a simple desire as a first-order desire. We, children included, can desire or not desire anything in particular. Second-order desires, then, are views we have about our first-order desires. Do we, in fact, want to have our first-order desires? If I want Peanut M&Ms, the mere fact that I want the M&Ms is enough for the first-order desire. It should be noted first-order desires can also be negative. Perhaps I have eaten too many Peanut M&Ms and my first-order desire is *not* to have any more because more candy would make me nauseous. In either case, the necessary and sufficient conditions for the first-order desire have been obtained.

It should be noted that freedom of action need not be included in a concept of freedom we are describing. A person may be deprived of her freedom of action unawares in terms of actually being able to purchase a given object, but still have freedom of will to want the desire to be able to purchase that item.

It should be further noted that any individual, including a child or nonhuman animal that has desires, can have a first-order desire. Children often want candy, saying as much. Children have also been known to lack the desire for candy when they have already eaten too much, are sick, etc. These types of first-order desires are perfectly normal for children, and it is these desires on which advertisers count for the sales of products.

The picture becomes murky when we consider second-order desires, or second order volitions. A second-order will, or volition, is “that which motivates a person all the way to action” (Frankfurt, p. 14, 1988). Second-order desires, or wills, enter the picture when a person is able to form an opinion about or is able to reflect upon the first-order desires in the context of their identity. While a wanton may have the capacity to reason between first-order desires, a human wanton “does not care about the desirability of his [first-order] desires themselves” (Frankfurt, p. 17, 1988). Children in the perceptual stage of their development, described above, lack just this capacity to make these judgments.

In terms of the Peanut M&M desire, I can make a judgment about the first-order desire of wanting the candy, being an adult. Perhaps I view the first-order desire positively because I have not had any Peanut M&Ms in the past month and I am purchasing a small package of the candy to be consumed after a healthy dinner. I judge this to be a permissible first-order desire, and I identify with my having this first-order desire in the context of a healthy diet. Or, as above, I note that I have had too many Peanut M&Ms in the recent past, and I judge my desire not to have more M&Ms to be a good desire. In either case, I identify with my first-order desires wholeheartedly, and it is the wholeheartedness that makes all the difference. A child, as described above, lacks this capacity.

Frankfurt makes the distinction between wantons and persons clearer by comparing unwilling addicts (persons) with willing addicts (wanton). An “unwilling addict has conflicting first-order desires: he wants to take the drug, and he also wants to refrain from taking the drug” (Frankfurt, p. 17, 1988). In addition, he also has a second-order volition to refrain from taking the drug, and he wants this to be his will. It is with this second-order volition the unwilling addict identifies wholeheartedly.

The willing addict or wanton, on the other hand, is not concerned with which of his conflicting first-order desires ultimately prevail in being his will, assuming that like the unwilling addict, he both wants and wants to refrain from taking the drug. This is not to say that he’s necessarily neutral in terms of the conflict, or regards the first-order desires. The important part about the willing addict’s case is that there is no person to which the struggle matters. He fully identifies with *either* first-order desire, not reflecting on either desire’s desirability for *him*. Put another way, “when a *person* acts, the desire by which he is moved is either the will he wants or a will he wants to be without. When a *wanton* acts, it is neither” (Frankfurt, p. 19, 1988).

The term Frankfurt uses to describe this impasse is ambivalence, or “a volitional division that keeps [a person] from settling upon...any coherent affective or motivational identity. It means that he does not know what he really wants” (Frankfurt, p. 8, 1992) in a wholehearted sense. He is unable to fully identify with either desire. In terms of advertising to children at the perceptual state of development, this is not something that can simply be solved by supplying more information. A child so-described cannot even pretend to this type of unity of personality or will, and lacks the very capacity that makes it possible. Here Frankfurt asks a crucial question: “what good is it for someone to be free to make significant choices if he does not know what he wants and is unable to overcome his ambivalence?” (Frankfurt, p. 11, 1992)

Important here is the concept of the free will, and this is much more than having the mere freedom to perform a desired action, as was discussed above. An animal may run free in what ever direction it wants, but we do not assume that it exercises any freedom of will when it does so. From Frankfurt's perspective, a person's will is free when "he has the will he wants. Just as the question about the freedom of an agent's action has to do with whether it is the action he wants to perform, so the questions about the freedom of his will has to do with whether it is the will he wants to have" (Frankfurt, p. 20, 1988). The unwilling addict's will is not free, because he does not have the will he wants. The wanton addict has no second-order volitions, and thus cannot have freedom of the will in Frankfurt's sense.

Consumer sovereignty assumes choices from a definitively un-ambivalent individual. The consumer makes a purchase with full knowledge of and full participation in what that purchase means to *her*. Thus, while children have the power to make purchases recommended by advertisers, they lack the free will – as well as the actual capacity to have the free will – to make the actual choice. The larger context of a definitive identity is missing, and they are truly in the class of wantons. Almost as if speaking to advertisers directly, Frankfurt says,

Those who care about freedom must therefore be concerned about more than the availability of attractive opportunities among which people can choose as they please. They must also concern themselves with whether people can come to know what they want to do with the freedom they enjoy. (Frankfurt, p. 11, 1992)

Young children, being in the class of wantons, cannot do this. Advertisers, if they are concerned about the ethical conduct of their business at all, must take the above conception of freedom in the context of consumer sovereignty into account.

Recommendations to ethicists and other philosophers:

1. Explore a Kantian interpretation of Frankfurt's freedom of will connecting it with Kant's integrity of the rational agents, and not using those agents as a means to another's end.
2. Explore the concept of the consumer vs. the person with individuals being persons all the time, and consumers only part-time. For example, in his article, *Advertising and Deep Autonomy*, Andrew Sneddon explores advertising as threat to differing types of autonomy as well as to the types of self-rule that make democracies and other forms of political organization possible. Ethicists and philosophers could explore how advertising might be used to enhance self-rule and support the differing types of autonomy. (Snedden, p. 26)
3. Explore the idea of ethics as a lived experience, necessarily subjective in at least some sense.

Recommendations to advertisers and orthodox economists:

1. Explore advertising such that advertisements are made with the whole person in mind, enhancing who the person is rather than simply working to manufacture desires.
2. Explore the concept of the consumer vs. the person with individuals being persons all the time, and consumers only part-time. Following the findings of the Sneddon article, advertisers and

orthodox economists could explore ways to enhance self-rule through advertising as well as ways to support differing types of autonomy.

3. Respond effectively to criticism or face regulation.

Recommendations to parents:

1. Get used to saying, “No!” to young children who whine, plead, & beg for goods.

2. Do not be overly concerned if young (younger than schoolage) children do not participate in consumption decisions given their lack of the necessary capacities.

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## **Where are the Perp Walks? On the Relative Paucity of the Perp Walk, as Seen/unseen Among Alleged Malefactors in the Financial Services Sector**

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### **Abstract:**

*This paper uses racial and class analysis to explore why there is a paucity of perp walks for those accused of financial scandal, while poor immigrant workers are rounded up in raids that attract vast media attention. In the months of ongoing financial concern and calamity, we daily hear of the variety of victims of financial malfeasance in our society. While Mr. Madoff might not care to hear this, he is among the so very few who has worked this dark alley and been caught. So why might we not seek out those responsible for these moral assaults, even when they have worked the shadowlands of the criminal code? In the first decade of a new century, during which time the incarcerated population has soared past two million nationally, the US has no trouble securing members of the African- and Latin-American underclasses to hold that cell space. The “perp” walk emerged as a means of communicating with the suburban power base, demonstrating that the state successfully targeted, arrested, convicted, and incarcerated persons of color who were contrary to the civic good. It would behoove us to accept that the era of the white majority is over and concluded with; manipulation of the domestic underclass and the mis- and maltreatment of vulnerable populations, wherever they might be, finally constitute the dehumanization of the person and crimes against all of humanity.*

In the months of ongoing financial concern and calamity, we daily hear of the variety of *victims* of financial malfeasance in our society. Stock ownership across the population had doubled as a generation of astute, well-educated workers switched loyalties from the corporate employer that would compensate one with a favorable salary and benefits during the tenure of employment and also provide pension payments and health care during retirement. Large United States corporations entered into binding, long-term contracts with partner labor unions during the long post-war economic expansion of the last century. During the Cold War, the real competition was with the Soviet Union and its bloc of nations on the other side of the Iron Curtain.

Sadly, those who claimed to have been key to slaying the Hammer & Sickle crowd during the Reagan era were also along for the privatization of pension planning. The culpable malefactors were the first to read the writing on the wall in the past two decades as big steel vanished, big cars thought they could eternally evade the competition of more nimbly competitive Asian and other international competition, and the corporate ethos of the preceding generation gave way to the individualized peripatetic worker who would blissfully execute lateral moves throughout the employment career, all the while exercising peerless stewardship over her own individual retirement account (IRA 401(k)). Talk about a dark alley laden with unsuspecting potential victims for investment fraud!

While Mr. Madoff might not care to hear this, he is among the so very few who has worked this dark alley and been caught. It astounds the observer to pass months of learning of *mortgage-backed securities, variable-rate mortgages*, to say nothing of these economic compacts being struck in the absence of any tangible data on the applicant’s prospective capacity

to sustain the mortgage contract, much less any employment information at all, with the entire narrative unfolding as if these crimes against one's fellow person simply fell from the sky. This has been like recounting Hurricane Katrina's battering of New Orleans without mentioning negligent engineering, the systematic destruction of wetlands, or the absence of government oversight and disaster preparedness. It has been like blaming global warming exclusively on the economic growth of new factories, developing highway systems, and automobile ownership in the developing world while ignoring the responsibility of the leaders of the industrial revolution and ourselves, their descendants.

So why might we not seek out those responsible for these moral assaults, even when they have worked the edges of the criminal code? In the first decade of a new century, during which time the incarcerated population has soared past 2.3 million nationally, with states spending \$50 billion and the federal government \$5 billion annually, the U.S. has no trouble securing members of the African- and Latin-American underclasses to hold that cell space.<sup>1</sup> A Jungian analysis would suggest that we as a nation remain uncomfortable with certain activities or ongoing conditions of the social fabric.

Whether this be the use and distribution of unsanctioned chemicals or physical assaults, it is important that oligarchs and power brokers identify an underclass who, not merely holding a diminished social station, will in fact assume the culpability for the majority of these non-sanctioned actions and activities. This way, we won't need to look in the mirror. Or, in so doing, we can propagate a self-delusion that I am in complete and utter control of my financial future or, alternatively, having profound confidence in the smooth-talking character who has pitched me these 401(k) moves that I have never understood yet confidently stated that I supported them.

Perhaps the hypothesis is put most succinctly thus: Does the United States need an underclass for its perp walks? Is there a specified sub-group of the population which, on the basis of the members' race, ethnicity, social status, pigmentation, political membership, gender, or sexual orientation are accorded less than the full panoply of civil rights?<sup>2</sup> The still relatively young republic, the product of revolt out from under the British Crown, lives under the Bill of Rights added to the Constitution. Both build upon the *freedoms* pertaining to the human person declaimed so eloquently in Jefferson's Declaration of Independence. Yet even as these documents are the philosophical heirs to the Enlightenment, current observers cringe in acknowledging the contextual limitations of the era. The framers excluded half the new nation (women), never discussed the indigenous peoples who would be sacrificed for the sake of the growth of the Eurocentric republic, and allocated enslaved Africans to three-fifths of the population count of white adult males.

Still, the republic adapted as there were descendants of the French, Dutch, and Spanish colonial efforts within the boundaries at the moment of independence; there was trade and

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<sup>1</sup> N.C. Aizenman, "New High in U.S. Prison Numbers," *The Washington Post*, 29 February 2008, p. A01.

<sup>2</sup> Charles F. Marden, Gladys Meyer, and Madeline H. Engel, *Minorities in American Societ, Sixth Edition*, (New York: 1992), pp. 78-80.

interchange of population with neighboring states of the Americas; and there was immigration. Undoubtedly all groups seeking to immigrate based their success on their proximity to northern Europe, their ethnicity approximating the denizens of the United Kingdom. Asians entered in the mid-nineteenth century to contribute profoundly to the construction of the transcontinental railroad routes, during which countless sacrificed their lives and future working capacities. The descendants of Germanic and Scandinavian immigrants predominate the midwest and upper plains regions today. The availability of jobs generated by the industrial revolution of the late-nineteenth century caused the admission of eastern and southern Europeans to steel mills and sweatshops in northeast and midwest urban centers.<sup>3</sup> While the Gilded Age industrial barons received their cheap labor, the newer immigrants would bear descendants less Anglo-Saxon.

The suffrage question coalesced in the early twentieth century prod resolution of gender enfranchisement. The post-Civil War Reconstruction movement, presently memorialized at the observance of Lincoln's two hundredth birthday while concurrently reminding of his tragic absence from its administration, spoke of and provided early results of enfranchising the formerly-enslaved, demonstrating both the philosophical model for pan-enfranchisement of civil rights and national operational limitations. The experience of the Native American communities constitutes nothing less than genocide.<sup>4</sup> The xenophobic and imperialist Manifest Destiny movement justified the triumph of the white men even in the face of contrary court decisions. Andrew Jackson ignored a 1832 Supreme Court decisions and ordered the *Trail of Tears* forced displacement of the Cherokee Nation.<sup>5</sup>

So what has the twentieth century said about the underclass? Have the successes of the women's enfranchisement and civil rights movements, arguably ameliorating some of the troubling public relations and perception issues for the Cold War cultural debates with the Soviet Bloc, brought full civil rights and enfranchised empowerment to all population sub-groups? Or does the exigency of a subservient class or sub-group impel the transfer from particular groups that might appear to have won full civil rights a specific class of individuals who need to answer to the anxieties and insecurities pertaining to the majority's sub-conscious lack of integration of its shadow issues?

Carl Jung wrote extensively on the importance of the sub-conscious to the aggregate psyche. Briefly put, one's level of discomfort with painful or unresolved issues dealing with hostility, social isolation, sexuality, discord, etc., may be considered to be in the *shadow* level of consciousness. One is aware of these concerns or issues, but has taken steps to avoid the need to interact with them on an ongoing basis. Any number of addictive behaviors are symptomatic of this want of integration. When happenstance of accident or emotional upset causes one to confront these personal issues that had been set aside or hidden away, the result can be debilitating.<sup>6</sup> Thus the practice of counselling or psychotherapy calls for the examination of

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<sup>4</sup> Howard Zinn, *A People's History of the United States* (New York: 1980), pp. 1-20.

<sup>5</sup> Jon Meacham, *American Lion: Andrew Jackson in the White House* (New York: 2008), pp. 203-4.

<sup>6</sup> Joseph Campbell, ed., *The Portable Jung*, translated by R.F.C. Hull (New York: 1971), pp. 139-62.

these neglected, or perhaps feared issues, in a structured, objective, and supportive environment of the therapeutic relationship.

In the Victor Hugo *Les Misérables* and its contemporary musical stage adaptation, Inspector Javert has never come to accept that he was born in prison to an incarcerated mother. Hoping to justify himself, he persistently pursues Jean Valjean long after a harsh five-year sentence for petty theft had become a total of nineteen years' servitude for attempted escapes. For Javert to acknowledge that Valjean has earned his freedom from the state, he would have to encounter his shame that his mother was never accorded this grace. With a series of future encounters with Valjean, Javert shows time and again that he has never made peace with his mother's social standing and his own stigma.<sup>7</sup>

To apply the Jungian analysis to the relationship of the developing United States white, northern-European dominated majority with minority population groups, history has shown that the majority have resisted the acceptance and inclusion of minority population groups in a manner that speaks of projecting the majority's lack of comfort with its *shadow* issues onto these groups that speak of "otherness." This is to suggest a pan-psychotherapeutic basis for endemic and pervasive xenophobia of the United States. The majority have chosen to allow African-Americans to pass over one hundred years without full enfranchisement, all but negating and mocking the casualty rates of the Civil War, which produced our highest such rates from a military encounter. The majority chose to deny women full enfranchisement for well over the first one hundred years of the republic, while gender pay disparities continue to mock any notion of equality. Various surviving Native American communities work to reclaim dignities, languages, cultures, and self-respect lost during the structured genocides that culminated in the nineteenth century.

We may also note some points during the twentieth century when, in the face of external challenge, there was a movement for near-overnight assimilation of sub-groups previously considered to be immigrant and minority. (A current sociological term actually speaks of a particular sub-group "becoming white.") The century or the era may be considered to have actually begun with the dubious justifications for engaging Spain in Cuba and the Philippines. Technology had brought the coal-powered steam engine to the world stage, concluding the centuries-long importance of commercial and naval vessels under sail. The new era called for "friendly" ports at which a nascent empire could effectively rely upon for replenishing supplies of the new fuel. Coincident with the development of the Panama Canal, the goals of the republic made it axiomatic that Manila and San Juan be the prizes attained, owing to commercial and thus political interests.<sup>8</sup> Below we will examine the social and political consequences for the Philippine and Puerto Rican populations vis a vis the United States a century on.

Just over a decade later, an extended-family feud among oligarchic European aristocrats became the carnage known as World War I. While Woodrow Wilson had no interest in

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<sup>7</sup> Victor Hugo, *Les Misérables* (Paris: 1862).

<sup>8</sup> Richard W. Turk, "Defending the New Empire, 1900-1914," in *In Peace and War: Interpretations of American Naval History, 1775-1978* (Westport, Conn.: 1978), pp. 186-204.

becoming part of this, the post-colonial and increasingly world-wide economy did not provide a truly safe haven. Some citizens were crossing the Atlantic on ocean liners while others sold munitions and supplies to both sides. He and countless political operatives knew the potential risk that military opposition to Germany and the Austro-Hungarian Empire would involve in relating to the descendants of the Axis states. Upon entry, there ensued a profound and widespread cultural suppression and sublimation among Germanic descendants throughout the nation. Sauerkraut became “victory cabbage.” Bilingual grammar schools, offering classes conducted in the heritage language in the morning and English during the afternoon, closed. German newspapers closed throughout the midwest. Lutheran and Catholic parishes no longer offered worship services in German. Most tragically, the lived cultural plurality of these inland, non-seaboard cities came to a crashing close. Older immigrants who had learned survival English, often with pronounced accents, feared speaking their native tongues in public. Questions of loyalty abounded.<sup>9</sup> Yet the presence of undocumented indigenous Latin Americans eighty years later would cause a callous combination of hateful xenophobia and historical ignorance of what the Germanic communities had lost in the previous century. The indigenous Latinos did not live with the DNA of forebears that would allow them to “blend in” with the majority Anglo-Saxon, German, and Scandinavian descendants.

The accelerated assimilation continued with participation in the Second World War. Notwithstanding the Lend-Lease program that placed older munitions and weapons in the hands of Great Britain, perhaps at least giving credence that there was no real neutrality, the descendants of the non-Anglo immigrants confronted strong isolationism daily. There was hesitation to give wide expression of cultural heritage, cuisine, languages, music, dance, and literature of a nation that had joined the Axis. While not wishing to dismiss this group to a footnote, the crescendo of National Socialism as the 1930s progressed did not at all cause an openness of heart or welcome for European Jewry. Surely the moral perfidy of denying entry and refuge to such exiles who had actually crossed the Atlantic, while truly unthinkable, would only serve to support the argument of the denial of the humanity of the “other.”

After a decade of economic depression that saw bleak economic outlooks, despairing of suitable employment to support modest family life, and pronounced social dislocation (cf. the nearly complete abandonment of some regions of the great plains), one recalls the ironic title to Studs Terkel’s oral history of this two-theater war to which the entire society seemingly committed: *The Good War*.<sup>10</sup> Regardless of the national denial of refugee groups fleeing National Socialism in the face of well-documented threats to their lives, the United States could marshal the values of righteousness and justice in opposing the Axis. While immigrant groups that still felt the approbation of “otherness” might have their opportunity to demonstrate the depth of their patriotism and win inclusion, race remained a trump card. President Franklin D. Roosevelt signed the executive order of the plans drawn up by Gen. John L. DeWitt, Chief of the Army’s Western Defense Command, who promulgated the racist relocation program premised on the denial of any possibility that Japanese immigrants or their descendants could possibly be

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<sup>9</sup> Frederick C. Luebke, *Bonds of Loyalty: German-Americans and World War I* (DeKalb, Ill: 1974), pp. xii ff

<sup>10</sup> Studs Terkel, *The Good War* (New York: 1997).

loyal during the war.<sup>11</sup> This shameful national undertaking proved at the very least that the concerns of midwest German descendants two decades earlier had been well-founded, although one searches in vain for any descriptions of their displacement and forced relocation.

The communications media of radio and cinema allowed for values-based messages to be shared with the wider population during the war years. The serialized radio programs had many opportunities to describe the neighborhood young men who had enlisted as well as local support of ration books, scrap metal drives, and local sacrifices committed toward the shared national effort. Hal Wallis and Jack L. Warner produced the now-renowned film *Casablanca* in 1942 as the United States geared its society and production to a two-front war.<sup>12</sup> Humphrey Bogart's protagonist, the owner of Rick's *Cafe Americaine*, and his African-American musical accompanist Sam, represent the isolationist Americans who enjoyed life in pre-war 1930s Europe as they pleased. When the husband of a failed romantic interest of Rick's, played by Ingrid Bergman, appears in *Casablanca* in search of refuge, the valiant protagonist sacrifices his memories and pride so as to have the courageous couple flee to freedom. Meanwhile, the "foxhole" movie, a type popularized by decorated hero Audie Murphy, was widely known for including nicknames and streamlined versions of enough "ethnic" eastern- and southern-European names so that no audience member could miss the message that "even these" Poles, Slavs, Italians, Greeks, and other sons or grandsons of immigrants had joined fully the national cause.. The award-winning *To Hell and Back* of 1955 shows that this partial assimilation continued through the 1950s.<sup>13</sup>

For the sons of the involuntary migrants, however, Jim Crow reigned supreme throughout the war. Despite the Double-V campaign for victories against foreign enemies and for domestic civil rights, racial strife permeated the military structures that denied the equality of emancipation of the previous century. Black servicemen held subservient roles on naval vessels and in military companies. Detroit's 1943 Belle Isle race riot shows that racial tensions existed on military bases and in adjoining communities.<sup>14</sup> Token efforts of inclusion in particular fields, such as the training of airmen in Tuskegee, Alabama, remained premised upon the denial of full rights and opportunities. Italian and German prisoners-of-war held in the South were accorded more dignity based on their race than U.S. citizen African-Americans holding exclusively support roles at the same bases. While President Harry S Truman included desegregation of the military in 1948 executive order on comprehensive civil rights reform, there was enough force in the opposing Dixiecrat political base to cause structural resistance to the painfully slow movement toward removing societal affronts to human dignity.<sup>15</sup> By the turn of the new century, however,

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<sup>11</sup> David M. Kennedy, *Freedom from Fear: The American People in Depression and War, 1929-45* (New York: 1999), pp. 748-60.

<sup>12</sup> [www.imdb.com](http://www.imdb.com).

<sup>13</sup> *Ibid.*

<sup>14</sup> Richard Hofstadter and Michael Wallace, eds., *American Violence: A documentary History* (New York: 1970), pp. 253-8.

<sup>15</sup> Robert Dallek, *Harry S Truman* (New York: 2008), p. 71.

the military ranked high in surveys of career advancement opportunities of African- and Latin-Americans and serves as an organizational model for other sectors.

Some sub-groups saw the war as an opportunity to develop patriotic credibility in light of skepticism based on faith affiliation. From the perspective of the Protestant majority, Roman Catholicism and Greek and Russian Orthodoxy called for citizen supplicants to incline their ears and hearts to foreign primates or a pontiff. The panoply of Christian sects and worshipping bodies throughout the United States saw division and factionalism as the norm, with the notion of any unity with a foreign body unthinkable. The 1928 presidential campaign of New York's Al Smith, the first Roman Catholic to win a national party's nomination, remains a hallmark of hateful invective.<sup>16</sup> An early tragic loss of a naval vessel was unimaginably pronounced for an Iowa family that lost five sons assigned to the same ship. While later personnel policies would preclude the risk of such an impact on a single family, the 1944 Twentieth Century Fox production *The Fighting Sullivans* showed that the brothers were as very much All-American in their interests and values as they were active adherents of the Roman faith up to their untimely sacrifice.<sup>17</sup>

So by the midpoint of the last century, the immigrants of eastern and southern Europe had seen in the national involvement of the two global war efforts opportunities to “become white,” or to consciously orchestrate their assimilation. African-Americans lived with Jim Crow segregation that had emerged from the post-Reconstruction South to be found in interstate transit lines and the military. Native Americans continued to be sequestered on remote “reservations,” far from social, cultural, and educational opportunities available to other citizens. Latin Americans lived according to regional unequal privileges as doled out by white power brokers.<sup>18</sup> Mexican-American or Chicano *braceros*, or seasonal agricultural workers, were eagerly received during wartime or other agricultural labor shortages and denied entry during the Great Depression or other hard times. South Texas citizen Chicanos nevertheless lived according to the political whims of powerful county sheriffs and political bosses. Most often, this did not include the provision of running water or electricity in unincorporated neighborhoods known as *colonias*.<sup>19</sup> Puerto Ricans, free to serve in the military as the above-mentioned groups without the benefit of citizenship, would win Commonwealth status in 1952, which would allow the free migration to and from the U.S. mainland. Filipinos, Marshall Islanders, American Samoans and other residents of lands that had been taken during wartime or were deemed imperative for U.S. war interests gained immigration visas according to carefully regulated quotas.

The same decade would see the pronounced change of courts-based decisions in support of equal education and civil rights. As the young republic had become the premier post-war western democracy with the decline of the British Empire, the Cold War confrontation called for at least nominal steps in the direction of civil rights for minorities. The descendants of the

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<sup>16</sup> William V. Shannon, *The American Irish: A Political and Social Portrait* (New York: 1964), pp. 151-181.

<sup>17</sup> [www.imdb.com](http://www.imdb.com).

<sup>18</sup> Robert A. Caro, *The Years of Lyndon Johnson: The Path to Power* (New York: 1982), pp. 166-173.

<sup>19</sup> Caro, *The Years of Lyndon Johnson: Means of Ascent* (New York: 1990), pp. 180-8.

eastern- and southern-Europeans had engaged in the process of “becoming white,” of attaining assimilation as best they were able, even in the face of an ecclesial affiliation with a foreign entity. So how, one wonders, did the decision arise to perpetuate an underclass culled from among the sub-groups that might have appeared to be on the verge of attaining full rights and enfranchisement? How could civil rights enfranchisement, which may have appeared to be a domestic imperative for the sake of the international stage, be scuttled by profound bias and entrenched prejudices? How did membership in the “perp walks” get allocated to particular minority sub-group members?

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Social change had ensued during the war. The demand of armaments production won out over any notions of enforcing national Jim Crow codes and strictly maintaining gender roles. Women assumed round-the-clock production roles, prominently in the southern California aircraft factories. African-Americans moved north from the Mississippi delta to Chicago and Detroit production positions,<sup>20</sup> while others of the mid-Atlantic coast assumed production jobs in the northeast and, critically, at the Brooklyn Navy Yard. The latter group later came to predominate in the Bedford-Stuyvesant neighborhood, a nationally-known center for African-Americans, albeit slightly less celebrated than Harlem. Cognizant of this social development, and in anticipation of the effect of the servicemen of both theaters returning to the post-war job market, power brokering oligarchs of the majority population were presented with the choice of accepting and adapting the socio-economic *status quo ante* or propagating an underclass in urban population centers. How often is political expediency determinative for the republic?

In 1972 Francis Ford Coppola presented a celebrated film depicting post-war social change, corporate economic competition, and the generational transfer of power in an organized crime “family” in New York City. Marlon Brando’s character Don Corleone, the *Godfather* of the film’s title, has made his mark with gambling, loansharking, and prostitution, with the complicity of countless police, court, and elected officials. Corleone declines a proposal to enter into a partnership for narcotics distribution, considering the proposal too great a risk for his present economic enterprises in that his judicial and governmental protection would abandon him. At a meeting of other syndicate heads, one participant argues that narcotics would be a legitimate source of income as he plans to focus his marketing and distribution on African-Americans and other newcomers to northern urban centers during the war years. Michael Corleone, successor to his father as Don, looks to new opportunities for gambling in Cuba and, later, Nevada.<sup>21</sup> While some political oligarchs of the majority population looked to the newly-arrived as pawns for socio-political scapegoating, others saw new markets for nefarious goods and ultimately addictive activities likely to wreak social disorder on the members of an “other” population sub-group.

The post-war years were a cauldron of social and economic change, with little apparent attention paid by local-level politicians for the image-conscious State Department operatives facing off against the Soviet Bloc. The process of “becoming white” for eastern- and southern-

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<sup>20</sup> Nicholas Lemann, *The Promised Land* (New York: 1991).

<sup>21</sup> [www.imdb.com](http://www.imdb.com).

Europeans of the past three decades, prompted by the two world wars, had far more likelihood of success than for inclusion in the majority ethos for African-Americans and Puerto Ricans and other Latin Americans. The descendants of Anglo-Saxons and those of other northern Europeans were indistinguishable in their “whiteness,” or physical appearance. Surnames might continue to be suggestive, rather than determinative, of any distinguishing ethnicity. The northern urban political bosses, however, saw race as an insurmountable bar. Consequently, eighty years after the Emancipation Proclamation and the failed Reconstruction, African-Americans were no closer to realizing the fullness of their civil rights and enfranchisement than in the previous century. Yet the bosses had plenty of ideas for using the population as pawns and scapegoats.

While the newcomers arrived in the northern cities, the political machines were determined to receive them as registered voters and offer partial and token incentives that would answer short-term needs but never lead to full political participation. Wartime production capacity allowed for wider affordability of automobiles, as production shifted from munitions, artillery, and weaponry. Dwight Eisenhower committed to a federal system of highway transportation that implicitly financed suburban housing areas.<sup>22</sup> General Motors schemed for the accelerated obsolescence of street-railway companies and provided kickbacks and financial perks to elected officials who voted to buy their motorbuses.<sup>23</sup> Real estate agents perfected the xenophobic sales pitches that caused “white flight,” the block-by-block depopulation of neighborhoods formerly composed entirely of residents of the white majority. Landlords discontinued long-term maintenance investment in their urban rental properties, while banks that “red-lined” a formerly white neighborhood ensured that the minority renters would never experience home ownership until the structures were beyond any hope of rehabilitative renovation.<sup>24</sup> Urban political bosses restricted services to the minority population groups while allocating resources to the financial and business districts that would receive the suburban workforce five times weekly. Discharged servicemen were soon reunited with spouses and the national baby boom had many federal and local supports that it occur in the suburbs.

Urban centers had been the focus of population growth during the industrial revolution. The development of the streetcar railways allowed workers with sufficient income to live in the “streetcar suburbs,” out from under the shadows of the sprawling mills.<sup>25</sup> The development of electrification, potable water lines, and public sanitation focused on urban settings. The interwar years, especially during the 1930s economic depression, highlighted the division between urban and rural settings for electric-powered labor-saving consumer appliances.<sup>26</sup> For the majority population to abandon the heights of civilization and decamp for entirely new suburban residences in what had been agricultural settings lacking any utilities shows the strength of the

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<sup>22</sup> Caro, *The Power Broker: Robert Moses and the Fall of New York* (New York: 1974), pp. 943-4.

<sup>23</sup> Susan Hanson and Genevieve Giuliano, *The Geography of Urban Transportation* (New York: 2004), pp. 315 ff.

<sup>24</sup> Gwendolyn Wright, *Building the Dream: A Social History of Housing in America* (Cambridge, Mass.: 1983), p. 247.

<sup>25</sup> Sam Bass Warner, *Streetcar Suburbs: The Process of Growth in Boston (1870-1900)* (Cambridge, Mass.: 1978), p. 22.

<sup>26</sup> Caro, *Path to Power*, pp. 516-28.

majority's impulse not to live in common with minority population groups, regardless of shared citizenship.

Richard Wright's *Native Son* spoke to the majority oligarchy's political use and manipulation of Chicago African-Americans in the interwar years. The protagonist Bigger is considered a statistical target by the prosecutor's office. Through his conversations with a Communist defense attorney, the author presents a deterministic path to the electric chair for this sacrificial victim.<sup>27</sup> The trend continued exponentially after the war. Notwithstanding the absolute failure of precluding alcohol consumption during the Prohibition era of the 1920s and early 1930s, highly punitive sentencing measures took aim at the immigrant underclass consuming narcotics. New York Gov. Nelson Rockefeller promulgated tremendously harsh mandatory narcotic sentencing guidelines in 1973.<sup>28</sup> With the onset of crack cocaine in the 1980s, legislators enacted racially discriminatory sentencing dictates, with the sentencing for the crack cocaine prevalent in the black community far harsher than for the powder cocaine of the white community. The Reagan era "tough on crime" sentencing introduced the three-strikes sentencing concept. With the short-term goal of reelection paramount, there was little consideration of the financial cost that would cause California to buckle under its correctional costs by the early 2000s.<sup>29</sup> The republic began the new century with over two million incarcerated, with capital punishment serving symbolic, unstated political campaign messaging objectives more than provoking moral opposition. The social costs of the narcotics sentencing statutes have included several generations of African- and Latin-Americans incarcerated for lengthy terms absent the intent to distribute.

The perp walk emerged as a means of communicating with the suburban power base, demonstrating that the state successfully targeted, arrested, convicted, and incarcerated persons of color who were contrary to the civic good. Even the urban newspaper that had been available at the corner market had given way to televised news broadcasts that, via close-up visual images, implicitly conveyed the message of the person of color equating danger. Reporters and communications image makers developed a range of unspoken images, symbols, and code language to refer to the underclass. Soon after moving to Brooklyn in the early 1990s, I realized that our particular neighborhood of Bedford-Stuyvesant was frequently used by television news reporters intent on conveying to white suburban audiences that assaults or other crimes had taken place among members of the underclass. "Bedford-Stuyvesant" meant that the victims or alleged perpetrators were African-American and "Bushwick" that they were Latin-American, regardless of where the incident had taken place.

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The movement to enact neo-liberal free-trade compacts led to Bill Clinton's North American Free Trade Agreement (NAFTA) of the 1990s. Hailed at highlighting and rewarding economic efficiencies throughout the world, the legislation has never spoken to the social

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<sup>27</sup> Richard Wright, *Native Son* (New York: 1940).

<sup>28</sup> Madison Gray, "A Brief History of New York's Rockefeller Drug Laws," *Time*, 2 April 2009.

<sup>29</sup> John Pomfret, "California's Crisis in Prison Systems a Threat to Public," *The Washington Post*, 11 June 2006, p. A03.

dislocation of populations. Free traders want immobile populations where labor costs can be optimally reduced, as with the *maquiladora* factories along the northern border of Mexico. U.S. subsidized corn and grain has undercut traditionally subsistence economies of Mexico and Latin America. In February 2008, the national conference of Mexican Catholic bishops said that NAFTA had resulted in nothing less than a “cultural death” for these rural communities.<sup>30</sup> The social upset following a series of civil wars caused the northward migration of thousands of young Mexicans and Latin Americans. By the midpoint of the first decade of the new century, the Pew Hispanic Center estimated that there were ten to twelve million undocumented workers living in the shadows of the U.S. economy and society. Sixty percent were (largely indigenous) Mexicans and Central Americans.

While western Europe has experienced issues of integration with guest workers, their states have acknowledged the reality of supplementing their workforce with extranational workers. As the government both negates the importance of the *bracero* Chicano agricultural workers of the twentieth century and profoundly minimizes the need for unskilled workers, undocumented workers are vulnerable to harsh exploitation and hazardous working conditions. A movement toward the open, with thousands of mainly Latino undocumented workers marching and demonstrating in Los Angeles, Chicago, and throughout the nation, blossomed in early 2006.

Meanwhile, several decades of diminished oversight and reconfiguration in the financial services industry saw white-collar members of the majority population preying on the working poor. As decades of predatory and manipulative credit-card, automobile loan, and paycheck-cashing abuses went unsanctioned by responsible governments, malefactors identified working poor members of the underclass who lacked the job stability to qualify for mortgages and developed the concept of the variable-rate mortgage. These agreements introduced the client to an affordable rate on an introductory basis, after which a rate increase brought the contract beyond the means of the mortgagee.

The U.S. Department of Homeland Security, disregarding clear evidence of systematic dysfunction and the absence of communication and cooperation between domestic and foreign security entities that had set the groundwork for the September 2001 terrorism, chose to target social and economic refugees of neo-liberal free trade compacts that had devastated once-sustainable local economies. Perhaps these security professionals were threatened by widespread public parades and demonstrations by undocumented workers and residents in April and May 2005. One cannot imagine any consideration of the extreme social and income disparities between the rural poor of Latin American and the richest and most powerful nation-state.

While the Enron scandal posited the executives Jeffrey Skillings and the late Kenneth Lay as targets of public attention, and Bernard Madoff’s misdeeds have a proximate culpability to his person, entire teams of miscreants who developed the variable-rate mortgages and the related market of mortgage-based securities have not experienced any public rebuke. In this case, the majority population are dealing with their own peers and financial complexities they are loathe to admit that they do not understand. There are thousands of foot soldiers of the *variable-*

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<sup>30</sup> Catholic News Service, February 2008.

*rate mortgage* campaign directed at unsuspecting members of the underclass who have never faced the harsh lights and cameras of the perp walk and have no concern therein.

To the contrary, by midpoint of the first decade of the third millenium, the Pew Hispanic Center estimated that ten to twelve million undocumented workers lived in the United States, mainly in the shadows of economic and social life.<sup>31</sup> Some had political asylum applications ongoing. Others had overstayed student or tourist visas. While no more than sixty per-cent of the workers had travelled overland from neighboring states in the Americas during time of social flux and limited socio-economic opportunities, Immigration and Customs Enforcement nevertheless chose to target this largely workplace raids.

On Tuesday, 6 March 2007, in New Bedford, Massachusetts, Immigration and Customs Enforcement agents placed 361 Central American refugees from social unrest and economic dislocation on motorcoaches, which they in turn placed in a public relations display that proved to be the morally-despicable equivalent of a perp walk. Notwithstanding claims to community advocates that there would be no public display of detainees<sup>32</sup>, each motorcoach was led and followed by two police vehicles with lights ablaze and paraded through the urban center before proceeding to Fort Devens. In such manner did nefarious oligarchs compel the state security apparatus to misapply tactics and measures, necessary and important where terrorism is a reality, to criminalize and dehumanize my parishioners and other residents of the New Bedford Central American community. There are further details concerning the dehumanization of the ICE tactics that immigration attorneys have asked remain held in confidence as more than half of those originally detained pursue their asylum and/or reunification claims.

While some would confine the study of economics entirely to statistics-based econometric models, humanity compels us to accept that global, national, regional, and local economies in fact pertain to human interaction. Piracy, petroleum price instability, and international unrest are only the first of many reasons to cast doubt on a complete reliance on the global marketplace. While the consideration of history does prove that high tariffs harm most participants, neither can the rational observer lend credence to an economic system that blindly trusts in *the market* to seek out efficiencies. We would suggest, rather, that ultimately flawed and imperfect human persons negotiate and realize compacts on international trade. These covenants have attained many significant accomplishments over fifteen years. When they fail the human community's most vulnerable and poor, those who exercise power ought to be impelled by the human spirit to accept errors and flaws and return to negotiations with others of good will.

Sadly, the power divide in many states of the Americas falls along racial lines and demarcations of ethnicity. The K'iche' Mayans of New Bedford consider the white power brokers and oligarchs of Guatemala as enemy, in and of themselves disinclined to enter into economic pacts to improve the lives of the 68% Mayan majority. For the United States ruling

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<sup>31</sup> [www.pewhispanic.org](http://www.pewhispanic.org).

<sup>32</sup> Telephone conversation: New Bedford Police Department Chief Ronald Teachman with author, 6 March 2007, 0930 hrs.

elite to further criminalize and dehumanize the young indigenous workers of Central America who have had the desire and resources to epically journey north to support their families speaks of a profoundly shameful era in our history. As Bishop Alvaro Ramazzini of San Marcos, Guatemala, asked of ICE representative Julie Myers in Washington, DC, last summer, “Why?”<sup>33</sup>

The federal government would do well to accept and realize that the global economy compels an engagement and interaction with peoples, communities, and economies throughout the globe. We must encounter a variety of cultural expressions and languages as well as varieties in economies of scale. It would behoove us to accept that the era of the white majority is over and concluded with; manipulation of the domestic underclass and the mis- and maltreatment of vulnerable populations, wherever they might be, finally constitute the dehumanization of the person and crimes against all of humanity.

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<sup>33</sup> United States Conference of Catholic Bishops Migration Conference, Washington, D.C., 29 July 2008.

## **U.S. Financial Crises, Ethics and the Needed Sustainability Measure for the New Global Financial Architecture**

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### **Abstract:**

*Ethics and ethical practices are needed in financial markets and the governing institutions which operate, safeguard and regulate this market. The collapse of the global financial system dominated by American institutions is clear proof of the failure of US corporate boards to produce sound governing policies which will not allow the perpetuation of monopolistic concentrations of ownership and abuse of financial power. Incorporating sound, well developed, transparent and accountable governance systems and practices, became a necessity after the current financial crises.*

*The **broad research question** is how and why the US financial institutions collapsed the way they did? And what are the institutional safeguards and mechanisms to be initiated at the national, regional and international levels to protect stakeholders and other legitimate interests in the USA and all over the world? **To answer this** broad research question, the following sub-questions are investigated:*

- 1. How the concept of business ethics and corporate governance evolved in the USA and other cultures?*
- 2. How is the "new world's order" led by one superpower—USA affecting the behavior of USA global financial institutions around the globe?*
- 3. What is the impact of globalization and its tools (i.e. super information high way, e-commerce, and Facebook, to mention a few), on the performance of global financial institutions?*
- 4. Whether international development organizations at the regional and international levels such as the IMF, the World Bank Group, WTO, Inter-American Development Bank, African Development Bank, European Bank for Reconstruction and Development and the Asian Development Bank, have contributed to this Crises?*
- 5. What kind of safeguards should be introduced at the national, regional and international levels to protect stakeholder's interests all over the world?*

*In view of the Complexity of the topics, an **interdisciplinary** research approach is adopted and **applied**; practical or action research's **design** will be used. According to Charles B. Smith, the goal of this kind of research is to find knowledge that applies directly to alleviating a specific problem or improving a current practice.*

### **Introduction**

Ethics and ethical practices are needed in the financial industry and the governing institutions which operate, safeguard and regulate its market. The sudden collapse of the global financial system dominated by American institutions is clear proof of the failure of US corporate boards of the banking and capital markets to produce sound governing policies to guide senior managers to the best practices. Incorporating sound, well developed, transparent and accountable

governance regimes and practices became a necessity in the era of globalization where cultural proximities (time and space) are minimized.

In light of the complexity of the topics, an interdisciplinary research approach is adopted and applied; practical or action research design will be used. According to Charles B. Smith, the goal of this kind of research is to find knowledge that applies directly to alleviating a specific problem or improving a current practice.<sup>1</sup>

### **Why did the US Financial Institutions Collapse?**

In the summer of 2007, US and world financial markets found themselves facing a potential financial catastrophe and the US Federal Reserve Board found itself in a difficult situation.<sup>2</sup> It was becoming clear that banks and other institutions in the financial market industry in the USA and worldwide would certainly lose tens or even hundreds of billions of dollars from their exposure to sub-prime mortgage market loans.<sup>3</sup> Since bank lending is closely tied to bank capital (and net worth), bank regulation requires that loans not be more than a certain multiple of capital.<sup>4</sup> Thus, the Federal Reserve Board faced the danger of a sharp contraction in credit and bank lending in a way that would lead to a deep recession or maybe an economic depression.<sup>5</sup>

On August 9, 2007, according to this analysis, the global financial system started to crack down and the financial industry around the globe (with the domino effect) was confronting the reality that the marketing value of mortgage-backed securities was less than they thought and it had become very difficult to assess the value by using the prevailing doctrines of finance used by capitalism regimes.<sup>6</sup> Financial institutions and investors all over the world started to look to the USA, the global financial decider who had been lending, and led the globalization, for an answer and remedies.<sup>7</sup> The answer seems to be not anymore in the hands of the US Treasury Department or the White House (in a presidential election year) or the US Congress rather than in the hands of members of the board of directors and privileged senior executives of Wall Street financial institutions. The corporate elites have led the world to a selfish capitalism after receiving a tacit approval from the G.W. Bush administration.

### **The Evolution of the Concept of Business Ethics in the USA**

Ferrel, Fraedrick and Linda Ferrel presented an outstanding summary of the literature of this area. They stated that prior to 1960 the US went through several organizing phases of questioning the concept of capitalism and its engine and tools. In the 1920s, "living wage" was defined by the progressive movement, as family income sufficient for education, health,

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<sup>1</sup> Charles B. Smith, A Guide to Business Research, Developing, Conducting and Writing Research Projects, (Chicago, Nelson-Hall, 1981), pp 6-7

<sup>2</sup> Steven G. Cecchetti, "Crisis and Responses: The Federal Reserve in the Early Stages of the Financial Crisis," The Journal of Economic Perspectives, Volume 23, No 1, Winter 2009, p51

<sup>3</sup> Ibid

<sup>4</sup> Ibid, p73

<sup>5</sup> Ibid

<sup>6</sup> Ibid

<sup>7</sup> Washington Post, April 2, 2009, p 1

recreation and retirement.<sup>8</sup> Businesses were asked to check unnecessary price increases and many other unfair practices that would compromise a family's "living wage." In the 1930s came the New Deal, which specifically blamed business for the country's economic crisis. Hence, business was asked to work more closely with the government to raise family income. By the 1950s, according to Ferrel, Fraedrick and Linda Ferrel, the New Deal had evolved into the Fair Deal by President Harry S. Truman. Truman's program defined issues of business ethics as part of individual civil rights and environmental responsibility as ethical issues that business must address.<sup>9</sup>

The 1960s witnessed the new political and social movement that attacked the so-called military-industrial complex, the rise of consumerism activities undertaken by individuals, groups and organizations to protect their rights as consumers. President John. F. Kennedy delivered a special message on protecting the consumer interest in which he outlined four basic consumer rights: the right to safety, the right to be informed, the right to choose and the right to be heard or the consumer's "Bill of Rights."

Ralph Nader's book entitled Unsafe At Any Speed, published in 1965 was the starting point of the modern consumerism movement. He criticized the auto industry as a whole, and GM Corporation in particular, for putting profit and style ahead of lives and safety. Nader's consumer protection organization activities succeeded in passing legislation that required automobile makers to equip cars with safety belts, padded dashboards, stronger door latches, head restraints, shatter-proof windshields and collapsible steering columns.<sup>10</sup> As a result of the aforementioned activities, business ethics began to develop as an independent field of study in the 1970s, 1980s and 1990s, with academics and practitioners exploring ethical issues and attempting to understand how individuals and organizations can make ethical decisions.<sup>11</sup> For more details please see table 1-2, exhibit #1

Less attention however, was given to the issue of corporate governance or the operations and internal dynamics and process of corporate board directors until the 1970s. Avinash Dixit presented an outstanding review of the concept of governance in his lead article in the American Economic Review, March 2009, when he stated that the concept of governance has risen from obscurity to buzzword status in just three decades.<sup>12</sup> EconLit shows only 5 mentions of the word "governance" in the 1970s. By the end of 2008, it was mentioned 33,177 times.<sup>13</sup> The much more specific phrase "economic governance" has appeared 192 times and its more popular cousin "corporate governance," 9, 717 times.<sup>14</sup>

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<sup>8</sup> O.C. Ferrel, John Fraedrick and Linda Ferrel, Business Ethics, Ethical Decision Making and Cases. (New York: Houghton Mifflin Company, 2008) pp 10-11

<sup>9</sup> Ibid. p11

<sup>10</sup> Ibid, p12

<sup>11</sup> Ibid, p12

<sup>12</sup> Ibid

<sup>13</sup> Avinash Dixit, "Governance Institutions and Economic Activity," The American Economic Review, March 2009, Volume 99, No 1, p5

<sup>14</sup> Ibid

As early as 1987, the US federal government seemed to be aware that something is so fundamentally wrong with the structure of corporate governance that it required a legislative remedy.<sup>15</sup> Alan Greenspan, the Chairman of the Federal Reserve Board argued that:

In principle, corporations are run for the benefit of their shareholders, within the context of laws that are designed to protect the rights of third parties. Such protections, whether for employees, the community or the environment, should not be obligations of corporate management. They are appropriately left to statute...<sup>16</sup>

Events of the 1980s have made corporate governance a leading issue area for American business executives. Ivan Boesky, Texas/Pennzoil, and T. Boone Pickens, Jr., have made such specific governance issues as “insider trading,” “shareholder disputes,” and “hostile takeovers,” common phrases in the language and terminology of the business-conscious America of the 1980s.<sup>17</sup> A 1987 compilation of major national issues found that “corporate governance” was atop ten issues.<sup>18</sup> As Alan Greenspan’s aforementioned public statement may indicate, corporate governance goes beyond economic and managerial matters. It has social and political implications for all stakeholders at the national and international levels (in a multinational corporation).

### **The American Empire in the Era of Globalization**

“The USA is the only nation whose influence is truly global,” said Stephen Burman in his excellent text entitled *The State of the American Empire, How the USA Shapes the World*. In shedding light on this role, he stated that the demise of the Soviet Union at the beginning of the 1990s left it without a military rival, and in the 21<sup>st</sup> century, the US international role has been described increasingly in terms of empire.<sup>19</sup> US power, the argument runs, has undoubtedly grown in recent years in the area of capital, which includes: investment, US multinational operations, capital transactions and power of the US dollar, which makes America the world’s banker, with all the advantages that brings (please see exhibit # 4).<sup>20</sup>

The movement of US capital is parallel and complements the trading of goods and services in international economic relations.<sup>21</sup> In the era of globalization and US leadership in all spheres of influence capital has been moving in two ways: by companies owning shares in companies in other countries (equity capital), or by corporations owning or controlling the management of business enterprises in the other countries (direct investment).<sup>22</sup> Over the years, the USA (since the 1990s) has built up a significant stock of capital abroad, which gives it

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<sup>15</sup> Ibid

<sup>16</sup> Robert I. Tricker, International Corporate Governance, Text, Readings and Cases, (New York: Prentice Hall, 1994), p8

<sup>17</sup> Ibid

<sup>18</sup> Ibid

<sup>19</sup> Ibid

<sup>20</sup> Stephen Burman, The State of The American Empire, How The USA Shapes The World, (Berkely: University of California Press, 2007), p40

<sup>21</sup> Ibid

<sup>22</sup> Ibid

control over the shape of other countries' economic, political and social development.<sup>23</sup> For instance, exhibit # 2, indicates US foreign direct investment in 2004 estimated to be \$2,242 billion compared to FDI in the USA was \$1,526 billion.<sup>24</sup> But this, later figure according to the same analysis was passing through the US banking system and US capital market and a large portion of it is invested in the USA.<sup>25</sup>

US Multinational Corporations (MNCs), as exhibit #3 indicates, are responsible for much of the movement of capital throughout the global economy particularly in the service industry.<sup>26</sup> Over a third of the 100 largest MNCs are based in the USA. Overseas operations of the US MNCs account for half of their profits – twice as much as would be expected from the size of their overseas production.<sup>27</sup> Since over a third of the 100 largest MNCs are based in the USA, US MNCs are responsible for much of the movement of capital through the global economy.<sup>28</sup>

In the era of one superpower, the USA became the guarantor of world capital transactions stability. No other world power seems to be capable of playing this role that requires a stable political and legal framework that is sympathetic to capitalism and market economy.<sup>29</sup> The author of this paper disagrees with this statement. The European Union, in the last 5 years, seems to be trying to catch up with the USA and even compete with it in some emerging markets, such as the Middle East, due to the uneven-handed US approach and policies toward the Arab-Israeli conflict.

Another source of American power was the role of US dollars as a global reserve currency as exhibit #5 indicates.<sup>30</sup> After World War II, US dollar value was set at \$35 dollars per ounce of gold.<sup>31</sup> Other countries used the US dollar to conduct their international transactions, including settling their trade debts.<sup>32</sup> Without the role of the US dollar as a stable medium for international transactions, according to the same analysis, the rapid increase in international trade that characterized post World War II prosperity would not have happened.<sup>33</sup>

By 1971, the US government had printed so many dollars and put them into circulation worldwide that other countries lost confidence in the convertibility of the dollar into gold at the fixed price and became reluctant to use it.<sup>34</sup> In 1971, President Richard Nixon ended the dollar's fixed value in relation to gold and by 1973, the dollar and other major currencies had adopted the system of flexible exchange rates.<sup>35</sup> From that point on, the US dollar's strength had reflected, at least in part, the condition of America's trade balance and the US' relative economic

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<sup>23</sup> Ibid, p44

<sup>24</sup> Ibid, p45

<sup>25</sup> Ibid

<sup>26</sup> Ibid, p44

<sup>27</sup> Ibid

<sup>28</sup> Ibid, p46

<sup>29</sup> Ibid

<sup>30</sup> Ibid, p48

<sup>31</sup> Ibid, p49

<sup>32</sup> Ibid, p50

<sup>33</sup> Ibid

<sup>34</sup> Ibid

<sup>35</sup> Ibid

strength.<sup>36</sup> Hence, the value of the US dollar against currencies of its trading partners has therefore fluctuated considerably. The international use of the dollar declined somewhat in the 1970s and 1980s due to the emergence of OPEC and the oil crisis after the 1973 war in the Middle East. It has grown since the 1990s and in 2004, two-thirds of official foreign exchange reserves worldwide were held in dollars.<sup>37</sup> According to this view, this means that, although the USA can no longer simply print its way out of economic crisis, its currency reserve role remains strong.<sup>38</sup> Also, other countries, by holding their reserves in dollars and investing in US treasury bonds, not only can express their continuing confidence in the USA as a stable repository of value, but develop an interest in maintaining US prosperity.<sup>39</sup>

By 2007, the US dollar was uniquely well placed to benefit from the defining development in the global economy and the growth of emerging markets in Asia, Europe and the Middle East, because a very large proportion of international reserve holdings and cross-border transactions are in dollars.<sup>40</sup>

US corporate executives in the financial industry should be thankful and capitalize on the aforementioned achievement, but instead they betrayed and defrauded not only the US public's trust, but also the trust of the entire world that looked to the USA's institutions and practices as a role model.

### **The Impact of Globalization on the Performance of Global Financial Institutions**

Kevin Gibson summarized the literature on globalization as the integration of national economies to form a single market.<sup>41</sup> Globalization led by the USA takes the liberal market approach worldwide, promoting an unchecked flow of capital and goods for profit maximization. Globalization has arisen in the last two decades fueled by the formation of the World Trade Organization (WTO) in 1995. By 2000, the WTO had 149 member states that accounted for more than 95 percent of the world's trade.<sup>42</sup> The WTO gradually assumed the role as an unelected international trade manager and arbitrator of disputes. Consumption worldwide was encouraged. America continued to guarantee the free flow of capital across the world's borders through the mechanisms and networks of its financial institutions and multi-national corporations. The world capital market, led by the USA capital market, was functioning "virtually" on a 24-hour basis.<sup>43</sup> From 1997 to the end of 2000, daily foreign exchange market trading volume surged as a result of globalization from around US \$1 billion to US \$1.5 trillion and more. By the end of 2005, it was approaching \$2 trillion.<sup>44</sup> (As exhibit #3 may indicate). It thus dwarfs all other trading markets in size and volume.<sup>45</sup> As a result, America's role in the

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<sup>36</sup> Ibid, p51

<sup>37</sup> Ibid

<sup>38</sup> Ibid

<sup>39</sup> Ibid

<sup>40</sup> Ibid

<sup>41</sup> Ibid

<sup>42</sup> Ibid

<sup>43</sup> Kevin Gibson, Ethics and Business, An Introduction, (New York: Cambridge University Press, 2007), p68

<sup>44</sup> Ibid, p69

<sup>45</sup> Burman, p48

international business operations became indispensable, both as an exporter of capital and importer of capital.<sup>46</sup> In fact, according to this study, US import of capital was greater than exporting capital. This was a positive tendency in that it enabled the USA to finance its trade deficit.<sup>47</sup>

The development and advancement of the computing industry enabled the US financial industry to use computerized financial programs for three investment goals: when used to hedge large stock positions (portfolio insurance); when aimed at conducting arbitrage (taking profits on market price differences); and a speculative program trading.<sup>48</sup> None of these, according to this analyst should be confused with “package traders,” which are largely institutional accounts of buying quantities of stock on a daily, weekly or monthly basis, as they receive infusions of capital.<sup>49</sup>

The aforementioned financial terminologies seem to be difficult to understand by an average investor. The difficulty of the capital market terminology coupled with the complexity of its dynamics and products have created a mystery and illusion that may trigger demands of any new, well-marketed products or derivatives.

### **Background on Derivatives**

Eugene F. Brigham and Michael C. Ehrhardt enriched the literature of derivatives. They described derivatives as a risk management instrument and as a security whose value is determined by the market price on an interest rate of some other security.<sup>50</sup> One of the first formal markets for derivatives was the futures market for wheat. Farmers were concerned about the price they would receive for their wheat when they sold it in the fall, and millers were concerned about the price they would have to pay. The risks faced by both parties could be minimized if they could establish a price earlier in the year.<sup>51</sup> These early future dealings were between two parties who arranged the price of business transactions between themselves to reduce risks.<sup>52</sup> Soon, middlemen came into the picture and trading in futures was established.<sup>53</sup> A third group of middlemen called speculators entered the picture and became new players in the financial market.<sup>54</sup>

Brigham and Ehrhardt observed that since most derivatives including futures are highly leveraged, then a small change in the value of the underlying asset is likely to produce a large change in the price of the derivative.<sup>55</sup> Generally speaking, they concluded their observation by

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<sup>46</sup> Ibid

<sup>47</sup> Ibid

<sup>48</sup> Ibid

<sup>49</sup> John M. Dalton, Editor, How the Stock Market Works, Second Edition, (New York: New York Institute of Finance 1993), p226

<sup>50</sup> Ibid

<sup>51</sup> Eugene F. Brigham and Michael C. Ehrhardt, Financial Management, Theory and Practice, 10<sup>th</sup> Edition, (Mason: South Western Thomson Learning, 2002), p937

<sup>52</sup> Ibid, p918

<sup>53</sup> Ibid, p919

<sup>54</sup> Ibid, p 919

<sup>55</sup> Ibid

stating that derivatives markets are inherently volatile due to the leverage involved, and their risk to speculators themselves is high.<sup>56</sup>

Derivatives markets have grown more rapidly in the years preceding the current financial crisis for several reasons, including that the advancement of computer and electronic communications made it easier for counterparties to deal with one another.

### **The Need for Ethics in Finance and Corporate Governance**

John R. Boatright argues that some cynics jokingly “deny that there are any ethics in finance, especially on Wall Street.”<sup>57</sup> However, a moment’s reflection reveals that finance would be impossible without ethics.<sup>58</sup> The very act of placing our assets in the hands of other people requires immense trust. An untrustworthy stockbroker is like an untrustworthy physician or attorney.<sup>59</sup> Financial scandals shock us precisely because they involve institutions that we should be able to trust. For example, Maddof, an investment banker in New York, defrauded hundreds of individuals and organizations including New York University. His financial brand scheme wasted billions of dollars for the university, endowment funds and pension funds all over the country. Dennis Kazlowski, a former CEO for Tyco, was indicted on 38 counts of misappropriating \$170 million of Tyco funds and using \$430 million from improper sales of stock. He used the funds to purchase a \$15 million vintage yacht, a \$3.4 million painting and throw a \$2 million party for his wife’s birthday.<sup>60</sup> Arthur Anderson, a US accounting firm with branches all over the world, was convicted of obstructing justice after shredding documents related to its role as Enron’s public auditor.<sup>61</sup>

### **Executive Reward and Corporate Governance**

Academic interest in the study of executive compensation has increased significantly in recent years in parallel with the aforementioned financial scandals that shocked the world.<sup>62</sup> This reflects concerns within business, political and popular circles that levels of executive compensation in the USA are excessive in both absolute and relative terms because they frequently appear both unrelated to corporate performance and at odds with the fortunes of other corporate stakeholders such as other employees, shareholders, suppliers and customers.<sup>63</sup> Even in times of financial crisis, US corporate executives in the giant American International Group (AIG) found ways and means to unethically claim bonuses for themselves despite their poor performance, which led to the AIG’s insolvency and request for a government bailout, which came from tax payers’ money. This raises an ethical question about the ethical standards of AIG’s board of directors and their competency to govern this giant global corporation. Those

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<sup>56</sup> Ibid

<sup>57</sup> Ibid

<sup>58</sup> John R. Boatright, Ethics in Finance, (Oxford: Blackwell publishers, 1999), p4

<sup>59</sup> Ibid

<sup>60</sup> Ibid

<sup>61</sup> Ferrel, Fraedrickson and Linda Ferrel, p14

<sup>62</sup> Ibid

<sup>63</sup> Kevin Keasey, Steve Thompson and Mike Wright, Corporate Governance, Economic, Management and Financial Issues, (Oxford: Oxford University Press: 1997), p80

payouts are expected to come under intense scrutiny by the US Congress.<sup>64</sup> After the congressional approval of pumping \$200 million in taxpayer funds to bail out AIG, the board of directors of AIG authorized pay bonuses including more than \$1 million each to 73 employees of the financial products unit, responsible for creating the exotic derivatives that caused AIG's near collapse, and the government was asked to intervene to avoid a global financial crisis.<sup>65</sup> Compensation to those who precipitated the financial crisis is not a tort or wrong doing committed by AIG 's board of directors, but a business crime. Members of the board of directors of AIG should be liable individually and severely for wasting taxpayers' money. Senator Chuck Grassley (Republican of Iowa) suggested that the AIG executives should consider suicide for their culpability.<sup>66</sup>

### **International Development Organizations' Role in Promoting Good Governance to Assure Sustainable International Development**

The World Bank Group, which includes the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA) and the Multilateral Investment Guarantee Agency (MIGA) took the leading role since 1990 in promoting good governance to assure sustainable development in the emerging markets which started to be linked to the US economy as a result of the globalization integrating forces. The World Bank's publications, training programs and policy dialogue with the governments of the emerging markets started to revolve around the need for "good governance," "efficient and accountable management," and "transparency" as the ingredients of the efficiency of government, the private sector and markets. The World Bank was targeting the public sector, the main agent of change in the emerging markets. The training programs and policy dialogue developed by the World Bank's institute focused on reinforcing the public sector's ability to work with the private sector which comprised small and medium enterprises with capital that doesn't exceed \$50 million. For the US and other industrialized nations, the situation was different. The private sector particularly MNCs are the main engines for economic and social development. Knowledge and innovation flows from the private sector to the public sector. US MNC budgets, particularly such as AIG, GM or Microsoft, exceed the budgets of large country members of the World Bank. Their influence on the world capital markets and international business transactions exceeds and overpowers any influence of international development organizations including the World Bank Group.

Despite the World Bank's inability to influence US multinational corporations' behavior, it continued to support and endorse programs to promote good governance, anti-corruption and integrity management as reflected in the last World Bank Annual Report 2008.<sup>67</sup> The World Bank now is a leader in the development and application of governance diagnostics such as doing: business reports, investment climate surveys, public expenditure tracking surveys, and public expenditure and financial accountability indicators. Inside the World Bank itself a new vice presidency for institutional integrity (INT) was established in 1999. INT has handled nearly

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<sup>64</sup> Ibid

<sup>65</sup> The New York Times, March 4, 2009, p1

<sup>66</sup> Ibid, p2

<sup>67</sup> Ibid

3,000 cases of alleged fraud, corruption or other wrongdoing, resulting in the public debarment of 340 companies and individuals whose names have been listed on the Bank's website. <sup>68</sup>

### **Safeguards to Protect Stakeholders**

1. Since the main cause of the financial crisis as it appears in this stage of the ongoing events is the sub-prime mortgage market loans, then Congress should intervene to protect consumers, particularly minorities. <sup>69</sup> This can be by passing legislation to give minority groups the option of choosing a fixed, simple, low interest rate, rather than the existing variable compound interest rate. The programs should include extending the duration of the loan mortgage up to 50 years instead of 30 years. A study revealed by John R. Boatright concluded that bank lending practices should be changed and should not be discriminatory against minorities. In 1990, Camerican, a Detroit-based bank, rejected 13 percent of mortgage applications from white applicants, while the rejection rate for blacks was 43 percent. <sup>70</sup> Across the country, black applicants are turned down at a rate that is 2.4 times higher than the rates for whites and the rates of rejection are also high for Hispanic applicants. <sup>71</sup>
2. Action from the United States Congress is needed to improve corporate governance in the form of legislation to obligate corporations to have neutral board members constitute more than half of the number of members of the board. The FBI and SEC should screen the background of all members of the board.
3. New legislation by the Congress is needed to hold corporate board members and executives to the same kinds of rules to which Americans hold their public officials accountable.
4. Action from the United States Congress is needed to introduce a new quantifiable ethical dimension to the doctrine of new finance. The theoretical foundation for the science of finance is microeconomics and particularly price theory with an emphasis on the effects of risk and time on the valuation of assets. <sup>72</sup> From microeconomics, finance theory has also taken the analytical tools of utility functions and partial and general equilibrium. <sup>73</sup> On this foundation, finance has developed several theoretical doctrines that together constitute modern finance theory and its relevant tools and processes. <sup>74</sup> These tools are: the irrelevance theorem, the efficient market hypothesis, the capital asset pricing model (CAPM), option pricing theory and agency theory. <sup>75</sup> Boatright contends that the main problem of the new capitalism finance is that it focuses manager's attention on certain aspects of their jobs and labels others as irrelevant. <sup>76</sup> The capitalism new finance doctrine entails a kind of "managerial nihilism," in which much of what managers do simply does

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<sup>68</sup> The World Bank, Washington, DC, April, 1992

<sup>69</sup> The World Bank Annual Report 2008, Washington, DC

<sup>70</sup> Ibid, p21

<sup>71</sup> Boatright, p100

<sup>72</sup> Ibid

<sup>73</sup> Ibid

<sup>74</sup> Ibid, p122

<sup>75</sup> Ibid

<sup>76</sup> Ibid

not matter.<sup>77</sup> This nihilism could result in harm to shareholders, other investors and the security markets generally at the national and international levels which may have contributed to the current financial crisis.<sup>78</sup>

5. Action from the US Congress is needed to put a cap on executive pay. The pay should correlate to real corporate performance and require all stakeholders' satisfaction with such performance.
6. The US Congress should consider the nationalization option of large corporations who proved to be socially irresponsible as recommended by economist Adam S. Pagen of the Peterson Institute for International Economics.<sup>79</sup> It is better to temporarily nationalize undercapitalizing banks and remove the uncertainty that hangs over the financial system than to put in more of public (tax payer) money without adequate control over what is done with it. Any other alternative, taxpayers will pick up the bill and the financial system is no healthier.
7. Following the best practice from around the world is necessary. The US Congress and the President should carefully weigh other options and models to help the country survive this financial crisis. The following two examples seem to be promising:
  - a. The way Sweden's government handled its 1990 banking crisis has been offered as a useful case study in resolving the systematic banking crises in Sweden<sup>80</sup> according to Chermey and Emre Ergunon. In the early 1990s, Sweden's economy was nearly toppled by a banking sector close to bankrupt due to bad loans from the preceding decade's credit bubble. The Swedish government seized ownership of the largest financial institutions and a publicly capitalized asset manager was put in charge of managing the poorly performing banking assets and returning what could be salvaged back into the private sector.<sup>81</sup> Sweden used the following guidelines of crisis management to recover from the financial crisis and turn around its economy almost 360 degrees.
    - Transparency of asset losses up-front and honest communication about the extent of public intervention.
    - Politically and financially independent receivership.
    - Maintenance of market discipline.
    - Restoration of credit flaws.
  - b. Borrowing from principles of Islamic finance and banking seems to be promising to alleviate the current financial crisis. In a feature article published by Richard Layard in the Financial Times entitled "Now is the Time for Less Selfish Capitalism," he asked the following question: What is progress? He said :

According to Anglo-Saxon enlightenment, progress means the reduction of misery and the increase of happiness. It does not mean wealth creation or innovation, which are sometimes useful instruments but never the final goal. So we should stop the

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<sup>77</sup> Ibid, p124

<sup>78</sup> Ibid

<sup>79</sup> Adam S. Posen, "Temporary Nationalization Is Needed To Save The US Banking System" Paterson Institute for International Economics, Commentary on Google News, February 23, 2008

<sup>80</sup> Ibid

<sup>81</sup> Kent Chermey and Emre Ergunon, "Sweden as a Useful model," [www.voxem.org](http://www.voxem.org)

worship of money and create a more humane society where the quality of human experience is the criteria. Provided, we pay ourselves in line with our human productivity, we can change whatever lifestyle is best for our quality of life.<sup>82</sup>

The aforementioned is very much in line with the basics of Islamic banking.<sup>83</sup> In Islamic banking, money is a measure of value not a commodity. Debt is a responsibility and not to be traded. Finance aims at the creation of real goods and services and not notional constructs and exchanges. Partnerships are encouraged for risk and reward sharing.<sup>84</sup> Islamic banking and finance is a collaborative effort between business, legal and shariah teams throughout the product life cycle.<sup>85</sup> Oversight of ongoing operations is needed to increase transparency. C. Fred Bergsten, Director of the Peterson Institute for International Economics, argues in favor of a global policy response from all political systems and different cultures, rather than an American one, due to the complexity and inter-dimensionality of the financial crisis.<sup>86</sup> Principles of Islamic banking and finance, which prohibit interest, can play a major role as a balancer and neutralizer of the consequences of the compounded interest rates being used by the capitalist regimes. Incorporating principles of Islamic banking and finance with the Global Policy response to the current financial crisis is likely to move the world toward a new era of accountable capitalism.

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<sup>82</sup> Richard Layard, "Now is the time for a less selfish capitalism," *Financial Times*, March 11, 2009.

<sup>83</sup> Yusuf Talal DeLorenzo, presentation before the National Council of US-Arab Relations, "Islamic Finance and the Global Economic Crisis," February 17, 2009

<sup>84</sup> Ibid

<sup>85</sup> Ibid

<sup>86</sup> C. Fred Bergsten, "Needed: A Global Response to the Global Economic and Financial Crisis," A testimony before the subcommittee on terrorism, nonproliferation and trade, committee on Foreign Affairs, US House of Representatives, March 2009.

## **Corruption and Foreign Direct Investment**

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### **Abstract:**

*Corruption may retard capital flows, as various stakeholders and governments put pressure on corporations to do business in countries that are less corrupt. Initiatives such as the United Nations Principles for Responsible Investment enjoin investors to pay attention to environmental, social, and corporate governance issues in making their investment decisions. But if a host country enjoys promising growth prospects, or if competitors have a foothold in that country, corporations will suffer reduced profits by avoiding doing business in a corrupt country. In this paper, we review the arguments linking corruption to capital flows, and use data from several countries to explore whether such connections do exist.*

### **I. Introduction**

Corruption in developing countries may be expected to retard inflows of foreign capital, as shareholders and other stakeholders put pressure on multinational corporations to do business in countries that are less corrupt. Governments in developed countries may also make the cost of operating in corrupt countries higher by prohibiting their corporations from paying bribes. Initiatives such as the United Nations' Principles for Responsible Investment enjoin investors to pay attention to environmental, social, and corporate governance issues in making their investment decisions. If, as a result, foreign capital flows are reduced into a particular country, growth prospects in that country would be dimmed.

But a multinational corporation may incur a cost by deciding to avoid doing business in a corrupt country. If the country's economic prospects are promising—e.g., the country has a growing middle class and rising incomes—or competitors have a foothold in that country, a corporation may forego profits by starting operations in that country. If those profits are substantial enough, corporations may well decide to enter that country. And such entry of foreign capital will, by adding to the country's capital stock, enhance economic growth.

In this paper, we review the theoretical arguments linking corruption to capital flows and growth, and use data from several countries to explore whether such connections do exist.

Studies of the relationship between corruption and foreign direct investment have yielded mixed results. Wei (2000) shows that a rise in the corruption level in a host country is akin to an increase in the tax rate on multinational firms. Both reduce inward FDI. Similarly, Habib and Zurawicki (2002) find that more corruption leads to less FDI, but they also note that the difference in corruption levels between the home country and host country matters. If the host country is markedly more corrupt than the home country, multinational corporations are less willing to invest in the host country.

Egger and Winner (2006) look at FDI among similar countries as well as among dissimilar countries. They find that corruption is important in explaining FDI among rich

countries (intra-OECD), but not for extra-OECD FDI. They also find that growth of FDI in non-OECD economies is driven mainly by economic growth and a change in factor endowments and to a lesser extent by corruption. And they show that the impact of corruption has declined over the years, as other factors (such as market growth) have become relatively more important.

Tanzi and Davoodi (2000) explore the link between corruption and economic growth by considering the role of entrepreneurship. They show that corruption forces entrepreneurs to spend time on unproductive activities (lobbying, bribery, etc.). Corruption also restricts the availability of finance to small and medium enterprises (SMEs), and since SMEs are important to growth, corruption reduces growth. In a slightly different vein, they show that more corrupt countries tend to have lower per-capita income and a high ratio of lawyers to engineers. Their surmise is that more corruption leads individuals to pursue law rather than engineering, and this allocation of talent towards law reduces growth.

The role of public finance is explored by Gupta, Davoodi and Alonso-Terme (1998). They find that corrupt countries spend less on education and health, which results in reduced economic growth.

To assess the effect of corruption on FDI we construct a panel of countries based on data from Transparency International, the UN's UNCTAD, and the World Bank. The main finding is that countries perceived as less corrupt attract more FDI. Our results are robust as we further control for country-specific characteristics such as market size, trade openness, macroeconomic stability and human capital.

The remainder of the paper is organized as follows. Section II describes the data set and provides the results of regression analysis, and Section III offers concluding remarks.

## **II. Empirical Analysis**

Several measures of corruption exist. The International Country Risk Guide is produced by a private firm providing risk assessments across countries. The Control of Corruption Index employs a broad definition of corruption. The EBRD-World Bank Business Environment and Enterprise Performance Survey asks firms' managers to estimate the share of sales paid in bribes to public officials in transition countries. (Svensson, 2005).

In our study we use the Corruption Perception Index (CPI) produced by Transparency International. A widely used measure, the CPI seeks to measure the overall extent of corruption in several countries. For data on foreign direct investment, we use the Major FDI Indicators Database produced by UNCTAD.

We construct a panel of countries for the period between 1995 and 2007, and explore the role of corruption, proxied by the CPI, on four measures of FDI inflows. The first measure of FDI corresponds to the inflow of FDI (in current dollars) to each country; the second corresponds to the country's share of global FDI flows in a given year; the third represents the stock of FDI (in current dollars); and the fourth is the country's share of the global stock of FDI.

This yields a matched sample of approximately 1300 observations, which are in turn used to test the effect of corruption on FDI, and to determine whether corruption retards foreign firm entry, or multinational corporations do decide to enter a country whose economic prospects are promising, in spite of the higher cost of doing business.

In Fig. 1 we plot the CPI against FDI for the pooled sample and find a positive relationship, implying that FDI increases as corruption decreases. (Note: A higher score in the corruption perception index signals less corruption and higher institutional quality. And we use the log of FDI to narrow the spread in the levels of FDI inflows around the world.)

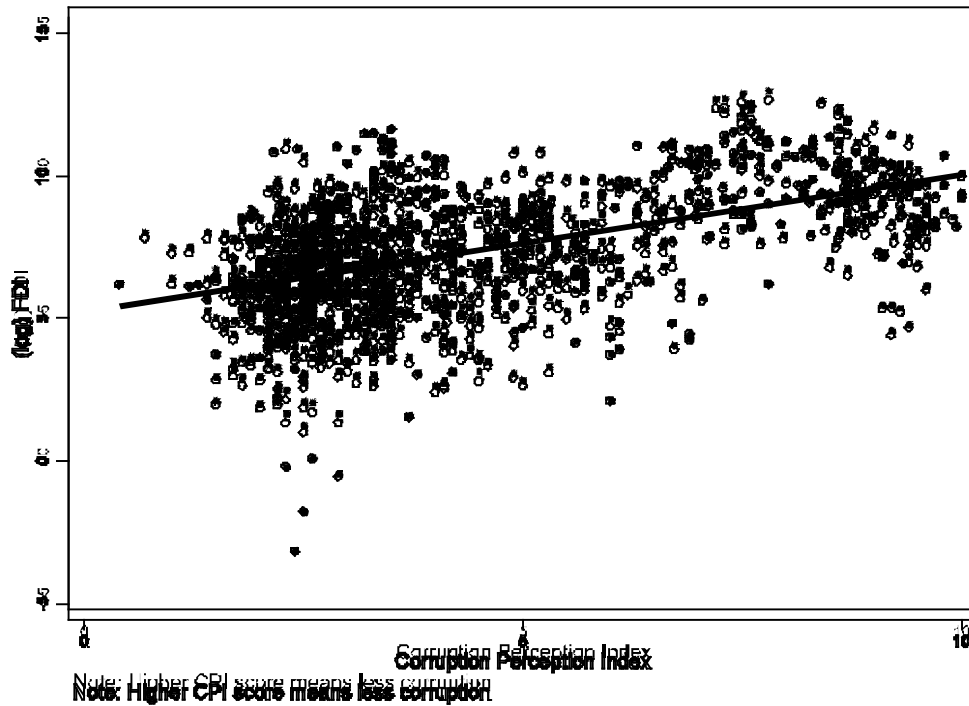


Figure 1

Next we regress the different measures of FDI on the CPI and confirm that the results are robust across specifications. In Table 1, we report coefficient estimates of the effect of the CPI on FDI.

Dependent variable	Foreign Direct Investment (inflows)		
	level	log	world share
slope estimate	3391.68	0.4865	0.3703
Std. Error (robust)	372.25	0.0206	0.0359
p-value	0.000	0.000	0.000
R-squared	0.1098	0.2678	0.1277
Observations	1316	1316	1316

The first column corresponds to FDI in levels, the second to the log of the same variable, and the third to the share of the country's FDI relative to world FDI. Using each of the three measures of FDI, we find a highly statistical significant effect of corruption on FDI. The less corrupt a country is perceived to be, the more FDI it attracts.

Table 2 presents the corresponding estimates using the stock of FDI as the dependent variable regressed on the CPI. The table shows that the findings on FDI flows hold on the stock: countries with lower levels of corruption exhibit larger stocks of FDI.

Table 2. FDI and Corruption

Dependent variable	Foreign Direct Investment (stock)		
	level	log	world share
slope estimate	29868.27	0.5077	0.4159
Std. Error (robust)	2657.60	0.0201	0.0336
p-value	0.000	0.000	0.000
R-squared	0.1572	0.3117	0.1833
Observations	1312	1312	1312

While these results are robust to different measures of FDI, it is important to control for additional country characteristics to derive the partial effect of corruption on FDI. For this purpose we use the World Bank's World Development Indicators and complete the panel with the following variables: real GDP, trade openness (trade as percentage of GDP), inflation, and human capital (primary school enrollment). This allows us to quantify and control for the role that larger open markets, stability of macroeconomic policies, and level of education play in FDI decisions.

In Table 3 we present a sequence of models, in which we introduce an additional variable to the analysis from one model to the next. In each specification the coefficient on corruption is statistically significant at the 1% level.

All model specifications confirm the positive relationship between FDI and less corruption. Model 4, the one with the greatest explanatory power, suggests that a one point increase in the corruption perception index is associated with (approximately) 7 percent increase in FDI. The positive coefficients for GDP, trade openness and education imply that bigger, more open, and better educated countries tend to attract greater FDI inflows. The negative coefficient for inflation shows that economically unstable countries (proxied by inflation) are likely to receive less FDI inflows, all else remaining equal.

Table 3. Determinants of FDI

Dependent variable:	Foreign Direct Investment Inflows (log)			
	Model 1	Model 2	Model 3	Model 4
Corruption	0.1558*** (0.0147)	0.0596*** (0.0145)	0.0539*** (0.0147)	0.0683*** (0.0203)
Real GDP (log)	0.7769*** (0.0206)	0.8791*** (0.0209)	0.8716*** (0.0208)	0.8640*** (0.0287)
Trade Openness	-	0.9228*** (0.0726)	0.8893*** (0.0703)	0.9999*** (0.1146)
Inflation	-	-	-0.5384*** (0.1734)	-0.7578*** (0.1486)
Education	-	-	-	0.7507* (0.3932)
R-squared	0.6929	0.7306	0.7335	0.7417
Observations	1270	1222	1179	699

Note: Robust standard errors in parenthesis. \*\*\*,\*, denote 1% and 10% significance, respectively.

### III. Conclusions

We use a large sample of countries to establish a statistically significant negative relationship between corruption and foreign direct investment. Countries that are more corrupt tend to attract less foreign capital. Further, countries with higher gross domestic product, a greater degree of openness to trade, and higher levels of schooling tend to attract more FDI while those with high inflation (here a proxy for economic instability) tend to attract less. The findings of our paper are consistent with those obtained in earlier studies. These results are also robust across different specifications.

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# **Corporate Social Responsibility: An Analysis of Pertinent Issues, Challenges, and Opportunities**

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## **Abstract**

*Corporate social responsibility (CSR) has emerged as an important subject of public policy, in both developed and developing countries. CSR is assuming an increasing part of the larger debates over both globalization and sustainable development. It has also become a popular strategy used by organizations to maintain their reputations and respond to pertinent issues and challenges. In this paper, the author will review, analyze, and discuss pertinent issues, challenges, and benefits for CSR. Furthermore, the advantages of corporate social responsibility will be analyzed in order to develop an appropriate business strategy for achieving and implementing successful social responsibility programs that will benefit organizations' stakeholders. Finally, recommendations for policy makers are discussed.*

## **Introduction**

Corporate social responsibility (CSR) has emerged as an important subject of public policy, in both developed and developing countries. CSR is assuming an increasing part of the larger debates over both globalization and sustainable development. It has also become a popular strategy used by organizations to maintain their reputations and respond to pertinent social issues. According to Stephenson (2009), corporate social responsibility (CSR) has become a linchpin for the development of corporations such as Starbucks and Ben & Jerry's. Corporations such as Starbucks and Ben & Jerry's encourage and support the use of CSR as a corporate strategy for attracting investors and new customers, as well as keeping the loyal ones. Two main schools of thought have emerged in the literature concerning CSR. According to Ofori (2007), some researchers have argued that businesses as the trustees of community property should be managed for the public good; while other researchers argued that profit maximization should be management's only legitimate goal.

In his review, Ford (2007) defined corporate social responsibility as a combination of sustainable development and treating employees and the society with respect and dignity within which companies operate. Berger, Cunningham, Drumwright, et al, (2007) also defined corporate social responsibility as the way firms integrate social, environmental, and economic concerns into their values, culture, decision making, strategy, and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth, and improve society. The environmental impact of any economic activity should be weighed against the economic benefit and any measures that could mitigate the negative impact should be taken if they are at all economically feasible (Stephenson, 2009). Berger et al, (2007) argued that corporate social responsibility programs should go beyond legal and ethical frameworks to include a wide range of issues for the organization. Specifically, these authors contend that CSR programs can impact a wide range of issues managed by the organization including: "corporate governance and ethics programs; health, safety, and environment programs; attention to human and labor rights; human resource management policies; community involvement; respect for indigenous groups and minorities, corporate philanthropy, anti-corruption measures,

accountability, transparency, performance reporting, and responsible supplier relations. Finally, Angeles Gil Estallo, Giner de-la Fuente and Griful-Miguella (2007) argued that corporate social responsibility encompasses all activities performed by the organization. Angeles Gil Estallo et al (2007) also argued that corporate social responsibility has clear limitations. Because of the expansive responsibilities and needs of the organization, the costs of maintaining CSR programs is often extensive, limiting the ability of the organization to effectively engage in this type of action. In a brilliant encapsulation of the contemporary justification for CSR, Bowen (1953) argued that:

- Managers have an ethical responsibility to consider the broad social impacts of business decisions,
- Businesses are reservoirs of skill and energy for improving civic life,
- Corporations must use power in keeping with a broad social contract or lose their legitimacy,
- It is in the enlightened self-interest of business to improve society; and
- Voluntary action may head off negative public attitudes and undesirable regulations.

Wartick and Wood (1998) sum up the arguments succinctly when they write that principles of corporate responsibility are universal. Companies must mitigate problems they cause, follow laws, behave ethically, perform economically, and in general, meet social contract expectations.

In the last two decades, studies have shown that signals point to new trends underlying the causes of expanded actions in CSR covering increased corporate giving, increased corporate reporting on social responsibility initiatives, the establishment of a corporate social norm to do good, and an apparent transition from giving as an obligation to giving as a strategy (*Giving USA*, 2003; KPMG, 2002; Ford, 2003; Gutierrez, 2004). Business for Social Responsibility (2004) also concluded from their CSR research that companies have experienced a range of bottom-line benefits through their CSR strategies. These include: increased sales and market share; strengthened brand positioning; enhanced corporate image and clout; increased ability to attract, motivate, and retain employees; decreased operating costs; and increased appeal to investors and financial analysts.

The concept of corporate social responsibility is now firmly rooted on the global business agenda. But in order to move from theory to concrete action, many obstacles need to be overcome. A key challenge facing business is the need for more reliable indicators of progress in the field of CSR, along with the dissemination of CSR strategies. Transparency and dialog can help to make a business appear more trustworthy and push up the standards of other organizations at the same time. Our extensive literature review revealed that several studies dealing with the issues of CSR have been conducted in the western industrialized countries of North America and Europe. Unfortunately, very little research has been conducted in sub-Saharan Africa in general, and Nigeria in particular. This exploratory study represents one of the attempts at beginning to fill this research gap. The purpose of this study therefore is to identify and evaluate pertinent issues, challenges, and opportunities for pursuing and implementing effective corporate social responsibility by Nigerian firms.

## **Literature Review**

### ***CSR Challenges***

There is increasing focus on both the private and public sectors to be proactive in the area of CSR. Various challenges are emanating from consumers, shareholders, non-governmental organizations, and international organizations for corporations to engage in social responsibility programs. These challenges are increasingly recognized in public policy debates as well as in the marketplace by companies and industry sector associations and they are frequently recognized as opportunities. Stakeholders challenge corporations to play social responsibility roles—at both the domestic and international levels. Challenges usually focus on one or more elements of CSR such as environmental protection, health and safety, corporate governance, human resource management practices, human rights, community development and consumer protection. The challenges often call for voluntary actions by businesses to demonstrate responsible behavior and effective responses to social and environmental problems—both in the domestic and international contexts. The demands also call upon the public sector to reinforce corporate leadership and to use other policy tools such as economic and regulatory instruments to encourage CSR.

The challenges for action can differ considerably from one stakeholder group to another. For example, the demands can range from a call for more disclosure of information to demands for improved stakeholder involvement to requests for changes in management practices to proposals for altering the relationships between company directors, business managers, auditors, shareholders, debt holders, employees, suppliers, customers, community members, and other stakeholders. Some of the challenges are oriented to the ways that businesses manage their internal operations such as human resources management, while others are directed at the ways that a business interacts with the rest of the community and society.

### ***CSR Benefits***

Corporate social responsibility (CSR) promotes a vision of business accountability to a wide range of stakeholders, besides shareholders and investors. Key areas of concern are environmental protection and the wellbeing of employees, the community, and civil society in general, both now and in the future. Evidence is now emerging that there is a genuine business case for taking CSR seriously. The benefits involve many dimensions of business activities: investor relations and access to capital; competitiveness and market positioning; employee recruitment, retention, and productivity; and the mitigation of litigation risk.

### ***Development of Reputation***

The review of relevant literature on CSR shows that a firm's reputation remains a significant benefit that affects almost all levels of the organization. According to Stephenson (2009), corporate social responsibility programs can effectively build and enhance firms' reputations. Through the development of a solid reputation, the organization can expand its business, attract new customers, improve shareholder value, and improve outcomes for the community. Additionally, the organization can achieve a competitive advantage because of its positive image. The development of reputation through corporate social responsibility has

worked well for organizations such as Ben & Jerry's, Microsoft, and Starbucks. Because of their commitment to CSR, these organizations have been able to differentiate themselves, creating a true competitive advantage (Stephenson, 2009).

### ***Improving Organizational Efficiency***

Improving organizational efficiency is also a recurrent theme that has emerged in the context of this investigation. When organizations develop corporate social responsibility programs that meet the strategic needs of the community as well as the strategic needs of the organization, value is created for all stakeholders. For the organization, increased efficiency can improve operations and allow the organization to expand both its business and its profits. This can create a financial competitive advantage for the organization that can be used for market dominance or expansion of the market to include new products. This reality is clearly seen by the development of the Prius by Toyota. By increasing the efficiency of operations and meeting an important social need, Toyota was granted a unique financial advantage over all other car manufacturers. Presently, the organization can use its financial position to offer increased benefits to shareholders and to expand its product line and further improve its competitive financial advantage.

### ***Improved Operations and Products***

Finally, corporate social responsibility programs provide the organization with a number of advantages that can be exploited to improve operations and the quality of the products produced by the firm. CSR programs enable the organization to earn higher revenues and profits which can be translated into the development of improved products offered by the firm. This process further facilitates the development of the organization as one that has superior products on the market. Improved reputation will lead to an increase in sales, revenues, and profits, which will in turn result in the development of more corporate social responsibility programs for improving the community, environment, labor practices, health, and safety. Arguably, the business justifications for the development and implementation of CSR for competitive advantage are quite extensive. Even when examined in generic terms, the competitive advantages that can be achieved from corporate social responsibility programs are quite extensive. The challenge in this case appears to be for organizations to effectively integrate CSR programs such that they can provide all of these benefits for operations and outcomes.

### ***Benefits to the Community and the General Public***

Considering first the benefits of CSR programs for local communities, it is evident that these programs will have immense value for communities. HuIm (2007) argues that when an organization first opens operations in a community, it is able to provide employment, which is beneficial for individuals and for other local businesses in the community. Increasing employment means that employees will have more money to spend in the local economy, thus bolstering revenues for business and tax revenues for local governments. While organizations can choose to implement specific CSR programs that benefit the community, such as improving parks or developing schools, HuIm (2007) asserts that even when CSR programs are not implemented at the community level, they can have real value for improving the relationship

between the organization and the community. In an effort to illustrate this point, HuIm (2007) argues that CSR programs undertaken by the organization in various regions of the country or globe should facilitate the growth of the organization. For instance, using Microsoft's program as a point of reference, contributing to the development of programs for IT professionals should help improve the organization's access to human capital. With more access to human capital, Microsoft will be able to expand its operations and generate more business in the local community. More business should mean more profit. This will translate into more growth, more tax revenue, and more economic growth in the local community. Thus, while the CSR program developed by the organization may not include the local community, the end result will be an overall improvement in economic health and growth for the community.

When placed in this context, it becomes evident that the development of CSR programs creates a partnership between the organization and the community in which it operates. While it is possible that the community will garner direct benefits from the CSR program, the reality is that even if the intentions of the CSR program are not aimed directly at the community, the community will receive a number of pertinent benefits that will improve outcomes for all community members. More tax revenues generated by the organization will result in more funding for community programs to benefit residents. Further, the organization will be able to offer more jobs and a stable source of employment for community members. Overall, the indirect benefits have critical importance for the development of the community as success of organizations and their corporate social responsibility programs become integral to the success of the community.

### ***Environmental Benefits***

Environmental practices are one of the most discussed areas of CSR. The environmental literature addresses issues related to pollution, which is linked to the industrial activities of large corporations and high-impact firms, such as manufacturing facilities. On the other hand, most business owners in developing countries do not consider their activities harmful to the natural environment (Aberdeen Group, 2008). However, environmental issues in most firms today deal with the incorporation of green practices intended to reduce overall energy and supply chain costs, limit environmental impacts on the natural environment, and increase the firm's competitive advantage (Aberdeen Group, 2008). Some of the environmental benefits of CSR include: greater material recyclability; better product durability and functionality; greater use of renewable resources; integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labeling. Based on the foregoing, the basic research questions have been stated as follows:

**Research Question 1:** What are the issues and challenges of corporate social responsibility in Nigeria?

**Research Question 2:** What is the business justification for engaging in corporate social responsibility programs in Nigeria?

## **Methodology**

### ***Sample and survey administration***

The sample for this study consisted of senior managers of private corporations located in Nigeria. The research questionnaire was administered to a random sample of 230 senior managers. The companies were chosen at random from the Nigerian Yellow Pages: Nigeria Businesses Companies. Two hundred ninety-six firms were identified from the directory and contacted by telephone. The firms who agreed to take part formed the research sample. To enhance the response rate, the questionnaires were delivered by hand to the addresses of the companies identified for the study and collected by hand on a scheduled pick-up date. Six trained assistants and five field supervisors were responsible for the questionnaire distribution and collection. The distribution was done in this way to avoid problems with the local communication system and to fit with local cultural issues, such as the background of the researcher and purpose of the research. Of the 230 questionnaires distributed, 176 were returned, representing a 76% response rate.

### ***Instrument***

An instrument developed by the researcher based on the literature was used to gather information about the issues, challenges, and benefits firms face when implementing CSR programs. The instrument consisted of 22 items based on the CSR literature. The statements were phrased with a possible response continuum based on a Likert style five-point scale (1 = strongly agree to 5 = strongly disagree). The questionnaire was developed from the literature relating to problems facing small-business owners in developing and developed countries.

### ***Validation and pilot test of the research instruments***

The instrument was submitted for validation to a panel of 10 experts in Nigeria, the United Kingdom, and the United States. The experts were asked to review the items in the instrument and determine if they were within the linguistic capabilities and understanding of senior managers in Nigeria. The panel was also asked to eliminate items irrelevant to the development and implementation of CSR. After minor revisions and modifications were made based on the experts' recommendations, the instruments were resubmitted for another review. The experts recommended the use of the modified instruments for this study, indicating that they were good measures of the issues and challenges facing CSR implementation in Nigeria. To establish reliability, the instruments were pretested on a small sample ( $n = 35$ ) of senior managers randomly selected from the larger sample. The correlation of random split halves for internal consistency for the instrument ranged from 0.75 to 0.80, the step-up formula ranged from 0.85 to 0.95.

## **Results**

### ***Factor analysis***

A confirmatory factor analysis of the items was performed to ascertain whether a resolute set of factors existed. To be included in a factor an item must have had at least a .50 factor

loading. Four factors explaining CSR challenges, company benefits, community benefits, and environmental benefits were identified from the factor analysis results. To test the reliability of the factors, alpha coefficients were computed for each of them; the resulting reliability was of 0.841 for CSR challenges, 0.821 for company benefits, 0.811 for community benefits, and 0.860 for environmental benefits. Table 1 includes the eigenvalues of each factor as well as the percentage of variance explained.

**Table 1: Item Wording and Results of Factor Analysis**

Item	Factor Loading
<b><i>CSR Challenges (alpha = 0.841)</i></b>	
Pressure from investors	0.822
Pressure from environmental protection groups	0.801
Pressure from consumer protection groups	0.823
Pressure from human rights organizations to improve working conditions	0.820
<b>Eigenvalue</b>	6.322
<b>Percentage of variance explained</b>	22
<b><i>Company benefits (alpha = 0.821)</i></b>	
Access to capital	
Improved financial performance	0.830
Enhanced brand image and reputation	0.810
Increased sales and customer loyalty	0.841
More ability to attract and retain employees	0.820
<b>Eigenvalue</b>	0.802
<b>Percentage of variance explained</b>	6.215
	23
<b><i>Community benefits (alpha = 0.811)</i></b>	
Charitable contributions	
Product safety and quality.	
Employee volunteer programs	0.830
Corporate involvement in community affairs (education, employment, etc.)	0.821
<b>Eigenvalue</b>	0.802
<b>Percentage of variance explained</b>	0.805
	5.412
	20
<b><i>Environmental benefits (alpha = 0.860)</i></b>	
Greater material recyclability	0.845
Better product durability and functionality	0.873
Greater use of renewable resources	0.864
Integration of environmental management tools into business plans	0.856
<b>Eigenvalue</b>	5.220
<b>Percentage of variance explained</b>	21

## Social Responsibility Issues and Challenges

The first research question was posed to find out issues and challenges of CSR in Nigeria. The survey contained seven questions on this topic. An overwhelming majority of the respondents, 98%, indicated that there is a growing pressure for corporate disclosure from stakeholders, including customers, suppliers, employees, communities, investors, and activist organizations to be socially responsible. Results also show that 97% of the respondents indicated that pressure from environmental protection groups forced them to participate in environmental protection programs. More than 90% of all those surveyed indicated that there is an increasing pressure from stakeholders, governments, and society for corporations to be ethical and socially responsible. Finally, over 86% of the respondents indicated that there is an increasing pressure to invest in greener/more efficient production equipment and additional expense from meeting legal/governmental regulations.

**Table 2: Social Responsibility Issues and Challenges**

	Items	n	Mean	SD	%
1.	There is an increasing pressure for corporate disclosure from our stakeholders to develop CSR programs.	176	3.66	0.65	98
2.	There is an increasing pressure from environmental protection groups for us to participate in environmental protection programs.	176	3.64	0.63	97
3.	There is an increasing pressure from human rights organizations to improve working conditions.	176	3.61	0.61	95
4.	There is an increasing pressure from our stakeholders to be ethical and play social responsibility roles.	176	3.58	0.58	93
5.	There is an increasing pressure from the government and society for corporations to be social responsible.	176	3.56	0.55	91
6.	An increasing pressure to invest in greener/more efficient production equipment.	176	3.55	0.53	88
7.	An additional expense from meeting legal regulations.	176	3.53	0.50	87

## Social responsibility benefits

The second research question was posed to find out the benefits of CSR. The survey contained fifteen questions on this topic relating to company benefits, community benefit, and environmental benefits. With regard to company benefit, the majority of those surveyed, 96%, indicated an improvement in the firm's image as the most tangible source of CSR gain. Ninety-four percent indicated that improved financial performance offers benefits that will in turn lead to a competitive advantage for a firm. Contemporary CSR literature increasingly postulates that socially responsible companies have an enhanced brand image and a positive reputation among consumers (BSR, 2004). Although some firms indicate that there are costs associated with CSR, the proportions are rather small (Ofori, 2007). Although there is some evidence in the literature showing that CSR actions can be costly, it also makes the point that, for example, unethical behavior that is discovered and publicized has a negative impact on a firm's stock price for an appreciable period of time, and that unethical behavior can decrease a firm's wealth (Steiner and Steiner, 2000).

With regard to company benefits, an overwhelming majority of the respondents, 98%, indicated that communities will benefit from CSR through increases in charitable contributions to remedy social ills in the community. Over 90% of our respondents agreed that CSR benefits include improved product safety and quality, 96% indicated that the perceived benefits from CSR programs increased employee volunteering to community activities such as teaching, coaching, and working with AIDS patients, and another 93% indicated that CSR will help to protect the environment by reducing air and sea pollution. Concerning environmental benefits, over 87% indicated that greater material recyclability and use of renewable resources are important sources of benefit for the environment.

**Table 3: CSR Benefits**

	<b>Company Benefits</b>	<b>n</b>	<b>Mean</b>	<b>SD</b>	<b>%</b>
1.	Enhanced brand image and reputation	176	3.68	0.45	96
2.	Improved financial performance	176	3.66	0.42	94
3.	Increased sales and customer loyalty	176	3.65	0.43	92
4.	More ability to attract and retain employees	176	3.58	0.44	91
5.	Product safety and decreased liability	176	3.56	0.42	90
	<b>Community benefits</b>	<b>n</b>	<b>Mean</b>	<b>SD</b>	<b>%</b>
6.	Increase in charitable contributions	176	3.62	0.55	98
7.	Improved product safety and quality	176	3.59	0.53	96
8.	Increased employee volunteer programs	176	3.57	0.50	95
9.	Less air/sea pollution (cleaners environment)	176	3.55	0.49	93
10.	Corporate involvement in community affairs (education, employment, etc.)	176	3.53	0.48	92
11.	There is an additional expense from meeting legal/governmental regulations.	176	3.54	0.44	90
	<b>Environmental benefits</b>	<b>n</b>	<b>Mean</b>	<b>SD</b>	<b>%</b>
12.	Greater material recyclability	176	3.55	0.54	96
13.	Greater use of renewable resources	176	3.49	0.51	93
13.	Less pollution (cleaners environment)	176	3.47	0.50	91
14.	Better product durability and functionality	176	3.44	0.44	89
15.	Integration of environmental management tools into business plans	176	3.46	0.39	88

### **Social Responsibility Costs**

Table 4 presents findings on CSR costs. The data in Table 4 shows that over 90% of our survey respondents indicated that there are substantial costs involved in developing and implementing social responsibility programs. Ninety-eight percent indicated that there is a huge cost associated with investment in greener/more efficient production equipment, 96% reported that there are additional expenses involved in meeting legal/governmental regulations, 95%

reported additional expenses from employee training and development. More than 92% indicated that additional expense is incurred from increased charitable contributions. With regard to investment in income-yielding facilities, 92% indicated it will require a substantial amount of money. Finally, 91% reported that additional expense is needed for improving working conditions. However, it is important to mention that an overwhelming majority of our respondents indicated that they rarely gain any financial rewards from CSR and that CSR is not about making profit but giving back to society.

**Table 4: Social Responsibility Costs**

	CSR costs	n	Mean	SD	%
1.	Investment in greener/more efficient production equipment	176	3.72	0.72	98
2.	Additional expense from meeting legal/governmental regulations	176	3.68	0.70	96
3.	Additional expense from employee training and development on CSR programs	176	3.66	0.68	95
4.	Additional expense from increase charitable contributions	176	3.65	0.64	93
5.	Investment in income yielding facilities	176	3.56	0.62	92
6.	Additional expense from improving working conditions	176	3.54	0.60	91

## Discussion

This exploratory study investigated CSR issues and challenges in Nigeria. The common barriers and challenges identified from our survey are as follows: (1) pressure from investors—investors are changing the way they assess companies' performances, they are making decisions based on criteria that include ethical concerns and social responsibility, and are demanding that corporations obey laws and be socially responsible, (2) pressure from environmental protection groups—there is an increasing demand from the public and environmental groups for corporations to do less damage to the environment and to integrate environmental management tools into business operations, (3) pressure from consumer protection groups—ethical conduct of companies exerts a growing influence on the purchasing decisions of customers. For example, in a recent survey by Environics International (2009), more than one in five consumers reported having either rewarded or punished companies based on their perceived social performance, (4) pressure from human rights organizations to improve working conditions—most employees today are sophisticated, and are increasingly looking beyond paychecks and benefits, and seeking out employers whose philosophies and operating practices match their own principles. In order to hire and retain skilled employees, companies are being forced to improve working conditions, and (5) social responsibility costs—our survey respondents indicated that there are substantial costs involved in developing and implementing social responsibility programs, which is a challenge for most corporations in developing countries like Nigeria.

With regard to benefits, respondents identified several benefits of CSR. An overwhelming majority of our respondents, 96%, indicated that enhanced brand image and reputation are the most important benefits of CSR. Many consumers prefer to buy from ethical businesses. Companies often favor suppliers who demonstrate responsible policies as this helps them to minimize the risk of any damage to their own reputations. Some customers don't just prefer to deal with responsible companies, but insist on it. For example, sales of

"environmentally friendly" products continue to grow—and these products often sell at a premium price. Ben & Jerry's ice cream became as famous for its approach to responsible business as for its products. The company has grown dramatically while continuing to focus on CSR. Other benefits reported by the respondents include: improved financial performance, increased sales and customer loyalty, more ability to attract and retain employees, product safety and decreased liability, increase in charitable contributions, and more. These benefits show that corporate social responsibility (CSR) is not just about doing the right thing. It also offers direct benefits for the firms, communities, and the environment.

## **Conclusions**

There are several issues and challenges facing companies who want to develop and implement CSR programs. These challenges include: pressure from investors, pressure from environmental protection groups, pressure from consumer protection groups, pressure from human rights organizations to improve working conditions, and costs of implementing CSR programs. Apart from the challenges of developing and implementing CSR programs, there are benefits that can be realized by the organization. If established correctly, corporate social responsibility programs can facilitate the development of a competitive advantage that will impact all levels of the organization, its relationships with customers, and its overall partnership with the community. Although the challenges in creating CSR programs are quite extensive, the benefits of corporate social responsibility appear to far outweigh the challenges of development and implementation. It is therefore quite clear from the findings of this study that CSR is a wide area and still expanding, especially in Africa and particularly in Nigeria. As previously indicated, there is a paucity of literature on CSR in Nigeria; most of the research in this area has been done in the west. A good deal of available literature on CSR provides very few examples from Africa. Hence this paper should create an important avenue into further research on how CSR and businesses can create sustainable value for the companies, communities, and the environment.

## **Recommendations**

Based on the findings and discussion of this research, the following recommendations are offered: corporate decision-makers must address the issues and challenges that may impede the successful development and implementation of CSR programs and ethical conduct. In short, it is not enough for the organization to develop a CSR program document and a code of ethics. Instead, the organization must develop concrete policies that can be used by managers and other stakeholders to make the CSR program a living part of organizational policy. Unless the program is embraced in this manner, employees in the organization will not have the necessary tools to make the program a reality. Thus, success will depend on the ability of the organization to translate theory into practice. The cost of developing and implementing CSR initiatives are expensive and substantial; decision-makers should create a separate budget to finance CSR programs and to ensure their success and sustainability. It may be prudent to benchmark successful CSR programs from other companies.

## Limitations and future research

This study investigated CSR issues and challenges in Nigeria, so the findings do not apply to other African countries. In addition, the sample does not represent all the corporations in Nigeria, so the results cannot be generalized to corporations that were not part of this study. In view of the findings and conclusions drawn above, further research in this area could proceed in a number of directions. Future research may be strengthened by using a sample comprising a more diverse set of businesses. Future researchers should collect data on a longitudinal basis to help draw causal inferences and validate the findings of this study.

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## **Environmental, Social, and Corporate Governance (ESG) Issues**

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### **Abstract:**

*Corporate Social Responsibility (CSR) is often described as a “three-legged stool.” The multiple responsibilities of a business are summarized into three categories, economic responsibility, legal responsibility, and social responsibility. The CSR concept posits that firms should have a sense of accountability to all the people, and groups of people who have an effect on or are affected by the firm’s policies, practices, and decisions. A modern firm requires equal attention to each of the “legs of the stool” in order to maintain an effective relationship with all the firm’s varied stakeholders and thus maintain its viability as a successful business.*

*The concept of Corporate Social Responsibility is rooted in the principles of charity and stewardship. The “Robber Barons” of the turn of the century, including Carnegie and Rockefeller understood and espoused corporate philanthropy as a means of supporting the social good and being his “brother’s keeper” (Lawrence, Weber, and Post, p.49). Charity evolved into stewardship which places a greater emphasis on fulfilling a public trust by placing the needs of society into the decision-making mix. Corporate stewards acknowledge that corporations are a part of the larger society and are accountable to that society through the pursuit of corporate/stakeholder win-win decision-making and the responsible utilization of resources.*

*Small entrepreneurial ventures are credited with creating most of the 600,000 new businesses established and as many as 75% of the new jobs created each year in the United States. As much as 95% of new products are developed in small entrepreneurial firms (Bygrave & Zacharakis, 2004). While significant economic attention has been focused on these firms, relatively little attention has been focused on the attitude the entrepreneurs, who management and operate these firms, have regarding corporate social responsibility.*

*Limited access to capital and human resources often differentiates relatively small entrepreneurial ventures from larger corporate ventures. These limitations can result in a greater emphasis on economic and labor efficiencies. Therefore it cannot be assumed that these entrepreneurs share the same balance of attention to three common responsibilities of a business as the leaders of larger corporations.*

*The primary objective of this paper is to create an instrument through which the attitudes of entrepreneurs related to CSR can be measured and evaluated. In addition data will be collected to determine if differences such as gender, age, education, marital status, and parental status of the entrepreneur and industry, size, and revenue level of the entrepreneurial firm relate to the corporate social responsibility attitude defined as the relative presence or absence of the three responsibilities; economic, legal, and social. The findings of this study should enhance the limited body of knowledge related to the subject of entrepreneurial social responsibility. As well, the development of a measurement instrument specific to this topic should act as a catalyst for future large scale investigations.*

## Introduction

The concept of Corporate Social Responsibility (CSR) has become an integral element of many academic discussions related to corporate governance in both college classrooms and journal articles. As well, CSR is a common discussion in corporate boardrooms and workplaces. The focus of this investigation is on smaller entrepreneurial ventures. This study addresses the attitudes of entrepreneurs related to CSR. Otherwise stated, do entrepreneurs weigh the importance of socially responsible behavior as heavily as economically and legally responsible behavior?

Corporate Social Responsibility (CSR) is often described as a “three-legged stool.” The multiple responsibilities of a business are summarized into three categories, economic responsibility, legal responsibility, and social responsibility. The CSR concept posits that firms should have a sense of accountability to all the people, and groups of people who have an effect on or are affected by the firm’s policies, practices, and decisions. A modern firm requires equal attention to each of the “legs of the stool” in order to maintain an effective relationship with all the firm’s varied stakeholders and thus maintain its viability as a successful business (Lawrence, Weber, and Post, 2008).

For some businesses, CSR is a matter of ethical business conduct. These businesses perceive the concept as the moral responsibility of being a corporate citizen. Other firms attempt to gain a competitive advantage over their competition through the strategic management of corporate stakeholders’ expectations. Current management techniques such as “green” marketing and strategic philanthropy have been referred to as enlightened self-interest. Some have criticized this practice as doing the right thing for the wrong reasons. Others commend businesses for finding profitable ways of achieving socially responsible objectives.

While significant attention has been paid and research conducted into corporate attitudes and practices related to corporate social responsibility, relatively little investigation has been focused on entrepreneurial attitudes toward the issue. Small entrepreneurial ventures are credited with creating most of the 600,000 new businesses established and as many as 75% of the new jobs created each year in the United States. As much as 95% of new products are developed in small entrepreneurial firms (Bygrave & Zacharakis, 2004). The economic impact of entrepreneurial ventures has been well researched and documents. As the number of these ventures continue to increase, the significance of the social impact of these firms become more important.

The primary objective of this paper is to create an instrument through which the attitudes of entrepreneurs related to CSR can be measured and evaluated. In addition data will be collected to determine if differences such as gender, age, education, marital status, and parental status of the entrepreneur and industry, size, and revenue level of the entrepreneurial firm relate to the corporate social responsibility attitude defined as the relative presence or absence of the three responsibilities; economic, legal, and social. The findings of this study should enhance the limited body of knowledge related to the subject of entrepreneurial social responsibility. As well, the development of a measurement instrument specific to this topic should act as a catalyst for future large scale investigations.

## **Corporate Social Responsibility**

The concept of Corporate Social Responsibility is rooted in the principles of charity and stewardship. The “Robber Barons” of the turn of the century, including Carnegie and Rockefeller understood and espoused corporate philanthropy as a means of supporting the social good and being his “brother’s keeper” (Lawrence, Weber, and Post, p.49). Charity evolved into stewardship which places a greater emphasis on fulfilling a public trust by placing the needs of society into the decision-making mix. Corporate stewards acknowledge that corporations are a part of the larger society and are accountable to that society through the pursuit of corporate/stakeholder win-win decision-making and the responsible utilization of resources.

The traditional, ownership theory of the firm espouses the objective of the business firm is to maximize the wealth of the stockholders (owners) of the firm. The owners’ financial objectives are viewed as paramount to the firm’s management and therefore supercede the interests of any and all other parties’ interests in the activities of the company.

At the root of CSR is the concept of stakeholder theory. Stakeholder theory posits that firms have multiple obligations to numerous entities. While the economic, ownership objectives of the firm are valued and addressed, stakeholder theory claims that businesses must serve a broader objective to create value for society.

Stakeholder management begins with the business’ recognition of the key parties (stakeholders) who are effected by and have an effect on the managerial actions, policies and practices of a business firm. Stakeholders can be entities with whom the firm has an economic (market) relationship. Typically these stakeholders include stockholders, creditors, employees, customers, suppliers, distributors, retailers, etc. The nature of the relationship with these stakeholders is the financial transactions between the firm and the stakeholder. This relationship is generally well understood and engrained in the management practices of most firms (Lawrence, Weber, and Post, 2008).

The relationship with non-market stakeholders is more complex and thus less well understood or managed. The intercourse between a non-market stakeholder and a firm is based on a social contract, not a financial contract. These non-market stakeholders include but are not limited to local communities, local, state, and federal governments, trade organizations, public interest activist groups, the media, etc. Issues important to these stakeholders are constantly changing and difficult to predict.

Often market stakeholders and non-market stakeholders are referred to as primary and secondary stakeholders respectively. While these terms are still utilized, the unfortunate connotation of these terms intimates a hierarchy of significance. To the contrary, the failure to manage the interests of a secondary (non-market) stakeholder can be as detrimental, if not more detrimental than failure to meet those of a primary (market) stakeholder dependent upon the salience of the stakeholder and the nature of the social contract (Lawrence, Weber, and Post, 2008).

The social contract a firm has with a stakeholder takes the form of stakeholder expectations. The interests of a stakeholder can escalate into a management issues when a gap exists between the expectations of the stakeholder and the perceived performance of the firm in question. Typically failure to address the expectation gap when it is relatively small will result in the gap enlarging and the potential damage to the firm increasing. Firms have the most managerial discretion at the earlier stages of the stakeholder management process. As the life-cycle of the expectation gap proceeds, the managerial options decrease and managers are often forced to make decisions unattractive to the firm's leaders and/or owners.

Stakeholder management can be complicated when stakeholder coalitions and networks are created around an issue of mutual concern to numerous stakeholders. Stakeholder coalitions can exponentially increase the salience of stakeholders and the potential damage to firms. The ease of global communication through the Internet has enhanced the potential for and impact from stakeholder coalitions.

The stakeholder management process continues with the identification of stakeholder interests (expectations). As mentioned above, stakeholder interests are extremely dynamic. Effective stakeholder management requires businesses to engage stakeholders on a continuous basis in order to remain current on the expectations important to the firm's stakeholders. Current interests of stakeholders have been environmental sustainability, global policies, outsourcing practices, employee safety and health, executive compensation, and many, many more.

The powers of stakeholders also play into the management process. Stakeholders' powers include economic power, legal power (the power to bring lawsuit), voting power, and political power (the power to encourage or initiate legislative or political action). While voting power is the sole vestige of stockholders/owners of the firm, many stakeholders can leverage one or more of the other powers to coerce businesses to meet their expectations.

Ultimately management must decide how to respond to the interests of the stakeholders. At the lowest response level, firms can choose to take an inactive response, in effect ignore the interests of the stakeholder. A more active response would be to take a reactive response and meet the stakeholders' expectations. A third response would be to interact in dialog with the stakeholder to reach a mutually agreeable solution to the expectation gap.

As mentioned previously, the concept of stakeholder theory and corporate social responsibility has been well-investigated and addressed in academic literature. Many large firms have adopted principles of corporate social responsibility and stakeholder engagement and management as institutionalized elements of their management practices. Ethical failures of larger corporations are scrutinized and publicized by professional and government agencies and the media. As well, the ethical performance of large firms are evaluated and publicized with recognitions and awards. To the contrary, typically smaller, entrepreneurial ventures' ethical conduct has not obtained significant attention. This study will attempt to begin the process of focusing attention on these firms.

## **Summary of the Literature on Entrepreneurs and Corporate Social Responsibility**

While limited research has been conducted into entrepreneurs and corporate social responsibility, some international articles have addressed the managerial attention of small and medium sized enterprises (SMEs) related to corporate social responsibility. In general, the consensus of the aforementioned studies collects into two schools of thought. Limited access to capital and human resources often differentiates relatively small entrepreneurial ventures from larger corporate ventures. These limitations can result in a greater emphasis on economic and labor efficiencies. Therefore it cannot be assumed that these entrepreneurs share the same balance of attention to all three corporate responsibilities (economic, legal, and social) of a business as the leaders of larger corporations. Some have stated that the relative size of entrepreneurial firms place greater constraints on the firms attention to CSR. Others have suggested the contrary opinion that smaller firms are by nature more socially responsible.

Jenkins (2006) conducted a study of twenty-four U.K. small and medium sized enterprises (SMEs) recognized as champions of corporate social responsibility. The study found that small business owners tend to not recognize or focus on social responsibilities. Additionally she concluded that the discretionary time available to entrepreneurs is positively related to the level of attention demonstrated by these small business leaders. The author refuses to support studies indicating that smaller ventures by nature of their size tend to be less socially responsible, she does suggest that the lack of financial resources makes it more difficult for smaller firms to be as socially responsible as larger firms.

Another U.K. study of Asian entrepreneurs in the U.K. found that CSR was seen as a social imperative among the business owners studied. The Asian owners and managers studied demonstrated a desire to give back to the local community without a direct expectation of financial benefit to their venture. The authors suggest that the variable related to CSR in this investigation may have more to do with ethnicity and religion than firm size (Worthington, Ram, & Jones, 2006).

Murillo and Lazano (2006) investigated SMEs in Catalan. The authors found that the size of the firm did not impede the ability or motivation of the first to demonstrate a good understanding and appreciation for CSR. The factors that were most significant in promoting CSR behavior in this study were the values of the founding entrepreneur/owner and the owners' belief that the socially responsible behavior would result in increased economic benefit. This is consistent with the enlightened self-interest concept discussed earlier. The authors suggest that the term corporate social responsibility may itself be problematic. They offer the term responsible competitiveness as a potential replacement.

A study of over 3600 Italian firms found a clear correlation between the size of the firm and the understanding and level of behavior related to social responsibility. Perrini, Russo, and Tencati (2007) compared SMEs and larger corporations. The results of their investigation disclosed that the larger firms demonstrated a greater attention to socially responsible interests specifically, the environment, employees, the local community and regulatory agencies. In general SMEs demonstrated less CSR but did have a willingness to address the interests of supply chain partners.

Lepoutre and Heene (2006) examined SMEs in the European Union. The study concluded that size does not; in and of itself negatively impose constraints on the firm resulting in lesser levels of CSR. The authors suggest that a cognitive recognition of social responsibility issues and a lack of resources, financial and otherwise, make it more difficult for entrepreneurs to be as socially responsible as larger firms. The study offers a possible remedy for these constraining factors. The authors suggest a culture of shared responsibility between industry groups and governmental organizations.

## **The Current Study**

As mentioned above, the primary objective of this study was to develop an instrument to investigate entrepreneurial attitudes toward corporate social responsibility. It was the authors' intent to develop a questionnaire which would demonstrate the three multiple responsibilities addressed above, economic, legal, and social responsibility. The instrument will attempt to illustrate the relative level of understanding and significance that entrepreneurs place on the three responsibilities.

The research question of this investigation is; do entrepreneurs demonstrate as much understanding and significance on social responsibility as they do on economic and legal responsibility? Based upon the entrepreneurial experience of the authors and the literature summarized in this investigation, the hypothesis of this investigation is that entrepreneurs do not demonstrate as much understanding or significance to social responsibility as they do to economic and legal responsibility. The hypothesis is consistent with the above mentioned studies concluding that the financial and discretionary time constraints on entrepreneurs impede their abilities to focus attention on and direct resources toward the expectation of non-owner stakeholders.

The researchers constructed nine five-point Likert-style questions to represent each of the three corporate social responsibility constructs: financial, legal, and social (see Appendix 1). In addition, demographic information was gathered for possible future studies.

As a primary purpose of this study was to develop and test the Entrepreneur and CSR Survey, the Entrepreneur and CSR was tested for reliability. A factor analysis was performed to provide information on the factorial structure of the survey. Cronbach's alpha estimates were used as an index of internal consistency for the scales.

The internal consistency of the scales is made up of the 9 items. These scales were tested for reliability. Cronbach alpha estimates of internal consistency of the above items resulted in a score of .65 for two of the corporate responsibilities: Legal (Factor 1) and Financial (Factor 2) and .35 for the corporate social responsibility Social (Factor 3). The marginal factor analysis results for the social responsibility factor was a concern of the researchers that will be addressed in the limitations and conclusions.

The instrument was electronically distributed to a convenience sampling of approximately 200 entrepreneurs known to the researchers. A total of 52 valid responses were

returned and included in the study. As well, this response was less than the number the researchers desired. This will be addressed in the limitations of the study.

## **Findings**

The principle purpose of this study was to construct a survey questionnaire to represent the three multiple corporate responsibilities, legal, economic, and social. The nine research items in the study were items 9 through 17. Three factor analyses were performed; one fixed at two factors using varimax rotation, one using three factors, and one fixed at four factors using varimax rotation. The results of the forced two factor, three factor, and forced four factor analyses are presented in Appendix 2, 3, and 4 respectively. The three factor solution is a closer fit to the expected results and is discussed in detail. This was consistent with the factors the researchers intended to represent in the scale.

**Factor I- Legal Responsibility:** The range of item loadings on each factor is from .20 to .75 in the three factor analysis. Items 9, 10, 15, and 16 which have loadings of .21, .61, .33, and .29 respectively load most heavily on Factor I. The Cronbach's alpha estimate for this scale is .70. The anticipated items were 10, 15, and 16, which represent legal responsibility. Therefore, with the exception of item 9, the items intended by the researchers to represent legal responsibility, did indeed demonstrate the intended construct.

**Factor II – Financial Responsibility:** Items 12, 14, and 17 which have loadings of .36, .20, and .75 respectively load most heavily on Factor II. The Cronbach's alpha estimate for this scale is .66. The anticipated items were 9, 12, and 14, which represent financial responsibility. Here again, item 17 factored on the financial responsibility construct, but item 9, which was intended to demonstrate this construct, did not.

**Factor III – Social Responsibility:** Items 9, 11, and 13 which have loadings of .19, .29, .23 respectively load on factor III. The Cronbach's alpha estimate for this scale is .37. The anticipated items were 11, 13, and 17, which represent social responsibility. Again, items 9 and 17 are not representing the intended factors. The implications of this data will be addressed in the limitations and conclusions.

The results of the factor analysis were mixed. With the limited data collected to date in this study, the majority of the research items in the instrument (Items 10, 11, 12, 13, 14, 15, and 16) factored on the intended construct. Two items were found to be problematic. Item 9, anticipated to factor on Factor II representing financial responsibility actually factored on the other two constructs, Factors I and III, representing legal and social responsibilities respectively. Item 17, anticipated to factor on Factor III demonstrating social responsibility actually factored on Factor II demonstrating financial responsibility. The implication of these findings will be further addressed in the limitations and conclusions.

## **Conclusions**

The primary purpose of this investigation was to develop an instrument to address the research question; do entrepreneurs demonstrate as much understanding and significance on social responsibility as they do on economic and legal responsibility? The nine-item instrument created was intended to demonstrate the three above mentioned corporate responsibilities widely perceived as the corporate responsibility “three-legged stool.” The working survey was electronically distributed to approximately 200 entrepreneurs. A total of 52 valid responses (26%) were received and included in the study. As indicated in the findings, the results of the factor analysis measuring the internal consistency of the scale were partially successful.

Of the nine research items on the questionnaire, two were found to be problematic. Item 9 (Question 1 on the survey instrument) was anticipated to demonstrate financial responsibility. The item asked participants to respond on a Likert scale of 1 (Strongly Disagree) to 5 (Strongly Agree) to the following statement: The only responsibility of a firm is to maximize the wealth of its owners. This item was intended to demonstrate the traditional “ownership” view of the corporation addressed earlier in this study. Although the researchers expected this item to be fairly straight forward, the result was extremely ambiguous. The item actually factored on both Factors I and III. In future studies this item will need to be addressed. Based upon this initial research, the respondents did not comprehend the intended meaning of this item.

The second problematic element of the survey was Item 17 (Question 9 on the survey). The participants were asked to respond to the following statements: The market cleanses itself of unethical businesses. Ethical businesses are successful businesses. This item was intended to demonstrate Factor II, financial responsibility, but actually factored on Factor III, social responsibility. The item was designed to demonstrate Puritan belief that financial success was a reward for good, ethical behavior. This item was admittedly ambiguous and need to be replaced in future studies.

In summary, the explicit purpose of this study, to develop a survey instrument to represent the three multiple responsibilities of corporations, was partially achieved. Seven of the nine items in the survey successfully demonstrated the construct anticipated. Two of the items need to be altered, removed, or replaced to improve the representative performance of the instrument.

## **Limitations and Suggestions for Further Studies**

This investigation was limited by the relatively limited response to the instrument. A larger number of responses will be needed to more accurately assess the reliability of the instrument. The initial findings suggest promise for the instrument but more adjustments and further research is necessary.

The secondary purpose of the study was not realized. The researchers anticipated sufficient responses to conduct preliminary quantitative analyses of the data. The quantity of the data was insufficient for valid analysis, but some qualitative suggestions can be gleaned from the data obtained.

First, it would appear from the data collected that entrepreneurs have a much clearer understanding of the economic and legal responsibilities of their firms. This is not surprising and is consistent with the literature. Lepoutre and Heene (2006) suggested the same conclusions in their study. They indicated that the SMEs lack the cognitive understanding of social responsibility and the financial resources to effectively manage the social expectations of stakeholders. Jenkins (2006) concurred with this finding. She suggests that smaller firm owners do not typically recognize social responsibility requirements. Future investigations could investigate if this lack of understanding is greater in entrepreneurial ventures than in larger corporations.

Secondly, the preliminary evidence would suggest that entrepreneurs lack the discretionary or financial resources to focus on socially responsible activities. Again this is consistent with the Jenkins (2006) and Lepoutre and Heene (2006) studies. Both investigations found that SMEs lack the time and resources to invest in socially responsible objectives.

The current study had provided the beginnings of a research investigation into a important issue. The continued growth and impact of entrepreneurial ventures is an undeniable truth in modern global business. The instrument developed in this study shows promise but must be further researched and tested. The literature review and preliminary results of this study suggest that entrepreneurs may not have the same understanding or appreciation for corporate social responsibility as do their larger counterparts. The current and future studies are important in determining how to improve the understanding of CSR and instill in entrepreneurs the financial and social value of fulfilling stakeholder social expectations.

Appendix 1. The instrument

Dear Respondent:

Greetings!

Thank you for your consideration in being a part of this academic investigation. Your honest response to the following questions will be extremely valuable in obtaining the necessary data from which the study's finding can be drawn. We believe that the information compiled from this investigation will be of interest and value to practitioners in management as well as students and instructors of management and business ethics studies.

Please be aware that this is an anonymous survey and your answers will be held in strict confidence. Again, please accept my appreciation for your participation in this study. If you have any questions regarding this investigation, please feel free to contact us at

[ecm4@email.phoenix.edu](mailto:ecm4@email.phoenix.edu).

Regards,

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Participant Information

Please be aware that all responses will be held in the strictest confidence.

Be sure to answer all questions. Thank you.

1. Gender: I am  Female  Male
2. Age: My age is  years
3. Education: My highest earned degree is:  
 High School  Associate  Bachelor  
 Master  Doctorate
4. Term which best describes the industry in which you are involved (circle one):  
 Manufacturing  Service  Information Technology  
 Agriculture  Arts and Entertainment  Education  
 Healthcare  Other
5. Which of the following best describes your current marital status (circle one):  
 Divorced  Married  Never Married  Widowed

6. How many children (under 18) live as dependents in your household:  
 \_\_\_\_\_ Number of dependents under 18
7. Approximately how many people are employed at your firm: \_\_\_\_\_ Employees
8. Which of the following best describes your firm's annual revenues (circle one):  
 \_\_\_\_\_ Less than \$100,000    \_\_\_\_\_ \$100,000 - \$500,000    \_\_\_\_\_ \$500,000 - \$1 Million  
 \_\_\_\_\_ \$1 Million - \$10 Million    \_\_\_\_\_ More than \$10 Million

### CSR Instrument

Please read the following statements carefully and indicate to what extent you agree or disagree. Respond by circling the number that best represents your response. Circle only one answer for each statement. Thank you.

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neither Agree or Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
9. The only responsibility of a firm is to maximize the wealth of its owners	1	2	3	4	5
10. As long as I break no laws my firm is meeting its social responsibilities.	1	2	3	4	5
11. When it comes to social responsibility, a firm that is not part of the solution is part of the problem.	1	2	3	4	5
12. Businesses are economic, not social entities.	1	2	3	4	5
13. The Golden Rule ("Do unto others as you would have them do unto you") applies to businesses as well as individuals.	1	2	3	4	5
14. I would do whatever is necessary to financially succeed in my business.	1	2	3	4	5
15. Social responsibility is too hard to define in business so, I leave it up to the law to define.	1	2	3	4	5
16. The government cleanses the market of unethical businesses.	1	2	3	4	5
17. Meeting your firm's social responsibility is as important to success as meeting your financial and legal responsibility.	1	2	3	4	5

Appendix 2.

The Result of the Forced Two Factor Analysis for the Entrepreneur and CSR Survey

<u>Item</u> <u>Number</u>	<u>Item</u>	<u>Forced Two Factor Analysis</u>	
		<u>I</u>	<u>II</u>
9	The only responsibility of a firm is to maximize the wealth of its owners	.16	.03
10	As long as I break no laws my firm is meeting its social responsibility.	.67	.00
11	When it comes to social responsibility, a firm that is not part of the solution is part of the problem.	.00	.03
12	Businesses are economic, not social entities.	.11	.49
13	The Golden Rule (“Do unto others as you would have them do unto you”) applies to businesses as well as individuals.	.02	.01
14	I would do whatever is necessary to financially succeed in my business.	.15	.14
15	Social responsibility is too hard to define in business so, I leave it up to the law to define.	.32	.00
16	The government cleanses the market of unethical businesses.	.30	.00
17	Meeting your firm’s social responsibility is as important to success as meeting your financial and legal responsibility.	.00	.68

Appendix 3. The Result of the Three Factor Analysis for the Entrepreneur and CSR Survey

<u>Item Number</u>	<u>Item</u>	<u>Three Factor Analysis</u>		
		I	II	III
9	The only responsibility of a firm is to maximize the wealth of its owners.	.21	.02	.19
10	As long as I break no laws my firm is meeting its social responsibility.	.61	.03	.00
11	When it comes to social responsibility, a firm that is not part of the solution is part of the problem.	.00	.05	.29
12	Businesses are economic, not social entities.	.19	.36	.00
13	The Golden Rule (“Do unto others as you would have them do unto you”) applies to businesses as well as individuals.	.02	.01	.23
14	I would do whatever is necessary to financially succeed in my business.	.11	.20	.10
15	Social responsibility is too hard to define in business so, I leave it up to the law to define.	.33	.01	.08
16	The government cleanses the market of unethical businesses.	.29	.01	.03
17	Meeting your firm’s social responsibility is as important to success as meeting your financial and legal responsibility.	.02	.75	.03

Appendix 4. The Result of the Forced Four Factor Analysis for the Entrepreneur and CSR Survey

<u>Item</u> <u>Number</u>	<u>Item</u>	<u>Forced Four Factor Analysis</u>			
		I	II	III	IV
9	The only responsibility of a firm is to maximize the wealth of its owners.	.00	.03	.07	.48
10	As long as I break no laws, my firm is meeting its social responsibility.	.25	.00	.02	.59
11	When it comes to social responsibility, a firm that is not part of the solution is part of the problem.	.00	.03	.29	.02
12	Businesses are economic, not social entities.	.06	.71	.01	.01
13	The Golden Rule (“Do unto others as you would have them do unto you”) applies to businesses as well as individuals.	.04	.01	.27	.00
14	I would do whatever is necessary to financially succeed in my business.	.27	.08	.05	.00
15	Social responsibility is too hard to define in business so, I leave it up to the law to define.	.41	.01	.04	.01
16	The government cleanses the market of unethical businesses.	.30	.01	.07	.05
17	Meeting your firm’s social responsibility is as important to success as meeting your financial and legal responsibility.	.06	.62	.08	.01

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## **Field Biology Courses that Contribute to Sustainability through the Promotion of Ecotourism**

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### **Abstract**

*The hypothesis tested was that students from inner-city Brooklyn would be more likely to embrace sustainability and stewardship of the environment after participating in a field experience in Central America. It is hoped that this stewardship ethic could lead to environmental sustainability through future ecotourism. A survey conducted of student participants in the marine biology field course revealed that most would be willing to spend between \$1000-\$2000 to repeat the experience. Most students, however, were only “somewhat likely” to want to participate in activities that would help the environment.*

### **Introduction**

Students from inner-city Brooklyn often do not know the definitions of “environmental sustainability” or “environmental stewardship”. In an application for a forest ecology summer research internship a student wrote “played baseball in a park” when queried about “outdoor activities participated in”. When I asked him if he had ever gone hiking or backpacking, the answer was “no”. If students are not familiar with or feel disconnected from the environment, it is difficult for them to conceptualize the ethic of environmental stewardship, or know that having this ethic could lead to environmental sustainability. Since I was raised in Vermont, and have worked in fisheries in Maine, my concept of the environment includes ecosystems such as forests, lakes and oceans. The urban student sees cement all around them, and beaches altered by tall apartment buildings, boardwalks and rides such as the Cyclone at Coney Island. Russel (2009) points out that nature means different things to different people. She uses whale watching as an example, and notes that not all students may act “thrilled” when they see a whale. It is important to translate the experience into a meaningful story that might result in action toward sustainability of resources.

An urban school such as St. Francis College does not attract many biology majors that are interested in ecology and the environment; the students are mainly interested in health-related careers. As a professor that has a background that is a combination of ecology, genetics, and molecular biology, I feel an obligation to try to expose my students to environmental science, show them the ecosystems around us, and teach them that we are connected to and are a part of the environment. They have participated in several field trips with activities such as turtle-trapping in the Black Rock Forest in Cornwall, New York (Nolan, 2007-8), canoeing and “botanizing” at the Poconos Environmental Education Center in Pennsylvania, kayaking in the Hudson River, and seining (fishing) at the Salt Marsh Nature Center in Brooklyn, and in the Hudson River in Yonkers, New York. Seining has been an especially exciting activity for them as they get to “suit up” in waders, enter the water and pull up creatures that they have never seen before. They are amazed that such a wide variety of wildlife lives in New York City, such as horseshoe crabs, blue and fiddler crabs, jellyfish, snails, pipefish, silversides, mummichugs, flounder, anchovies, and a variety of other types of fish. This wonder does imbue in them a sense of interest in their surroundings (Nolan et al. 2006; Nolan 2005a; Nolan, 2005b).

## **Field trips to Central America**

In 2008, the college decided to strengthen its Study Abroad program and, as a part of that initiative, and as a shorter alternative to a semester abroad study, offer a three-credit marine biology course that includes a week field component in Belize or Honduras. Four courses have now been offered, three in Belize and one in Honduras. These two countries share the Meso-American Reef, which is in the Caribbean Sea of the Atlantic Ocean. The purpose of taking these students to Central America is to expose them to a fragile ecosystem--the coral reef, an extremely biodiverse ecosystem that comprises just a fraction of a percentage of all marine ecosystems. The students are told, sadly, that it is important to see the corals and the reef inhabitants before they all go extinct. It is hoped that the urgency conveyed to the students will help them see the value in saving the coral reef.

During the course, students spend most of their time snorkeling among the coral reefs and mangroves in Central America, so that they are totally immersed in the ecosystems. It is hoped that by having this time with these inhabitants, they will realize the aesthetic value of these ecosystems and be pushed to try to promote the sustenance of such through their future actions and through their future influence through both political and purchasing power. During the course, they also study the dependence of various cultures on the coral reef, especially for food and ecotourism.

## **Classroom activities prior to field trips**

Before the students embark on the field trips, they engage in activities for a few days that help them realize that saving species is complicated. They play a game "Saving the Commons" in which they simulate individual companies that dispose of waste in the region around the coral reefs. A plus/minus point system is given to each company team that is a report card of how much they pollute. There is a parallel profit column for each company in the game. If they add pollution control measures, they gain water quality points but lose profit points (Schaeffer, et al. 2003). Unfortunately, the companies that pollute the most usually make the most profit and often "win" the game! The game is based on the concept of "the tragedy of the commons" (Hardin, 1968), that states that shared resources will be destroyed if development is unchecked. The students learn that collaboration is often more profitable than competition. They learn about concepts such as stakeholders, different points of view, and networking. They learn how to define values, and then attempt to judge their worth.

Another activity is deciphering papers that discuss a complicated environmental condition that involves many stakeholders. The students have read papers (Mather et al., 2005; Niles et al., 2009) that discussed an environmental issue that is very close to home, that of the horseshoe crab. The students are asked to make two columns on the board and write "for the environment" and "against the environment" in each column. These refer to stakeholders that would be in favor of or against the survival of the horseshoe crab. They then place the stakeholder in each column and have to agree on a ranking and/or point system for each stakeholder. The points are added up and they get to see whether the environment will most likely "win" or "lose" depending on present trends. The students are asked to figure out ways in

which they could tip the balance in favor of the horseshoe crab. The asterisks indicate that the stakeholder could be placed in either column, depending on the effect of the stakeholder on the environment. This exercise points out the complexity of the situation, which creates discussion, and requires the students to form values, judge these values, and think critically about them. Occasionally, a charismatic or less-shy student is able to persuade others to change their viewpoints, so the students also learn negotiation and styles of persuasion. Some of the stakeholders that the students identified in the case of the horseshoe crab are listed in Table 1.

**Table 1. Stakeholders in Horseshoe crab issue**

<b>For the environment (horseshoe crab survives)</b>	<b>Against the environment (horseshoe crab dies out)</b>
Bird watchers	Shell-fishing for bivalves (food for crabs)
Hikers/beach walkers	Biomedical industry that uses horseshoe crabs for substance for drug industry that sometimes kills them
	Use of horseshoe crabs for bait for eels and conch
environmentalists	
*Red knots (birds that eat horseshoe crab eggs) (balance)	*Red knots (eat horseshoe crab eggs and could decrease #'s of horseshoe crabs)
*legislators	*legislators
*Condo and hotel owners/developers for ecotourism	*Condo and hotel developers (may destroy beaches/habitats)

We also discuss a study in which researchers showed that the trilogy of research, education, and tourism could be sustainable for the environment and profitable. Brightsmith et al. (2008) discuss how a tour operator can make a profit by providing room and board for volunteers from the Earthwatch Institute to help researchers with a macaw conservation project in Peru. According to their calculations, all three groups have profited from this venture over a seven-year period.

Vatn (2009) notes that the roles that people and institutions play also affect the values that are placed on ecosystem services. Values of species may change as they become more popular, as in the case of the whale shark for ecotourism (Rowat and Engelhardt, 2007). On our January 2009 trip to Honduras, our group also sighted whale sharks, which caused a great deal of excitement for the students.

The students like focusing on these papers so that it is like a game, and one in which the costs are added up. They also realize that when the environment is losing, they have to incur “costs” to save it and create something that is sustainable. They learn about cost/benefit analysis, and the term “ecosystem services.”

## **The actual field course**

When they are at their field stations, the students then list the positives and negatives of the experience in terms of whether or not the attributes are really helping or hindering environmental sustainability and stewardship.

Some of the “positives” noted include:

- having a student group in Belize attend a town meeting to vote down structures taller than four stories, as there was no bedrock to support taller buildings
- establishing a marine park that restricted fishing such as Hol Chan Marine Reserve in Belize
- allowing the dolphins in the Honduras complex to freely come and go by opening gates during the day
- employing local people on the resorts (more evident in the larger Honduran resort)
- allowing students to assist in a research project (in Honduras this included conducting a census of near-shore versus further off-shore rock sea urchins)

Some of the negatives included:

- the program in Belize was not started by locals (whereas it was in Honduras)
- students could see the negative impact of people on the reef by seeing anchors let down on the reef, stirring up sediments with flippers that could smother reefs and scars on coral left by boat damage

While at the field stations the students read (or have available to them as references) papers that refer to the efficacy of marine reserves (Bartlett et al. 2009), and general and coral reef marine policy papers (Richmond et al., 2007; Zagonari, 2008). Discussions occur in which stakeholders and ethics are pondered.

## **Results of a survey post field-trip, journals, and outreach**

Twelve of 23 students who took the courses responded to a survey e-mailed to them. All said that the course made them more aware of environmental issues after they took the course. Ten said that they would be willing to spend between \$1000-\$2000 on a similar experience; two said they would be willing to pay more than \$4000 for a more expensive trip, to a place such as the Galapagos. Three said that they were “not that likely” to participate in activities to save the environment, six (50%) said they were “somewhat likely”, and three said they were “very likely” to participate in activities to save the environment.

A more qualitative assessment of their experiences, their journals, revealed that for many, the course was a “life-changing” experience. They were very excited about large animals such as the hawk’s bill turtle and manatees in Belize, and the whale shark and dolphins in Honduras. Students have also prepared a poster of their experiences that is on display in the science lab hallway and several PowerPoint presentations have been delivered to participants at the St. Francis College Open Houses, and students interested in the Study Abroad and Honors

programs. Collaboration with other instructors at other colleges should enhance the quality of the program (Guinan et al., 2009).

## **Discussion**

Results from the survey reveal that although students' environmental knowledge is elevated after participating in a marine biology course that includes a field experience in Central America, more knowledge about stakeholders, sustainability, and ethics need to be imparted to the student. Additional examples need to be researched and presented to the students on cases in which consensus was reached. One such study that examines sustainable development on Tokyo Bay (Kawabe et al.2009) considers activities that are shared among constituents as valuable: those that share knowledge through education, those that share understanding through workshops and those that place theory into action through shared experiences.

In light of the current fascination of students and professors alike with forensics, the approach outlined by Juntti et al. (2009) should appeal to our students. These authors enjoin us to examine the nature of the scientific evidence that the stakeholders bring to the table. This evidence must also be understood in terms of the ethics of the politics and/or policies and an understanding of the power struggles that are taking place in the particular situation. This can be difficult and fraught with nuance, but it is imperative to point out these potential conflicts of interests to the students.

Additional ways to interact with the community need to be explored, although we are at the field stations for only a short time. Also, students sometimes lose hope about the environment and feel jaded about it if they are not given concrete ways to care for it (Hudson, 2001). Niesenbaum and Gorka (2001) found that reaching out to the community in Costa Rica as part of their course enhances the experiences of students and their sense of ethics. Their students have developed a more caring attitude toward the environment.

Rome and Romero (1998) found that when students were actively engaged in activities that promoted education of others to come after them, they became more interested and involved in stewardship of the environment. They took fifteen students to a nature reserve in Belize for a month. Their charge was to develop interpretive guides to the nature preserve.

Perhaps because of time constraints in Central America students could do more to promote environmentalism at home. William Michener (2009), a biologist at the University of New Mexico says, "At a time when we are reinvesting in our nation's academic infrastructure, it's critical that we also invest in one of our greatest treasures--America's biological field stations." It has been determined that when environmental breakouts occur, "serendipitous" findings from these field stations often result. For example, I know a colleague, Varuni Kulasekera, who was trained in the molecular systematics (classification of organisms using DNA) of lower flies. Mosquitoes are in this category, and she became an expert when the West Nile Virus, which is carried by mosquitoes, broke out. She was able to lead the New York City Health Department in their task of mosquito location and identification, as they are reservoirs of the virus. At least six St. Francis College students were able to assist her in her project through the New York City Department of Health Research and Training Program.

Our students have been encouraged to participate in the Metropolitan Flora Project hosted by the Brooklyn Botanic Garden. In that project, volunteers collect and map out areas where they find plants. It becomes a service learning project in that the students are learning botany at the same time that they are learning about invasive species and perhaps how to reintroduce native species.

## **Conclusion**

After several field experiences both locally and abroad, students should become well-equipped to understand that contributing to either global ecosystems or their city helps realize the potential of ecotourism and thus environmental stewardship and sustainability.

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