**BASF CASE:** *A chemical company was planning a new manufacturing plant in the USA. It would create 700 new jobs. The planned discharge of effluent into the adjacent river was within the legal limits. However, owners of a nearby luxury vacation resort objected to the plant. According to a news report, the plan to build the plant was supported by “those who are not rich”. The company had the options of going ahead as planned, adopting more expensive pollution control, or going elsewhere.*

**Discussion**

This situation illustrates:

(i) the complexity of integrating competitive business strategy with social responsibility and political considerations.

(ii) the fact that “community” and “biology” are not always on the same side in opposing industrial development.

In this case, the “community” wanted the jobs, despite the pollution. The case reminds us that when we are seeking ways of combining Adam-Smith style efficiencies with “deep economics” in business decisions, we ought (rationally) to examine the inter-dependencies amongst all aspects of economy, or all the relevant forms of capital: financial, ecological, social and cultural.

**Analysis**

The three options stated in the summary are as follows

(i) Option 1. “we are going ahead with the new plant, as planned”

(ii) Option 2. “we are going to abandon this plan and build the plant somewhere else” because…

(iii) Option 3. “we are going ahead but with the expensive pollution minimisation” because…

***Option 1***

This is what the community, or “those who aren’t rich” say they want, because of the jobs created and the associated boost to the *local* economy. For this reason it appears to be on the side of social *justice* (the stakeholder model, etc.). Yet to some extent it also represents business-as usual (investor capitalism) including some pollution. How would BASF managers justify option 1 amongst themselves, or in public (corporate communications)? Although these two “justifications” would normally be somewhat different, in this case they would probably both emphasize the job-creation and benefits to the local community. In addition the managers might decide to broaden the argument and point to the merits of business- as-usual (capitalism) and the idea of “optimal pollution” (a trade-off of the estimated costs of pollution against the benefits of the economic boost). The situation is interesting because even though option 1 appears to champion a form of social *justice* (jobs in a struggling community) it can be justified by referring to various selected poles on *both sides* of the stable framework (efficiency and the shareholder model, but *also* justice, the stakeholder model, human capital, as follows:

“We note at the outset that we have carefully ensured that our planned plant complies with all the applicable laws, including environmental law. We are expecting to contribute to the local economy and we will be providing many needed jobs in an area that currently has high unemployment. These jobs are productive and worthwhile because they will help us to satisfy the market demand for our products (*efficiency*) whilst creating ‘*value*’ for our shareholders (financial *capital* formation). The jobs also help to develop *human and social capital* in the region. We understand that profitable job creation requires at some *exploitation* of the known limitations of market-based *systems*, such as the un-priced externalities in this case. We consider that the decision to go ahead represents a good solution to the trade-offs involved.

More broadly, we continue to believe that a competitive but properly regulated *system* of investor capitalism is the only one that works in practice and we are proud to participate in that system. We agree with Winston Churchill who once said that “Capitalism is the worst system ever devised by man…apart from all the others.” We also believe, based on the studies we have done, that the specific concerns of the vacation resort regarding the likely effects of pollution on their business are overstated. In any case, we would like to point out that the relevant legal maximum level of pollution has already been been determined by a democratic political process, with exactly this kind of activity in mind. If those pollution laws do become stricter in the future we will comply with them at that time (*ethics later*). The option of having a more expensive pollution control system now was rejected because it was determined by careful analysis that it would undermine the profitability and commercial justification of the plant project (i.e. prevent us from creating shareholder *value* and adding to *financial capital*). In any case we believe that a greater expenditure on pollution control would not stop the vacation resort from objecting; they (or their customers) would still probably perceive a risk of pollution or loss of aesthetic appeal from *any* nearby industrial plant. Finally, we would like to point out that all the information about our products and compliance processes is publically available and our customers are free to choose with this information in mind”.

***Option 2.***

The option to build somewhere else has an even stronger look and feel of “Business-as usual” (arguably on the side of economic *efficiency*). It is the option that most “hardened” practical business analysts would probably predict. It is *expedient*: the managers don’t want any bad PR associated with the planned pollution, nor any ‘hassle” or obstructive legal action from the vacation –resort (corporate) owners. How would BASF managers justify option 2 amongst themselves, or in public? Privately they would probably refer to the PR, legal risks and “hassle factor, as above. Publically (and perhaps also amongst themselves) they would be able to “play the green card”, as follows:

“We have decided to abandon this plan and [move to a different and safer site, where there are minimal environmental risks. The proposed plant would indeed create some effluent discharge into the local river, even though it is at level that is within the relevant guidelines and below the legal limits. However, the company has recently made a broader strategic decision to go “beyond compliance” with respect to environmental risks. We have accordingly adopted an ethic of environmental stewardship and care. The natural environment is sometimes called the “silent stakeholder” and we find many economic and moral justifications (linked to stakeholder theory) for protecting all ecosystems. For example, one might estimate the full value of the fish in the river by using a $ social-cost-benefit approach (associated with utilitarianism). This takes into account not only the current market price of the fish, but also their role in the overall ecosystem and how this can be expected to effect people in various ways in the future.  We are also mindful that the fish and the local ecosystem can be regarded as having intrinsic value as "ends in themselves". They are part of what McKibben has called the “Deep Economy” and we thinkl of ourselves as a part of that.

***Option 3.***

How would BASF managers justify option 3 (going ahead but with expensive pollution-reduction equipment) amongst themselves, or in public?

It would involve

(i) playing the green card, as above (because this is also a green option),

(ii) playing the “business as usual” (capitalism) card, as in option 1: “We are expecting to contribute to the local economy and we will be providing many needed jobs, etc.”

(iii) Revised considerations about costs and profits essentially similar to option 1 but with the numbers and the situation assessments now different, as follows:

“We are very aware of environmental concerns, so an option of having an effective but expensive pollution control system was considered and *accepted.* Wedetermined by careful analysis that it would *not* undermine the overall profitability and commercial justification of the plant (i.e. we will *still be* creating shareholder *value* and adding to *financial capital*). We also believe that with this very high level of pollution-prevention and control the vacation resort and their customers will not even be aware of our presence. In any case the planned plant and its surroundings have been designed very aesthetically and will be of significant benefit to the community”.

**Further analysis**

Further analysis of the case can be carried out by

(i) invoking the *spanning-themes* of the stable framework (as summarized in Tables 1 & 2.)

(ii) considering a “*deep red*” viewpoint

(iii) the idea of a possible win-win *synthesis*

These are as follows:

***The spanning- themes***

Selected spanning-themes of the stable framework can be applied to the case, as summarized in Tables 1 & 2.

**Table 1. Further justifications for options 1 & 3 by invoking spanning-themes**

|  |  |  |
| --- | --- | --- |
| **Character** | **Intention** | **Macro-Trends** |
| The managers’ *character* would be strengthened by approving the plant. They would be taking a stand for practical social *justice*; that is, acting against the interests of the luxury resort and upholding job-creation in a depressed area. This can be considered the highest form of charity. | The intention to create value for shareholders by going ahead is morally defensible with reference to utilitarianism, egoism and the historical record of investor capitalism compared to alternatives. | The macro-*trend* is towards global investor capitalism *and* increased environmental regulation. We see ourselves as part of this trend and we expect this plant to remain profitable and in full compliance or beyond compliance. |

**Table 2. Further justifications for option 2 by invoking spanning-themes**

|  |  |  |
| --- | --- | --- |
| **Character** | **Intention** | **Macro-Trends** |
| The character of the managers involved would be harmed by approving the plant. They might begin to develop *habits* of *expedience* (i.e. avoiding hassle from the luxury resort) or, with option 1, habits of mere *compliance* with what might be bad law. | Manufacturing should always be done with the *intention* of serving society and co-producing the human goods (health, aesthetics, wealth, etc). Pollution endangers health and should never be intended. | There is a macro-*trend* is towards global managerial/investor capitalism. The decision to go somewhere else is consistent with this. |

***Synthesis***

Further justifications for variants of option 3 (pollution control) can focus on attempts to create or design a win-win synthesis of profit, job-creation and environmental stewardship. For example:

“the company is continually seeking and designing more efficient ways of carrying out our manufacturing processes, reducing waste and identifying opportunities to use all by-products (effluents) in other processes or products. In other words we think of our operations as part of as an industrial ecology. Rather than abandoning the plant and the community we intend to not only minimize pollution but also find partners who can help build an efficient and profitable industrial ecology in this location”.

***A “deep-red” point of view***

Finally, the entire case can be viewed from a “deep-red” perspective in which the system of capitalism and business-as-usual is critiqued (i.e. its ‘monopoly rents’, pollution, exploitative control of workers by private interests, etc.). For example:

“People often say they want jobs but our authentic deeper needs include a sense of empowerment and opportunities to fulfill our potential (i.e. positive freedom). This can often be achieved through some combination of material consumption (utility), self-expression and authentic living (identity and cultural expression in which the natural environment plays an important role). A system of true *justice* would make all of this possible for everyone, offering access to proper education and some form of endowment (i.e. overcoming the lack of *ability to pay*). It would also prevent coercion of individuals and community by the state or by private actors. Such as system is somewhat in line with the *stakeholder* model or variant of capitalism. With regard to moral theory, it reflects a combination of (i) utilitarian moral reasoning subject to a clear justice constraint (intended to prevent abuses of minorities or individuals) and (ii) the treatment of other people as “ends in themselves” so that their authentic needs are respected and their genuine well-being is upheld (*deontology,* golden rule), and (iii) and ethics of care.”

[end]