FASPE

FELLOWSHIPS AT AUSCHWITZ FOR THE STUDY OF PROFESSIONAL ETHICS

2016 JOURNAL

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With special thanks to

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FASPE JOURNAL 2016

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INTRODUCTION & OVERVIEW

Welcome to the 2016 FASPE Journal

BY DAVID GOLDMAN

CHAIRMAN, FASPE

The world has survived 2016. Yes, we live in interesting and challenging times. Artificial Intelligence, post-facts (the Oxford English Dictionary's word of the year!), questions about freedoms of press and religion. FASPE's mission, with its focus on ethical behavior, becomes ever more important.

You will see in the following pages a representative sample of work produced by the 2016 Fellows during the course of their fellowships. The FASPE fellowships, and the connections that the Fellows make with each other and with FASPE, do not end with the Fellows' return to their schools and to their places of work. In recognition of this continuity, we have also included in the Journal pieces written by two of our more distant alumni.

FASPE challenges its fellows and alumni to reflect and to think — about themselves, about their professions, about their responsibilities as leaders. The one common thematic thread shared by all of the papers published here is that they confront *ethical* issues within the professions.

Ethical challenges are not linear, they are not predictable and they are not fundamentally political. Issues can arise in an operating room, in a C-Suite, in a partner's office in a law firm, in the mind of a blogger or in a clergyperson's office. They can also arise because of the actions of a legislature, decisions made in a courthouse or as a result of the policy proposals of a mayor, governor, president or prime minister.

Our fellows and alumni are tasked with identifying ethical failures and ethical risks within the professions, however and wherever they may arise. We also seek to offer tactical suggestions as to how to act after having identified an issue. For instance, we have a session in the Law program on how to handle a situation in which a senior partner asks a young associate to act in a manner that appears inappropriate (the answer is *not* to lecture the senior partner). Moreover, FASPE intends to speak out on these matters where they have broader implications.

The issues that we face today are, of course, different from those that existed in Germany during the Nazi era. However, the influence, and therefore the responsibilities, of professionals are no less impactful.

We hope that the following pages pique your interest and demonstrate the ethical foundations that FASPE Fellows are building. On behalf of FASPE, I congratulate the 2016 class of FASPE Fellows. We look forward to their leadership in their communities — small and large.

FASPE Overview

FASPE operates fellowship programs for graduate students in professional schools — business, journalism, law, medical, and seminary — and early stage practitioners in those professions. The fellowships are comprised of intense two-week study trips in Germany and Poland where fellows study the actions and choices of their professional counterparts in Germany between 1933 and 1945.

Through this examination of the ethical failures of the professions in what was a progressive, modern society, fellows learn about the critical role that professionals play in society and the consequences of their actions — positive or negative — on the world around them. FASPE challenges its fellows to become acutely aware of their responsibilities as respected professionals in their communities and to act in an ethical fashion.

FASPE offers a contemporary approach to the study of the Holocaust by focusing on the actions of perpetrators rather than on victims. Drawing on the powers of place, the study of history, and a rich contextual education, FASPE creates a uniquely effective means for studying professional ethics — well beyond what is achieved by the rules-based approach often seen in the traditional university classroom.

Originally piloted in 2009 and launched in 2010, FASPE marked its seventh year of operation in 2016 and now has nearly 400 alumni. As a highly competitive program, FASPE accepts only 65 fellows (12 - 14 in each of the five professions) from nearly 1,000 applications per year. Its faculty is drawn from international Holocaust historians, practicing professionals, and leading academics. Fellowships are granted to students and recent graduates from professional schools throughout the United States and internationally.

FASPE seminars engage fellows in thinking across several themes that span the five disciplines, including: defining professionalism; considering a professional's responsibility to the larger society; and the tactics of enacting an ethical decision. Seminars also focus on topics that are discipline specific, such as:

- **Business:** Are there products that simply should not be sold to particular consumers? What are the responsibilities of the C-Suite, or of the corporation, beyond formalistic legal compliance? What are appropriate penalties for corporate wrongdoing?

- **Journalism:** How do journalists balance the costs and benefits of access? What ethical issues arise in political reporting? What challenges arise in fact-checking a victim's story? Does advocacy fit into journalism?

- **Law:** How do attorneys manage duties of candor and confidentiality? What control do lawyers have over decisions that impact a client? Does the duty to a client supersede all other responsibilities?

- **Medical:** What are the ethical issues involved in medical research on human subjects? Should physicians participate in assisted suicide? How should doctors deal with resource limitations in making healthcare decisions?

- **Seminary:** What is the role of religious leaders as ethical, and not just religious, educators? When and how should they address political issues with a congregation? What are the challenges of pastoral care during times of crisis?

FASPE has far-reaching goals. On an individual basis, it seeks to instill participants with a sense of personal responsibility for the ethical and moral choices they make. By extension, it also seeks to have an impact on these professions, improving the practices of all business executives, clergy, doctors, journalists, and lawyers.

BUSINESS PAPERS

Introduction to Selected Business Papers

BY THORIN TRITTER

EXECUTIVE DIRECTOR, FASPE

The 2016 Business cohort included eight MBA students, four recent MBA graduates, and one student working on a Masters of Management, Organization Studies, and Cultural Theory. Although they came from varied backgrounds and had a range of career interests, this wonderful group of Fellows quickly found common ground, established trust, and created a seminar space that was both light-hearted and encouraged serious debate.

Leading this group in discussions — in seminar rooms, on buses, and over meals — were two warm and deeply thoughtful faculty members who developed the initial FASPE Business curriculum in 2015 and refined it for 2016: Mary Gentile, Creator and Director of Giving Voice to Values and a Professor of Practice at the University of Virginia's Darden School of Business; and Markus Scholz, who holds the Endowed Chair of Corporate Governance and Business Ethics at FH Wien University of Applied Sciences in Vienna.

For two weeks this group traveled together, struggling to confront a painful past and to draw lessons for their own career futures. After the program, all of the FASPE Business Fellows wrote short papers that explored a contemporary issue in business ethics. The three that follow are examples of these papers and offer a sense of the lessons Business Fellows draw from the FASPE trip.

The first paper is by Simon Basseyn who takes as a starting point the 2015 decision by the Founder and CEO of Gravity Payments to raise the minimum salary of all his employees to $70,000. Basseyn expands from there to systematically review the ethical concerns of a minimum wage as well as the practical business decisions that go into wage-setting by managers.

The second piece, by Max Blachman, looks at a different topic that has been in the news recently, focusing on the ethical implications of outsourcing information technology (IT) jobs to offshore locations. In an exploration that weaves together case examples, philosophy, and moral reasoning, Blachman concludes that no simple assessment is possible, arguing that offshore outsourcing may be unethical in some situations, but ethical in others.

The final paper included here is written by Kora Krause, who reaches out more broadly to look at the role of business in affecting climate change. Drawing on her own work experience — both in banking and at an NGO focused on climate change — she explores the importance of the banking industry in climate discussions and the challenges faced by executives at large banks. Pointing to the weakness of existing corporate social responsibility (CSR) programs, Krause concludes with a call for a C-suite led reconceptualization of these programs as a shared value that could be incorporated into profit and loss statements.

I thank these three authors and the other FASPE Business Fellows for their participation during the program, their search to understand the actions of business leaders in Nazi Europe, and their questioning of the tendencies and temptations of the profession they have chosen as their own.

The Ethics of the Minimum Wage

BY SIMON BASSEYN

UNIVERSITY OF PENNSYLVANIA WHARTON SCHOOL, CLASS OF 2017

Introduction

In April 2015, Dan Price, Founder and CEO of Gravity Payments, a small credit card processing company in Seattle, raised the minimum wage for his employees to $70,000. To do so, he cut his salary from over $1 million and used nearly 80% of annual profits on labor.[1] In subsequent months, Mr. Price sold all his stocks, emptied his retirement accounts, and mortgaged two properties. In a made-for-Hollywood story, the decision caused a firestorm of attention while Price has become both a celebrity and a polarizing figure. Some have cast him as a hero and a symbol of corporate benevolence while others have castigated him, arguing that the decision was a PR stunt at best and a response to his brother's lawsuit (Price's brother, a minority shareholder, argued that Price was paying himself an excessive amount.) at worst. Some have pointed to the bump in employee retention, customer acquisition, and revenue growth as signs of the economic rationale for the decision while others have pointed to the departure of key employees and falling revenues and profits in recent months as signs of the inevitable negative economic consequences.[2] Underlying the amount of attention Dan Price's story has received is a growing nationwide debate on the minimum wage. Over the last two years, the "$15 minimum wage" has become a hot-button topic, sparking controversy across the country. Cities, such as Los Angeles, San Francisco, and Seattle, have chosen to implement that minimum wage. Other cities and states, such as Baltimore, Minneapolis, California, New

[1] Patricia Cohen, "One Company's New Minimum Wage: $70,000 a Year," *The New York Times,* April 23, 2015, http://www.nytimes.com/2015/04/14/business/owner-of-gravity-payments-a-credit-card-processor-is-setting-a-new-minimum-wage-70000-a-year.html?_r=1.

[2] For various perspectives, see: Dan Price, "Gravity Payments CEO Dan Price Reflects on $70k Minimum Salary Experiment and Its Aftermath," *Today*, December 30, 2015, http://www.today.com/series/2015-voices/gravity-payments-ceo-dan-price-reflects-70k-minimum-salary-experiment-t64401; Paul Keegan, "Here's What Really Happened at That Company That Set a $70,000 Minimum Wage," *Inc.,* November 2015, http://www.inc.com/magazine/201511/paul-keegan/does-more-pay-mean-more-growth.html; Christine Wang, "$70k CEO: I Wasn't Ready for the Surge of Attention," *CNBC,* April 28, 2016, http://www.cnbc.com/2016/04/15/70k-ceo-i-wasnt-ready-for-the-surge-of-attention.html; Jake Novak, "Business is Business, Charity is Charity," *CNBC,* August 3, 2015, http://www.cnbc.com/2015/08/03/mixing-business-with-charity-is-folly.html; Paul Davidson, "Does a $70,000 Minimum Wage Work?" *USA Today*, May 26, 2016, http://www.usatoday.com/story/money/2016/05/26/does-70000-minimum-wage-work/84913242; *and* Karen Weise, "The CEO Paying Everyone $70,000 Salaries Has Something to Hide," *Bloomberg,* December 1, 2015, http://www.bloomberg.com/features/2015-gravity-ceo-dan-price.

York State, and many more, are still engaged in heated debates over whether to do so.[3] The issue made it to the national stage when former presidential candidate Bernie Sanders made a federal $15 minimum wage part of his platform and when it was then adopted as part of the official Democratic Party platform at the Democratic National Convention.[4]

Much of the discourse on the topic has focused on the mixed empirical data surrounding the economic impact of a minimum wage on the economy, businesses, and employees. The limited ethical and moral conversations regarding the issue often address a vague claim of "treating people right." While the question of a minimum wage is not a new one, the renewed contemporary emphasis on what is the *right* minimum wage — or whether we should even have one at all — calls for a more rigorous evaluation of the ethical and moral issues involved. This paper will systematically review the ethical concerns (as well as the economic effects where appropriate) surrounding the minimum wage as well as the practical business decisions that go into wage-setting by a manager.

Ethical Issues and Perspectives

Consequentialism

Much of the public conversation regarding the minimum wage takes its cues from consequentialist philosophy: the notion that the merits of the minimum wage should be weighed against its economic consequences. That is, if the minimum wage leads to overall beneficial economic results, it should be supported, and if not, it shouldn't. As a result, all the research and views on what the minimum wage does to the welfare of the poorest, to unemployment rates, and to the general economic well-being of the community in question, intentionally or unintentionally, adopt a consequentialist framework. Consequentialism itself, however, has multiple forms, notably utilitarianism and prioritarianism: the first being the belief that the utility of the most people should be maximized and the second being the belief that the utility of the worst off should be maximized first. On the issue of the minimum wage, these two different perspectives converge and reach the same conclusion: given the diminishing marginal utility of income, those with the lowest wages gain the most utility from an additional dollar, whereas those

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[3] *See* Irene Tung, Paul Sonn, and Yannet Lathrop, "The Growing Movement for $1," *National Employment Law Project,* November 2015. http://www.nelp.org/content/uploads/Growing-Movement-for-15-Dollars.pdf; Noam Scheiber, "What a $15 Minimum Wage Would Mean for Your City," *The New York Times*, August 12, 2015, http://www.nytimes.com/2015/08/13/upshot/what-a-15-minimum-wage-would-mean-for-your-city.html; Andrew Dunn, "Baltimore City Council Panel Approves $15 Minimum Wage Bill," *Baltimore Sun*, July 28, 2016, http://www.baltimoresun.com/news/maryland/baltimore-city/politics/bs-md-ci-minimum-wage-vote-20160727-story.html; *and* Tyler Gieseke, "City Attorney Says Minneapolis Voters Can't Set $15 Minimum Wage," *Minneapolis/St. Paul Business Journal*, July 28, 2016, http://www.bizjournals.com/twincities/news/2016/07/28/minneapolis-15-minimum-wage-vote-city-attorney.html.

[4] Bernie Sanders 2016 Platform: A Living Wage, https://berniesanders.com/issues/a-living-wage/; *and* 2016 Democratic Party Platform, July 21 2016, https://www.demconvention.com/wp-content/uploads/2016/07/Democratic-Party-Platform-7.21.16-no-lines.pdf.

with the highest wages gain the least. The consequentialist perspective on the minimum wage has been rigorously evaluated in the literature.[5] The unsurprising conclusion of work that argues that "the minimum wage should be evaluated using a consequentialist criterion that gives priority to the jobs and incomes of the worst off" (prioritarianism, though utilitarianism would reach a similar conclusion, as noted above) is that it "does not reach a single final judgment on the minimum wage."[6] This is because the consequentialist argument relies on the economic effects of the minimum wage, but the true effects are unknown given conflicting evidence in the economic literature.[7] In general, the two major views summarizing the evidence are that the minimum wage either harms jobs and incomes of the worst off or that it does not do much harm or good. Thus, the criterion set forth by the consequentialist argument leads to the inevitable conclusion that "at worst, the minimum wage is a mistake and at best, it is something to be half-hearted about."[8]

Interestingly, another philosophical perspective, namely John Rawls' theory of justice highlighted by the "veil of ignorance," reaches a similar conclusion. The veil of ignorance is a hypothetical cognitive experiment in which the participants are asked to make moral decisions for a society as a whole without knowing what their own abilities, talents, and social class would be within the context of that society. Given the possibility that an individual could be of the lowest class or talent level, participants tend to make ethical decisions which would maximize the well-being of the worst-off, since, hypothetically, it could have been them.[9] For the minimum wage, an extension of this theory of justice may consider those who would have the lowest wages as the worst-off in society. Therefore, the moral conclusions reached regarding the minimum wage would be similar to those of the consequentialist: given the lack of agreement on the economic effects of the minimum wage on the worst-off, the ethics are not clear, but at worst, it is best not to support a minimum wage, and at best, the support should be half-hearted. Therefore, those who subscribe to Rawlsian or consequentialist philosophy "should be inclined to look elsewhere for measures to deal with unemployment, poverty, and maldistribution [i.e. the problems of the worst-off]."[10] These conclusions, however, are often affected by ones views on the economic effects of the minimum wage. As an example, some argue that by increasing the wages of the worst off — those with the highest marginal propensity to consume (how much an individual would consume given an extra dollar in income) — the marginal propensity to consume for society as a whole would increase. This then increases demand for products and services overall, which increases employers' demand for labor/jobs, all of which together stimulate the broader economy.[11] If this, or any other

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[5] Tim Wilkinson, "The Ethics and Economics of the Minimum Wage," *Economics and Philosophy* 2 (2004): 351-374.
[6] Wilkinson, 351-374.
[7] David Neumark, "The Effects of the Minimum Wages on Employment," *Federal Reserve Bank of San Francisco: Economic Letter* (December 21, 2015): 37.
[8] Neumark, 37.
[9] John Rawls, *A Theory of Justice* (Cambridge, MA: Belknap Press, 2005).
[10] Wilkinson, 351-374.
[11] May Leung, "The Ethics of Minimum Wage Legislation," *Seven Pillars Institute,* March 30, 2015, http://sevenpillarsinstitute.org/case-studies/the-ethics-of-minimum-wage-legislation.

overwhelmingly positive effects of the minimum wage, were to bear out convincingly in data, consequentialist and Rawlsian philosophies would then reach a different conclusion from the one outlined above.

Kantian Deontology

The converse of utilitarianism — that the means can justify the ends — is Kantian deontology, which argues that actions cannot be determined by their consequences, but rather that they must be judged according to their inherent morality. For our purposes, one key feature of this philosophy is that one "may not treat humanity … as a means to an end but always at the same time as an end." This is to say that actions cannot "instrumentalize" or make use of humans as a means for some other end. Accordingly, some may argue that extremely low wages merely make use of a person's labor instead of treating him or her with the dignity that each individual inherently possesses, thus violating the deontological measuring stick of morality.[12] It is irrelevant if the consequences to society overall or to the worst-off of low wages are positive or negative. Such wages are themselves immoral.

This tension between utilitarianism and deontology was a recurrent theme in our discussions as part of the FASPE program. For example, an ethical dilemma related to the minimum wage is that of the treatment of workers, highlighted in recent years by tragedies in manufacturing facilities in Asia, such as the collapse of Rana Plaza in Dhaka, Bangladesh.[13] Is the employment of low-wage workers under poor working conditions justified by the provision of opportunity for the workers in areas where such work is the best option, or does inexpensive labor at the expense of these workers' dignity constitute an immoral instrumentalization of humans in order to produce cheaper products? The conclusion can differ radically depending on whether one uses a consequentialist or deontological philosophical framework. In perhaps the most extreme example in history, Nazi ethics were considered moral by many at the time — the extermination of Jews, after all, was claimed to be for the greater good of society. Such a bastardization of morality lends support to the criticism that basically anything can be justified using a consequentialist perspective. Such a philosophy, therefore, requires significant caution whenever applied, including to the issue of the minimum wage.

Non-exploitation

While consequentialism and deontology are the two key ethical frameworks used in the minimum wage debate, there are several other relevant ethical principles that are worthy of discussion. One that is closely related to Kantian deontology is that of the moral imperative against exploiting people. This view holds that if employers hire workers, the

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[12] Ali Shakil, "Kantian Duty-Based (deontological) Ethics," *Seven Pillars Institute,* http://sevenpillarsinstitute.org/morality-101/kantian-duty-based-deontological-ethics.
[13] John A. Quelch and Margaret L. Rodrigues, "Rana Plaza: Bangladesh Garment Tragedy," *Harvard Business School Business Case N2-514-034*, October 31, 2013.

workers are being exploited unless they are paid a "living wage." While this may be a reasonable argument on its surface, the reality is that minimum wage laws target individuals with low wages, not those with low incomes. These two, unfortunately for minimum wage laws, are only weakly correlated. For example, 46% of poor workers make more than $10.10 per hour while 36% have wages over $12 per hour, where poor workers are defined as those with overall low family incomes. These individuals tend to be poor not because of low wages but because they work fewer hours, either by choice or necessity. Therefore, much of the benefit from raising the minimum wage would not go to poor families. Unsurprisingly, therefore, research has shown that the minimum wage is an ineffective tool at reducing poverty. If the moral argument for the minimum wage were based on reducing exploitation, it would be an insufficient basis because many of those who work for a minimum wage do not actually live in poverty (as defined by federal poverty levels) and are unlikely to be described as "exploited."[14]

Freedom (to contract)

One of the frequently cited counter-arguments to having a minimum wage is the idea of the "freedom to contract" work under any desired terms. While it is technically true that under minimum wage laws, it is illegal for workers and employers to contract for a wage below that set by law, workers do not lose anything more than the economic inputs into the consequentialist equation. In other words, the key benefit for workers in contracting for work is to obtain a job and to receive a wage for that job. If the minimum wage were to decrease a worker's ability to obtain a job or receive a wage, then the main loss to the worker would be that economic loss, not the loss of the freedom to contract. The principle of freedom to contract, it has been argued, does not have any inherent value above and beyond the economic value that it brings and should not be valued on its own.[15]

Economic Justice: "The Living Wage"

This argument is the refrain most commonly heard in the media and at political events today — that is, individuals who work should be paid a "living wage," whatever that may be. Further, the argument goes, there should not be as dramatic a difference in pay between managers and entry level employees as there is today, particularly when entry level employees struggle to make ends meet. Unfortunately, as discussed above, the minimum wage does a poor job of targeting individuals in families that are actually living in poverty, a task much better accomplished by policies like the earned income tax credit, which specifically targets families and individuals who have low incomes, not just low wages.[16] While the data don't support the minimum wage as an efficient and effective policy to tackle poverty, the "living wage" remains a commonly described ethical principle relevant to the minimum wage. One variation of this argument stipulates that if employees are not paid a "living wage," then they are being paid below-subsistence wages and cannot

[14] Wilkinson, 351-374 and Neumark, 37.
[15] Wilkinson, 351-374.
[16] Neumark, 37.

afford housing, food, shelter, and other essentials. Therefore, if employers do not pay for these necessities, then either the employees' friends or family cover the costs or society does in the form of social welfare benefits. In either case, employers shirk their ethical duty both to employees and to society. If employees who work for minimum wage are frequently not those living in poverty, however, this argument does not hold.[17]

Fairness

Some hold the view that the market will determine the "fair" wage given the supply of and demand for an employee's skills. In reality, however, the wage-setting process is more complicated and is largely a result of the bargaining process between labor (employee) and capital (employer). While the supply and demand for labor broadly influence this interaction, it is a more complex process, impacted by the relative bargaining power of each side. The final wage is therefore likely to be skewed by other regulations, local issues, unemployment rates, individual idiosyncrasies on either side of the bargaining table, and so on. Frequently, bargaining power lies with the employer to a degree disproportionate to supply/demand considerations, causing the "fair" market wage to be distorted.[18] A related issue is that wages are not necessarily "fairly" set according to worker productivity, as some may expect (i.e. workers should be compensated according to their productivity or according to their productive contribution to society), but by how scarce the supply and demand of that labor is, as noted above. Accordingly, one hears the frequent lament that productive manual laborers or socially productive employees like teachers get paid low wages while athletes and celebrities receive millions in wages. While some believe this is unfair, others may argue that it, in fact, is the fairest outcome of all. Many can teach or build, but very few can throw a 100-mph fastball. The result we see in the United States today is that of a Miltonian economic world where business and the laws of supply and demand predominate. Individuals receive wages based on supply and demand and an individual's ability to negotiate, rather than based on worker productivity or the contribution a particular worker or profession is making to society.[19] Whether this is good, bad, or neither is simply a matter of perspective.

Managerial Wage Setting

While understanding the relevant ethical issues related to the minimum wage is critical, it is insufficient for decision-making as a manager or business owner. The ethical and economic concerns discussed thus far contribute to the underpinnings of federal and local laws and minimum wage policies, but they do not necessarily restrict business decisions except in cases in which the law stipulates a requirement outright. While laws specific to business are binding for managers, they only serve as the ethical floor. It is the line society

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[17] R.E. Prasch and F.A. Sheth, "The Economics and Ethics of Minimum Wage Legislation," *Review of Social Economy*, 57 (1999): 466-487.
[18] Prasch and Sheth, 466-487.
[19] Prasch and Sheth, 466-487.

has decided business leaders should not cross, but it is not necessarily the line to which business leaders should aspire. Our discussion thus far, from consequentialism and deontology to ethical principles related to exploitation, freedom, economic justice, and fairness, has only shown how complicated the question of wage setting really is. Like most ethical questions, there does not appear to be one right answer and each manager may rely on different ethical criteria to reach different conclusions on ethical wages. So what is a manager to do?

The practical reality is that once all laws are satisfied, it is up to each business owner to make that choice. In a setting of unclear ethics, the key decision is simply on which side to err: on the side of economic justice and the "living wage" by offering greater wages at the expense of profits or higher prices, or on the side of consequentialist beliefs that higher wages will not lead to "better" consequences, whether they be higher profits for shareholders in a public company (fiduciary responsibility) or lower prices for consumers. In line with this framework, economists have argued that "firms are not price-takers but have a considerable degree of discretion over the level of wages that they pay … so firms … can choose between high-road and low-road growth strategies … A high-road firm chooses to pay high wages with good benefits in an effort to elicit high levels of effort from employees while a low-road firm favors the use of punitive measures to ensure the productivity of its workers. However, low-road strategies are not necessarily cheaper since additional managers must be hired to supervise and discipline workers when their wages are too low to elicit a voluntary contribution of effort."[20]

The two extremes we have seen so far are firms that pay the minimum wage as required by law and, most recently, the case of Dan Price and Gravity Payments with a $70,000 minimum wage. The latter continues to be a case study in the ethical and economic consequences of an extremely high minimum wage and the story continues to evolve. At the same time, as more cities and states move towards a $15 minimum wage, we will continue to be able to not only study the economic consequences of these efforts but to debate the ethical ramifications of the minimum wage at a policy level, as well as wage setting at a corporate level. In the meantime, the individual business decisions of a manager will continue to be just that: individual, above the floor set by law, but otherwise in accordance with idiosyncratic economic pressures and individual ethical beliefs. As individual business leaders and as a society, however, we must remain vigilant for significant ethical breaches in wages and treatment of workers since the law, as history has shown us, is frequently insufficient and slow-moving. To do so, we must first and foremost be aware of the relevant ethical issues. While we may reach different conclusions on particular questions like the minimum wage, continuously engaging with and discussing the ethics of business decisions can on their own prevent us from going astray.

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[20] Prasch and Sheth, 466-487.

The Ethical Implications of Offshore Outsourcing

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Introduction and Key Themes

At the root of all studies of business ethics is some version of a question that has been asked and answered for decades if not centuries: *Why does business exist?* While this is an economic, moral, psychological, and sociological question, it is also an existential one tied directly to the foundations of the liberal capitalism practiced in Western countries such as the United States, Great Britain, and Germany. True to the trope — *two economists, three opinions* — prominent authorities have widely divergent views on the purpose of business in society.

There are two basic schools of thought. On the one side are the "Friedmanians." These loyal followers of the prominent 20th-century economist Milton Friedman are strident in their adherence to Friedman's contention that "… there is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game."[1] Corporate leaders in the late 20th century drew heavily on Friedman's economic teachings to justify their contention that the sole purpose of business was the creation of value or generation of returns for shareholders. At the opposite pole is the philosopher and economist Charles Handy, who espoused a contrary view from his perch on the faculty of the London Business School. Handy saw a more expansive role for business in society with companies having social responsibilities beyond their compliance with the law. Business does not exist, Handy argued, to "… make a profit, full stop. It is to make a profit so that business can do something more or better."[2]

Implicit in Friedman's invocation of the "rules of the game" is a fundamental belief in a zero-sum economic environment with distinct winners and losers. Handy stakes out a different position in which the conduct of business must have a deeper connection to

[1] Milton Friedman, "The Social Responsibility of Business is to Increase its Profits." *The New York Times Magazine,* September 13, 1970.
[2] Charles Handy, "What's a Business For?" *Harvard Business Review*, December 2002.

human dignity. For example, Friedman viewed employees "as the property of the owners … recorded as costs, not assets," whereas, Handy contended that employees are "assets … to be cherished and grown."[3] The divide between Friedman and Handy is embedded in most major controversies related to business ethics, and the topic of offshore outsourcing is no exception.

Asking the Key Questions and Defining Terms

This paper aspires to determine whether US-based companies behave ethically when they outsource business process or information technology (IT) services to offshore locations. The response requires asking and answering three more questions, including the following: (1) Is complicity in unethical or immoral behavior an inescapable reality of participation in the advanced, interconnected economy of the 21st century? (2) In order to adhere to ethical business practices, must an American company abstain from offshore outsourcing components of its business? (3) Will that abstention benefit the American people? Before answering these questions, one requires a common definition of terms and a working knowledge of offshore outsourcing as a practice.

Offshore outsourcing is a form of international trade. Outsourcing is the practice by which companies sub-contract a replicable component of their business process, typically one that is capital-intensive and non-core, to a separate company that does cheaper or higher quality work. For example, The Coca-Cola Company outsources the bottling and distribution of the beverages it sells in retail outlets in order to focus internal resources on higher value activities, such as product development and marketing. Offshoring, on the other hand, is the practice by which a company locates a component of its business process in a foreign country at least a day's travel from that company's base location. If the company retains full control of that foreign operation, then the practice is known as a foreign direct investment (FDI). Alternatively, if the company hires another company to handle the same foreign operation, then the primary company is offshore outsourcing that operation. Put succinctly, offshore outsourcing is the practice by which a primary business subcontracts a component of its operations to a secondary, separate company with the resultant work occurring in a foreign location.[4]

Offshore Outsourcing of Goods in Historical Context

While the offshore outsourcing of goods production and services is a common practice for multinational companies, the exponential increase in offshore outsourcing of services is a relatively new phenomenon. While this essay primarily addresses the offshore outsourcing

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[3] Handy, "What's a Business For?"
[4] Christopher J. Robertson, Anna Lamin, and Grigorios Livanis, "Stakeholder Perceptions of Offshoring and Outsourcing: The Role of Embedded Issues," *Journal of Business Ethics* 95 (2010): 167.

of services, a quick primer on the offshore outsourcing of manufactured goods will inform the primary discussion. There are many practical reasons why companies offshore outsource a component of their businesses with the most common including cost-containment, delivery speed, and specialized skills.[5] Although the means have changed throughout history, outsourcing and offshore outsourcing are realizations of the basic economic theory of comparative advantage.

Midway through the 20th century, the dramatic growth of corporate America, access to new global markets, and an increasing demand for inexpensive manufactured goods by American consumers led to major changes in how American companies did business. Many companies offshored their manufacturing operations to realize the cost reductions required to reduce prices on consumer goods and maintain healthy financial returns for shareholders. Predictably, this practice created winners and losers. The winners were the consumers who purchased cheaper goods and the shareholders who profited. Further winners were the low-wage laborers in those foreign countries to which work was offshore outsourced, who now had access to jobs that would otherwise not have existed. The losers were working people in the U.S., typically low and middle-skilled laborers, who lost wages or their jobs, with ripple effects that crippled entire U.S. communities surrounding now empty factories.

Offshore Outsourcing of Services: An Industrial Revolution

Since the early 1990s, massive increases in computing power, modernization of communications technology, and an increasingly educated global worker population created innumerable opportunities for companies to expand their offshore outsourcing practices. Contemporary business practices now include the use of "foreign subsidiaries, foreign acquisitions, offshore development centers, joint ventures or alliances, and foreign contracting."[6] A textbook example is the boom in business-process outsourcing that began with American companies in the services industry hiring Indian vendors for their cheap, low-skilled labor. As offshore outsourcing evolved and expanded, India's workforce and outsourcing industry evolved as well, allowing Indian companies to offer much higher order services to the same American companies that had initially hired them for low-skilled labor. The threat to the American worker shifted from the displacement of low-skilled knowledge workers to the replacement of middle and high-skilled white-collar

[5] Rainer Lanz, Sébastien Miroudot, and Hildegunn K. Nordas, "Offshoring of Tasks: Taylorism Versus Toyotism," *World Economy* 36 (February 2013): 194-212.
[6] Peter Haried and Derek Nazareth, "Examining International Information Technology Sourcing Through an Ethical Lens: An Application of Alternative Ethical Frameworks," *Business & Professional Ethics Journal* 28 (2009): 65.

workers. In fact, a 2013 study stung white collar workers by suggesting that 20-29% of service jobs in developed countries could be outsourced offshore in the future.[7]

While the offshore outsourcing of goods production evokes images of sweat shops and child labor in the collective conscience of many in the developed world, there is something discordant about white-collar work flowing from the developed to the developing world. If, as noted economist Alan Blinder stipulates in a 2006 issue of *Foreign Affairs*, offshore outsourcing represents the "industrial revolution" of the "information age," then this revolution also represents a fundamental shift in the meaning and implications of offshore outsourcing as an economic concept.[8] After all, revolutions are neither tamed by moral outrage nor easily harnessed. It is this lens through which I will assess services-specific offshore outsourcing.

An Ethics Review for Offshore Outsourcing of Services

There are two broad categories of ethical conflict inherent to the offshore outsourcing of services. The first is upstream, which comprises the opportunity costs and benefits associated with a domestic operation should the work shift offshore. The second is downstream, which comprises similar considerations from the perspective of the offshore operation. The benefits of the offshore outsourcing of manufactured goods are visible in the inexpensive consumables lining the shelves of big box retailers across the U.S., and, arguably, in the corresponding high levels of employment in the bustling factory towns across Asia. As mentioned above, the disadvantages include the preponderance of empty factories that litter the American Midwest and South and the structural unemployment among American workers that has contributed to a spiraling economic decline in many once robust American manufacturing towns. Libraries are full of books detailing the economic, ethical, and political debates over the merits of offshore goods production. Individual views tend to break down along partisan or regional lines. As recently as 2016, 80% of Americans said that "increased outsourcing of jobs to other countries hurt American workers" and 57% believed that the "increased use of contract or temporary workers" is also harmful.[9]

Complicity, Futility, or Both

As previously stated, offshore outsourcing raises troubling questions. Advocates for the practice of offshore outsourcing will point to statistics reporting minimal job losses or wage suppression, whereas opponents will point to studies claiming the reverse.[10] Yet, this

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[7] Lanz, Miroudot, and Nordas, 194-212.
[8] Alan Blinder, "Offshoring: The Next Industrial Revolution?" *Foreign Affairs* 85 (March 2006): 113-128.
[9] Pew Research Center, "The State of American Jobs," *Social and Demographic Trends,* October 2016, http://www.pewsocialtrends.org/2016/10/06/the-state-of-american-jobs.
[10] Haried and Nazareth, 65–94.

is ultimately a question of fairness, entitlement, and perspective. Is it fair for an Indian company full of Indian computer programmers to compete with an American full of American computer programmers for business? Is it only fair if the living conditions and wage standards for both companies are the same? If a programmer in Bangalore has the same skills as a programmer in Atlanta, why should both not compete for the same job? These questions are easier asked than answered. One might get stuck in moral relativism and unreasonable projections of one nation's values at the expense of real-life individuals. To stabilize this rift, one might posit a shared standard for all hiring decisions. For example, one might argue that all foreign employees of American companies and their contractors deserve a work environment that maintains or improves upon the quality-of-life they enjoyed prior to starting the job. This standard would be a useful starting point.

To revisit the example of the American and Indian computer programmers, there is every reason to believe that both would benefit from the job. The Indian would almost certainly experience a boost in his or her quality of life by working, even indirectly, for an American company. While the same would be true for the American worker, other job alternatives available to him or her would most likely be far more attractive than other job alternatives available to the Indian worker. When the Indian worker is hired over the American worker, does the relative improvement in quality of life for the Indian balance out the relative decline in quality of life for the American? Even if an equation existed to evaluate the trade-offs involved, the ultimate assessment would remain subjective. Yet, if a different decision were made and the multinational company elected to hire a more expensive, American programmer, what then? This raises the question: "If I don't do it, they will, and then what?"

Let's assume that there are two American companies of equal size and market-power competing on a global scale. Company A decides to offshore outsource a portion of its IT services to an Indian firm in order to realize cost savings, while Company B conducts all of its IT services in-house. Company A decides to plow those cost savings into a marketing campaign that drives their business at Company B's expense. Over time, Company A captures enough market share to drive Company B out of business entirely. Now, rather than laying off a subset of its American workers like Company A, Company B must release its entire workforce. Which firm behaved ethically? What if there had been a Company C and a Company D making the same calculations? That is the complexity inherent to these decisions.

A reasonable argument can be made that Company B would be fatally comprised by behaving in the most ethical manner. Was Company A the more ethical firm, after all? Similar questions were asked in far graver times. When the Nazi-led German government forced Jewish-owned companies to shutter their doors or divest ownership in favor of Aryan operators, non-Jewish merchants had to choose whether any ethical qualms they might have had with taking over Jewish companies outweighed their desires for commercial benefit. An Aryan furniture-maker, for example, might acquire a previously

Jewish-owned competitor despite that Aryan merchant's underlying opposition to Nazi policies. He may have done so to prevent a rival merchant from making the same acquisition and gaining a competitive edge. Alternately, the non-Jew might decide not to take over the Jewish business and go out of business as a result. Either decision is logical. Are they also ethical? A creeping sense of futility might erode the moral grounding that would otherwise guide the parties in such transactions. With basic logic and textbook economics failing to satisfactorily answer the key question of this essay, one must return to a deeper question regarding the meaning of ethics. To deepen this exploration, one must draw on several ethical frameworks.

Structural Ethical Divisions

The two major camps in the philosophy of ethics are the consequentialists and the non-consequentialists. Consequentialists subscribe to the belief that actions are morally right if the results (consequences) of those actions are, on the whole, more favorable than unfavorable. Utilitarians, adherents of the most predominant consequentialist philosophy, are particularly relevant to this discussion. Utilitarianism leads to decision processes that weigh decisions on proverbial scales to determine whether a behavior or practice is ethical. A utilitarian would design a complex equation to determine whether the combination of domestic job losses, foreign job creation, access to cheaper consumer goods, higher profits for shareholders, and a multitude of other factors, would yield a net positive happiness score. If so, the behavior is deemed ethical, and vice versa. Many business professionals view their decisions through a utilitarian lens in seeking to balance the costs and benefits of a given choice.[11] When accompanied by efforts to mitigate the harms caused by offshore outsourcing, there is a strong argument in favor of the practice for the utilitarian.

On the other side of the discussion are the non-consequentialists who value principles of obligation, duty, and human dignity when making moral judgements. The most prominent non-consequentialist thinker, the philosopher Immanuel Kant, believed in the morality of behaviors that promoted "humans as free, intelligent, self-directed beings."[12] Kantian philosophers would reject this debate on offshore outsourcing outright, because they would disagree with a debate premised on an intellectual exercise that reduces the worth of domestic and foreign workers to figures on a spreadsheet. To Kant, this would be a dehumanizing, commoditization of human beings that denies their inherent rights to dignity. Nevertheless, the non-consequentialists frameworks of social contract theory and stakeholder theory are especially suited to address the matter at hand.

Social contract theory raises the bar high in assessing the ethics of any business practice, because it presents a standard to "satisfy both the social welfare and justice terms of the

[11] Haried and Nazareth, 65–94.
[12] Haried and Nazareth, 65–94.

social contract."[13] Since the social contract is written to simultaneously bind customers to companies and employers to employees with a commitment to preserve the welfare of all parties involved, there is no utilitarian scale to balance the costs and benefits. Thus, the harm resulting from a single job lost to offshore outsourcing would suffice as reason enough to reject the practice — no matter the benefits.

Stakeholder theory is, perhaps, the most interesting framework within which to consider the ethics of offshore outsourcing. Similar to social contract theory, stakeholder theory promotes a more comprehensive approach to ethical decision-making. In a piece published in the *Business & Professional Ethics Journal*, the authors considered the very question of offshore outsourcing in the context of stakeholder theory. They suggested that the stakeholders included customers, IT employees, other employees, the local U.S. community, the IT offshoring provider, and the organization.[14] Additional stakeholders worth considering would be the company's stockholders and the local community of the IT offshoring provider.

Hypothetically, that software engineer in the U.S. might struggle to find a new job after displacement and may even be forced to take a position for which he or she is overqualified and underpaid. Nevertheless, the degree of harm resulting from that fall from grace is likely to be less than the degree of benefit that an otherwise impoverished individual in the developing world would experience when offered a stable job for a livable wage. By broadening the universe of stakeholders, a more complex reality emerges.

Conclusion

In the unsatisfactory way that business school professors and experienced professionals like to answer questions, the response to the key question set forth by this paper is: it depends. Company leaders must assess the comprehensive impact of their decisions when deciding whether to offshore outsource the service work that would otherwise occur onshore. In order to avoid an ethical tangle, a company should look to the long term consequences and indirect costs of their practices. If a company honors its commitments to workers and lives true to its professed values, which is a big "if," then there are necessarily circumstances under which offshore outsourcing is an ethical practice. In practical terms, a company must survive to make such decisions. If offshore outsourcing becomes a qualifying criterion for a company to remain competitive in an increasingly globalized world, then moral quibbles may fall by the wayside. It would be unethical, in fact, for that company to not engage in the practice if the certain result was a halt to business entirely. Thus, it would be incumbent upon such a company, and all companies like it, to find ways to set right whatever harmful externalities result from their offshore outsourcing. This is the challenge of the time for private enterprise.

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[13] Haried and Nazareth, 65–94.
[14] Haried and Nazareth, 65–94.

Only 2 Degrees
Banks and Climate Change

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Picture a very foggy day in San Francisco, but when you breathe in the heavy air it is surprisingly dry and reminds you of fire crackers in downtown Manhattan on the Chinese New Year. Two years ago I spent some time in Beijing. It was winter and the city was experiencing very bad smog levels, mainly caused by coal combustion from factories and energy and heat production close to the city.

Every few hours, the United States embassy in Beijing publishes the level of fine particulate matter in the air, known as PM 2.5 levels, to indicate the air quality. On many days my smartphone app would say "hazardous" with a warning to not leave the house. Pollution levels were over 15 times higher than what is considered safe by the World Health Organization.

I had spent three years of my career working in the climate change/ NGO sector and I had always been optimistic about the future. I believed that new technologies would find solutions, market mechanisms, such as carbon trading, would regulate emissions, or the international community would finally agree on a climate treaty. That winter in Beijing I nearly lost hope.

Scientists say time is running out. There is an international consensus that a temperature increase of more than 2 degrees Celsius (3.6 degrees Fahrenheit) above pre-industrial levels[1] would trigger a cascade of cataclysmic changes that would include extreme heat-waves, declining global food stocks, and a sea-level rise affecting hundreds of millions of people and leading to massive migration.[2] To prevent a further temperature increase we need to reduce greenhouse gas emissions to nearly zero by the middle of the century.

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[1] For more information, see World Resource Institute, "Understanding the IPCC Report," (Washington, DC: World Resource Institute), http://www.wri.org/ipcc-infographics.
[2] Sophie Adams, *et al.,* World Bank, "Main Report: Turn Down the Heat: Confronting the New Climate Normal," (Washington, DC: World Bank Group, 2014), http://documents.worldbank.org/curated/en/317301468242098870/Main-report.

I want to point out the responsibility of the Western world and the high level of injustice in this matter: Climate warming was mainly created by the industrial Western world — namely the U.S. and Europe — but will mostly affect poor people in developing countries. Climate change was recognized as a human rights issue during the United Nations Climate Summit in Paris in 2015.[3] The health of local communities has already been heavily impacted by coal-fired power plants and coal mining in developing countries. Tar sand and oil drilling is being conducted without the informed consent of the local population. Moreover, the impact will particularly hit future generations, which have no voice in today's climate debates.

After I returned from China I followed a different career path than one focused on climate change, and I decided to accept a job at an international bank. I got caught up in my new role and have to admit that I only followed the Paris U.N. Climate Change Summit halfheartedly.

The Paris Agreement and Big Banks

Under the so-called "Paris Agreement" that was entered into at the Climate Change Summit,[4] the international community of states agreed on climate protection goals that would keep global warming below 2 degrees Celsius, and it further agreed to make finance flows consistent with a pathway toward low greenhouse gas emissions.

One cannot yet predict if all 195 governments will be able to act on these targets,[5] and I was pleasantly surprised that financial institutions were identified as crucial drivers in reaching the two-degree (known as 2C) target. I became curious: What is the responsibility of major banks in this ethical question of climate change prevention and how much impact can they have?

Through lending, investment, and other financial services, international banks play a key role as financial enablers. They have the power to either finance or not finance certain transactions or even industries. To fulfill the Paris Agreement, they would need to

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[3] Ryan Brightwell, BankTrack, "Banking with Principles? Benchmarking Banks against the UN Guiding Principles on Business and Human Rights," (Nijmegen, Netherlands: BankTrack, 2014), http://www.banktrack.org/download/5412388/banking_with_principles_june2016update.pdf; and Greenpeace and Amnesty Internationl, "Joint Statement: Protection of Human Rights From Climate Change Requires Urgent Shift to 100% Renewable Energy for All," December 8, 2015, https://www.amnesty.org.nz/protection-human-rights-climate-change-requires-urgent-shift-100-renewable-energy-all-joint.

[4] The Paris Agreement was negotiated within the framework of the United Nations Framework Convention on Climate Change (UNFCCC), an international treaty entered into in Rio de Janeiro in 1992. The Paris Agreement was negotiated by representatives of 195 countries at the 21st Conference of the Parties (COP) in Paris and adopted by consensus on December 12, 2015.

[5] Current Intended Nationally Determined Contributions (INDC) targets for the Paris signatories are forecasted to limit the increase in global temperatures to 2.7 degrees Celsius. Therefore these countries' future pledges must be progressively ambitious to meet the 2C target.

reallocate billions of U.S. dollars from fossil fuel exploration and power generation to renewable energy and investments in sustainable infrastructure.

Based on the available carbon budget, the Agreement stipulates that within the next 30 years, developed countries need to transform themselves into low-carbon economies and source their energy consumption from sustainable sources such as hydro, solar photovoltaic, thermal, or other technologies.

In December 2015, following the adoption of the Paris Agreement, many financial institutions, along with businesses, cities, civil society groups, and others signed a pledge driven by the Climate Conference called the "Paris Pledge for Action." This pledge demonstrates that leading corporations support taking steps to ensure that the 2C target is met:[6]

> … we realize that dangerous climate change threatens our ability and the ability of future generations to live and thrive … taking strong action to reduce emissions can not only reduce the risks of climate change but also deliver better growth and sustainable development. As a result, we the undersigned, affirm our strong commitment to a safe and stable climate in which temperature rise is limited to *under 2 degrees* Celsius.

Divest From Coal – Invest in Green

Coal-fired power plants are the biggest source of man-made CO2. Withdrawing financing from coal projects, therefore, would decrease future emissions immensely. Furthermore, the switch to a greener economy will require annual investments of at least $1 trillion.[7] Private sector financing is necessary to close the huge investment gap and make this difficult transition possible.

In March 2016, a study by researchers at Oxford University stated that in order to have a 50% chance of holding warming to 2 degrees or less, no new coal or gas power plants can be built after 2017, unless they are fitted with expensive equipment to capture emissions.[8] At the same time, another study from 2016, commissioned by the Sierra Club and Greenpeace, revealed that 338 gigawatts (GW) of new coal capacity is under construction

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[6] "The Paris Pledge for Action," (Cambridge: University of Cambridge Institute for Sustainability Leadership, 2015), http://www.parispledgeforaction.org/about.
[7] Tom Randall, "Renewable Energy at $254 Billion? Let's Make It a Clean Trillion," *Bloomberg,* January 16, 2014, https://www.bloomberg.com/news/articles/2014-01-16/renewable-energy-at-254-billion-let-s-make-it-a-clean-trillion.
[8] Alexander Pfeiffer, *et al.,* "The '2°C Capital Stock' for Electricity Generation: Cumulative Committed Carbon Emissions and Climate Change," (Institute for New Economic Thinking at the Oxford Martin School, January 2016).

globally, while another 1,086 GW is planned. This is the equivalent of 1,500 coal-fired power plants.[9]

Shorting the Targets

At odds with international emission targets, coal production globally has increased by 69% since 2000.[10] Over 70% of coal financing comes from only 20 international banks.[11] A group of NGOs estimated in a recent report[12] that 25 leading North American and European banks financed operators[13] of coal power plants with a total of $154 billion between 2013 and 2015.

Moreover, although leaders of climate-vulnerable countries called for a global moratorium on new coal mines, the same study found that the banks it analyzed financed companies active in coal mining with $42 billion (led by Deutsche Bank at $7 billion); owners of high-risk extreme oil reserves (Arctic, tar sands, and ultra-deep offshore) with $307 billion, and companies involved with LNG[14] export terminals in North America with $283 billion (led in both cases by JP Morgan with $38 billion and $31 billion, respectively).

The way these figures were calculated might not be exact (the methodology has been questioned by some), but still, looking at these large investments in fossil fuels may lead one to wonder whether the banks are actually betting against the realization of provisions of the Paris Agreement and adherence to emissions targets.[15] Some of these institutions have signed the Paris Pledge for Action but continue to invest in projects and sectors that are defined as soon to be "stranded assets,"[16] according to the 2C target. Investing in ultra-

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[9] Christine Shearer, *et al., Boom and Bust 2016: Tracking the Global Coal Plant Pipeline,* (Coalswarm, Sierra Club, and Greenpeace, March 2016), http://sierraclub.org/sites/www.sierraclub.org/files/uploads-wysiwig/final%20boom%20and%20bust%202017%20(3-27-16).pdf.
[10] Heffa Schücking, *Banking on Coal,* (urgewald, November 2013), http://www.banktrack.org/download/banking_on_coal/banking_on_coal_updated.pdf.
[11] Yann Louvel, Ryan Brightwell, and Greig Aitken, *Banking on Coal 2014: Bank Financing of Coal and Coal Power, and Why It Must Stop,* (BankTrack, 2014), http://www.banktrack.org/download/banking_on_coal_2014_pdf/banking_on_coal_2014.pdf.
[12] Rainforest Action Network, Sierra Club, BankTrack, Oil Change International, *Shorting the Climate: Fossil Fuel Finance Report Card 2016,* (Rainforest Action Network, 2016), https://d3n8a8pro7vhmx.cloudfront.net/rainforestactionnetwork/pages/15942/attachments/original/1475516884/Shorting_the_Climate_vWEB.pdf?1475516884.
[13] "Coal producers" refers to companies that meet one or more of the following criteria: derive 30% or more of their revenue from coal mining, coal transportation, coal-to-liquids operations, or the production of specialized equipment for the coal mining industry; produce more than 20 million metric tons of coal annually; are expanding any coal mining operations or coal infrastructure projects (e.g. building, expanding, or acquiring new coal mines, coal export terminals, or coal-to-liquids facilities).
[14] Liquefied natural gas (LNG) is natural gas that has been converted into liquid form for ease of storage or transport.
[15] Although the capital supply for coal mining is shrinking, banks analyzed by the previously mentioned NGO report continue to finance coal-intensive electric power producers. Extreme oil and LNG are being supported at nearly unconstrained levels, according to the report.
[16] Stranded assets are "assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities."

deep offshore oil reserves does not make sense if, according to the Paris emission targets, we will have to leave most of the Earth's fossil fuel reserves untouched.

Corporations are caught up in the dilemma of performing in a short-term economic system that is plagued by so-called agency problems[17] and behavioral biases in the financial system. If global political agreements are also likely to fail, who then has the power: who is ultimately responsible for the well-being of the next generations?

As a consequence of public pressure, some financial organizations have introduced stricter investment standards and have pledged, for example, to not support certain mining methods, such as mountaintop mining, which environmentalists say is particularly harmful. Still, action is slow and guidelines are kept vague. For example, some banks have pledged to stop financing coal-fired power plants in high-income countries.[18] This is a positive signal, but the lion's share of new coal power projects is located in developing countries where governments tend to be less restrictive and careful due-diligence would be even more important.

Ethical Implications versus Business Interests

In this paper I am focusing on fossil fuels, since preventing climate warming used to play a role in my professional life. But we could also discuss financing particular deals in the defense industry, land-use (deforestation), or the textile industry. International banks have large stakes in these sectors and their responsibility to evaluate and then possibly influence these legal but mostly controversial industries is not well defined.

With no public mandate will private financial institutions really take the initiative needed and divest from fossil fuels as demanded by scientists?

Banks rely on quantitative risk and return calculations. The question is if and how financial institutions will or should incorporate ethical considerations into their investment decision processes. Since corporate responsibility with a focus on these critical industries is just partially regulated, there is no uniform approach. Some institutions have Reputational Risk Committees, which are akin to ethics committees, whose panel of experts comment or provide advice on certain transactions.

Furthermore and as mentioned above, most financial institutions have guidelines for responsibly investing in critical sectors such as mining, coal, or the defence industry. But

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[17] An "agency problem" can be defined as a conflict of interest inherent to a relationship in which one party is expected to act in another's best interests. In corporate governance, the agency problem usually refers to an interest conflict between the company's management and the company's stockholders.
[18] Pilita Clark, "JP Morgan to Stop Direct Financing of New Coal Mines," *Financial Times,* March 7, 2016, https://www.ft.com/content/8cccce10-e48d-11e5-bc31-138df2ae9ee6.

due to the complexity of these industries, and their deals and financial products, such guidelines tend to be vague and difficult to apply. In the end, many investment decisions are individual decisions taken by individual business professionals.

Distributing responsibilities as well as holding someone accountable becomes increasingly difficult the larger a corporation gets. Within an institution, it is not easy to define who is in the end "responsible" for what.

According to Milton Friedman, who stated in his 1970s' doctrine that the business of business is business, "there is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."[19] But as one can see in the case of the financial industry, even the rules of the game, our legal framework, are not a reliable boundary anymore.[20]

Moral Duty and the Complex Effects of Our Actions

The philosopher Hans Jonas teaches us about the overriding moral duty to care for the future of mankind in an age in which technology has become "almighty." He believes that this responsibility should grow with the increasing power of human beings and the corresponding opportunities for action. "A kind of metaphysical responsibility beyond self-interest has devolved on us with the magnitude of our powers ...," says Jonas in a paper presented to the Wunsch International Symposium on "Ethics in an Age of Pervasive Technology" held in Jerusalem, in December 1974.[21] But in an increasingly complex world it is difficult to understand the cause and effects of our actions. The further removed the consequences of our actions are from the actions themselves, the easier it becomes to ignore these consequences.

Professional Excellence versus Global Responsibility

Moreover, I believe that a concentration of specialists in large corporations narrows the organizational perspective and creates a one-sided bias. This is also true for the financial sector where you naturally find a higher concentration of backgrounds in business, economics, and math than in the liberal arts, humanities, or natural sciences.

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[19] Milton Friedman, "The Social Responsibility of Business is to Increase its Profits," *The New York Times Magazine,* September 13, 1970.
[20] Banks list billions of dollars on their balance sheets as so-called "litigation provisions" to fund legal disputes resulting from operations that were performed in grey zones.
[21] Hans Jonas, "Responsibility Today: The Ethics of an Endangered Future," *Social Research: An International Quarterly* 43 (1976): 77-97.

Of course, there are exceptions, but I am convinced that it is naive to expect certain business professionals, especially those in lower level positions, to make decisions that contradict corporate expectations and professional business standards, although it might be the right thing to do from a holistic social or environmental point of view. For example, a relationship manager who has worked with utility companies for all his or her career and whose work has been driven by sales performance, might not see the moral questions surrounding the financing of a bond to build a new coal-fired power plant somewhere in Africa or Bangladesh.

Cause and effect becomes increasingly difficult to determine, especially in organizational systems with a strong hierarchy and information asymmetry. Moreover, a lot of courage and foresight is needed to stand up to the status quo — especially in the context of corporate systems.

Top management is in the position and has the responsibility to evaluate business decisions with a holistic, integrated approach. But these decision-makers tend to be experts in a particular area themselves and therefore often trapped in the pitfall of professional short-sightedness.

Business Complicity and National Socialism

The devastating politics of the 20th century — particularly the murderous dimensions of totalitarian systems such as those set up by national socialism — manifested a moral crisis on societal, individual, and professionals level that obligates us to emphasize the necessity for independent thinking and our "capacity to judge."

Business complicity is a leading theme in the Nazi period since many corporations took advantage of shifting ethical standards and the new reality of the Third Reich. In the context of changing laws and regulations, corporations not only benefitted from slave labor and war supply production. They were also complicit through their work providing financing and insurance to — and benefitting from — the murderous Nazi regime.

In fact, history has shown that decision-makers in financial institutions were also highly complicit in the darkest chapters of contemporary history without even leaving their desks. Historians such as Gerald D. Feldman have pointed out that the practice of seeking opportunity, "however unusual the business," brought banks and insurance companies in Nazi Germany very close to the Holocaust itself.[22] The financial sector financed and insured concentration camps as well as extermination camps in Nazi Germany. The German insurance company Allianz, today one of the largest financial service groups

[22] Francis R. Nicosia and Jonathan Huener, eds., *Business and Industry in Nazi Germany,* (New York: Berghahn Books, 2004), 7.

globally, insured the barracks and other property at the camps, including at Auschwitz and Dachau.[23]

It is impossible to understand how "normal" engineers and business professionals at the economically troubled company of Topf & Söhne in Erfurt decided to design and produce the custom made mass extinction infrastructure used in Nazi concentration camps. This might be one of the most extreme examples of direct business complicity, but it drastically shows that professionals are often led by opportunistic benefits and considerations. These professionals were able to switch off their consciences, their morals, their emotions, and any feelings of responsibility. Is it also possible, that being experts in their disciplines is precisely what allowed these professionals to ignore the obvious consequences of their actions?

It is difficult to interpret what exactly moved professionals back then and what we could derive as consequences for business today. We could try to say that beyond professional excellence, businesses should strive to have a general human purpose and a culture that reminds employees to define their positive impact.

The Identity Crisis of Big Banks

Banks are currently in an identity and purpose crisis. Multi-trillion dollar bailouts, multi-billion dollar litigation fines, criminal charges, and write-offs have turned the relationship and trust between society and financial institutions sour. Yet, the importance of banks to our globalized economy is greater than ever and their role in funding the transition to a more sustainable economy is decisive.

Public suspicion and increasing supervision by regulators have put banks under pressure. The six biggest banks in the U.S. and Europe have increased their assets almost five-fold since 1997.[24] More than 20 European and North American banks are rated as key to the global system by the Financial Stability Board, an international body monitoring the global financial system. Many of them are still too big to fail, which makes their roles and responsibilities as corporate citizens particularly interesting. The industry keeps struggling economically, but banks need to redefine themselves to focus on a meaningful legitimation for their existence. When, if not now?

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[23] Greg Steinmetz, "New Information Reveals Allianz Insured Nazi Camps," *The Wall Street Journal,* June 3, 1997.
[24] International Monetary Fund, *Global Financial Stability Report—Moving from Liquidity to Growth-Driven Markets,* (Washington: International Monetary Fund, 2014), http://www.imf.org/external/pubs/FT/GFSR/2014/01/pdf/text.pdf ; and Yalman Onaran, "Too Big to Fail," *Bloomberg,* January 12, 2017, https://www.bloomberg.com/quicktake/big-fail.

Rethinking Purpose

The only way to preserve large banks' legitimacy and competitiveness would be to turn their tremendous capabilities for innovation to financing "consumer, social, and environmental solutions that benefit society while increasingly representing good investment opportunities for private capital," [25] says Michael E. Porter,[26] a visionary thinker in the field of corporate strategy and competitiveness.

In my previous job, I worked with a large number of corporate social responsibility (CSR) departments that are usually responsible for environmental and social questions. Often they report to corporate communications departments, i.e. corporate PR, and their influence on the actual business is very limited.

To really implement sustainability and responsibility in business, one path could be to rethink the purpose of banks in the context of a shared value approach, according to which profit is generated by measurable business returns while addressing social and environmental challenges. The idea is to integrate purpose-generating shared value creation into all business considerations and activities and to move away from a "peripheral engagement with society through isolated corporate philanthropy, CSR, or sustainability programs"[27]. Banks would need to incorporate a link between social needs and business value in their measurement systems to assess the shared value produced. Financing solutions for global challenges such as sustainable energy would become a clear business goal.

Creating shared value could be an alternative path for conventional banking cultures that is worthwhile considering, since if banks were to shift their capabilities to create sustainable social and environmental growth they may also regain their standing in society.

From today's perspective this approach might look quite idealistic, but in the future, governments may decide to incentivize value-creating investments, although the question remains: who then decides what is in the best interests of society?

Such a shift in culture would require conviction at and implementation from the top. Nobody less than the CEO of a company is required in order to convince an organization of the benefits of a purpose-driven business. As mentioned above, the larger an organization is, the less likely someone in a lower level position is to initiate change.

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[25] Valerie Bockstette, *et al., Banking on Shared Value: How Banks Profit by Rethinking Their Purpose,* (FSG's Shared Value Initiative, 2014), https://sharedvalue.org/sites/default/files/resource-files/FSG_Banking%20on%20Shared%20Value_0.pdf.
[26] Michael Porter is an economist, author, and professor at Harvard Business School. He is best known for his work on corporate strategy and competitiveness.
[27] Bockstette, *et al.*

Many corporations and, in particular, financial institutions have identified the importance of incorporating sustainability, as well as social and environmental considerations, into their decision-making processes. At the same time, it is astonishing how few institutions have put the topic on the C-level responsibility agenda. Maybe this is one of the reasons why the implementation of sustainability criteria is so poorly executed within most financial organizations.

One tool for implementing a cultural shift would be for businesses to hire more sociologists, philosophers, or environmentalists — you can get five for the price of one global markets manager. As Jonas has noted, "We know what is at stake only when we know that it is at stake."[28]

Moreover, business professionals need to broaden their horizon and create an atmosphere of responsibility, not only for the sake of their businesses but also for the sake of future generations. Today's revenue-centric incentive system needs to be aligned accordingly. Willingness to take responsibility, independent thought and judgment, as well as curiosity and an interest in other people and ideas, might be the most important qualities of future leaders.

Sensus Communis: Ubuntu

Last but not least, banks' stakeholders and particularly civil society have a responsibility to demand a more sustainable and long-term focused economic system. While governments and companies will need to be part of the solution to these massive global challenges, such as by preventing and adapting to climate change, ultimately it will be up to civil society and banks/investors to mobilize the capital needed to overcome them.

Today we live in a world of relative freedom and liberty. We need a decisive public sentiment that investing in non-sustainable resources will endanger future generations. Looking back in time, one can see that the abolition of slavery or apartheid was largely driven by societal movements. Two years ago, Desmond Tutu, a South African civil rights activist and retired Anglican bishop, said that tactics used against firms who did business with South Africa in the 1980s should now be applied to those who are part of the fossil fuel industry in order to prevent human suffering.[29] In this context, Tutu mentions that there is a South African word that describes human relationships: *Ubuntu:* "I am because you are."

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[28] Jonas, 77-97.
[29] Desmond Tutu, "We Fought Apartheid; Now Climate Change Is Our Global Enemy," *The Guardian,* September 20, 2014, https://www.theguardian.com/commentisfree/2014/sep/21/desmond-tutu-climate-change-is-the-global-enemy.