

## **Towards Systems Thinking in Ethical Management to the Environment: A Solution for Conflict of Interest**

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**Abstract:** *Multiple stakeholders refer to different interests that are vulnerable to create conflict of interest. The condition requires an effective management to satisfy stakeholders without ignoring ethical practices to the environment. It demands systems thinking which makes companies realise that their activities influence stakeholders whilst stakeholders' actions have impact on companies. However, several companies preclude the systems thinking which gives consequence to unsolved conflict and even creates worse problems. Gunns Limited Company Australia (Gunns) is one of example of these companies. Gunns activities in the Tasmania forest generated public criticisms because Gunns was considered as a firm that deteriorated the environment, humans' health and communities' job. Different stakeholders' views on this case might lead to environmental safety or environmental destructions. With this background, this essay attempts to analyze the application of systems thinking (under stakeholder theory) in the process of ethical management to the environment in order to solve the conflict of interests. Hopefully, this paper will significantly contribute to overcome similar issues in Indonesia and also contributes to further researches related to systems thinking as a solution for conflict of interest.*

**Keywords:** *Systems Thinking, Conflict of Interest, Ethical Management*

A good relationship between company and its stakeholder has been a prominent factor to determine a company's success. The majority of companies perceive that building good relationship with all stakeholders is challenging because these numerous stakeholders are identical with conflicts of interests. The conflicts are primarily inevitable conditions in companies that have multiple stakeholders because each stakeholder has different preferences that might be incompatible with

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other stakeholders' interests. Accordingly, companies must have capabilities to effectively manage these conflicts by making good decision. A failure to manage these conflicts may lead to worse conflict problems.

The case of conflict of interests had been predominant issue in Gunns Limited Company (Gunns). Gunns is the largest fully integrated hardwood forest products company in Australia which has been established since 1875 in Tasmania. Its operation generated high criticisms from public and environmentalists because the operation threatens environment and human's life. The level of criticisms had increased since Gunns proposed a \$1.8 million pulp mill in the Tamar Valley. Gunns asserted that the project would result in significant contributions to the Tasmanian and Australian economies. In addition, Gunns ensured that the pulp mill operation would be safe for environment because Gunns would apply a high worldwide standard pollution control. Conversely, environmentalists and communities argued that the project endangered the natural environment, animals, humans' health and local industries. The conflict also involved the Tasmanian government who considered the projected pulp mill would generate state's incomes and create job opportunities for communities. The ongoing conflict of interests had been unresolved problems for years.

According to the case, there was a definite probability that conflict in Gunns involved all stakeholders such as shareholders, employees, customers, political parties, the Tasmanian government, the Federal government, environmentalists and communities. However, the most primarily issue in the case was conflict among Gunns, the Tasmanian government, communities and environmentalists. Accordingly, this essay has the aim of analysing main causes and characteristics of conflicts among these stakeholders. This essay also evaluates Gunns's and the Tasmanian government's practices to manage the conflict in term of systems thinking associated by ethical management decision to the environment.

### **CONFLICT OF INTEREST**

The exhibit 1 below displays information on multiple stakeholders in Gunns Limited (particularly in Pulp Mill Project) refers to different preferences which lead to conflict of interests.

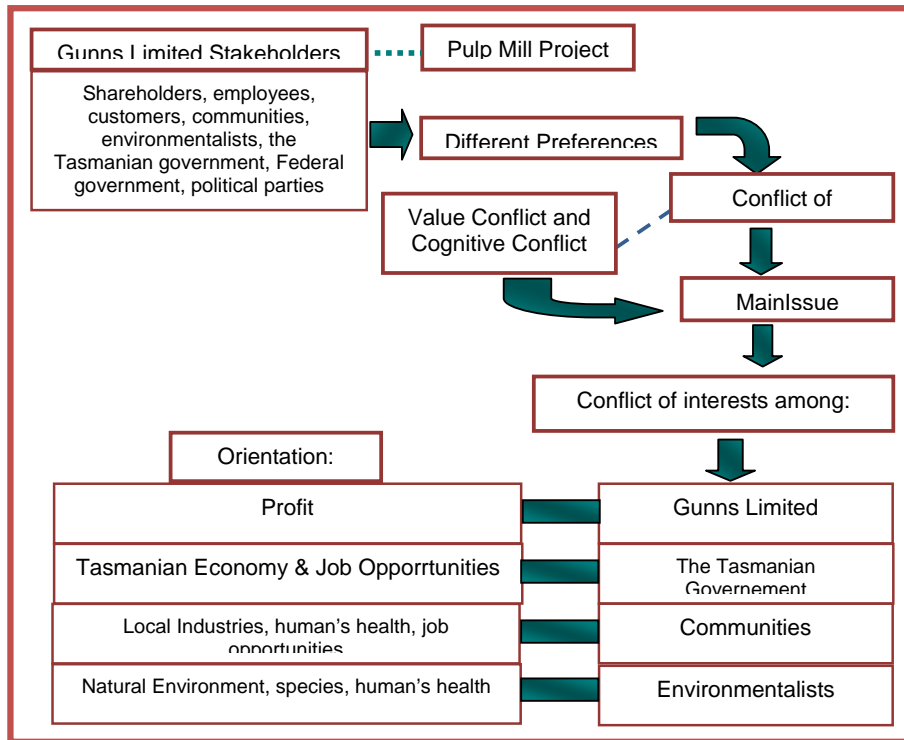


Exhibit 1. Conflict of Interest in Gunns' Pulp Mill Project

### Multiple Stakeholders and Different Preferences

Conflict is a condition that a party perceives that its interests may be negatively affected by other party's interests (Robbins, et. al.,1998). There are numerous factors which may generate conflict such as culture differences, interest differences and misunderstanding. A case of conflict in Gunns represented conflict of interests because Gunns had numerous stakeholders that primarily comprise management of the company, shareholders, employees, the Tasmanian government, communities and environmentalist. These multiple stakeholders indicated that each stakeholder had different preferences which led to inevitable conflict. The first example was the Gunns' management had interest to get maximum profits in order to meet shareholders' interests. The second was the Tasmanian government that emphasizes on Gunns's contribution to states in the term of economy and job opportunity. Finally, environmentalists and public were interested in the impact of Gunns's operation to the environment. These various interests must be appropriately managed through a broader view because a narrow view of business world may lead to predicaments. This broader view had been remarkable as a stakeholder view. Stakeholder view argues that organizations or business corporations have obligations to societies as addition to pursuing profits or economic outcomes (Wilcox, 2007). Under a stakeholder theory, an organisation has direct and (or) indirect

effect from its activities to stakeholders thus each group of stakeholders' interests should be managed (O'Donovan, 2002).

### **Value Conflict and Cognitive Conflict**

The conflict of interests in Gunns represented value conflict and cognitive conflict (Driscoll, 1996). The value conflict signifies that stakeholders have distinctive policies, objectives and values (Driscoll, 1996). The second conflict was a cognitive conflict which means stakeholders have distinctive levels of awareness, perception variation or stereotype to other stakeholders' policies, goals and values (Driscoll, 1996). Gunns had perception that economy concern was more important rather than environmental damage. The government had perspective that Gunns's operation would result in state's income and job opportunities. In addition, public had stereotype in relation to public's antitrust to Gunns and the Tasmanian government practices. One of the examples was public disbelieve with Gunns's objective to increase job opportunity because public had perspective that the real objective of the project was solely to maximize profit. In addition, public thought the Tasmanian government had applied unethical cooperation with Gunns which only gave benefits for the Tasmanian government and Gunns. Furthermore, Gunns also had stereotype that environmentalists are perceived as forest industries enemies (Anjani, 2007).

### **SYSTEMS THINKING**

The conflict of interests is inevitable situation for companies which have multiple stakeholders. Therefore, companies are required to properly manage the conflict of interests. A failure to manage the conflict will lead to predicaments for companies because different stakeholders' visions and actions are threats for companies such as high criticisms, refusal to company's products and operations, low investments and (or) disinvestment, discontinue company's operation by the government. Accordingly, companies must have cognition of accomplishing stakeholders' interests. An essential factor to have the good cognition is systems thinking.

Systems thinking are mind framework to consider each case in various viewpoints resulted from cognition that people basically have interrelationship (Senge 1990). The interrelationship implies on a condition that each individual has potential influences to give impact on others. In addition, it also signifies that each individual may be affected by other people's actions. Therefore, systems thinking help companies' management to alter the way of thinking from narrow views to broader views of stakeholders (Senge, 1990). The narrow views might be associated with certain stakeholders to conventional profit-seeking assumption whilst the broader views also emphasise on companies' obligations to societies and the natural environment. In this way, companies broadly concern in all stakeholders' interests through systems

thinking because of recognitions that each party has influences on others.

The systems thinking were significant contributions for Gunns to manage numerous different interests among its stakeholders. It was beneficial for Gunns to acknowledge that its activities affect all stakeholders. In addition, Gunns could recognize potential influences from its stakeholders to the company. The acknowledgement of stakeholders' interests was essential to identify real issues which affect company and its stakeholders (Kujala, 2001).

#### **Cognition of Company's Activities Influences to Stakeholders**

Systems thinking assisted Gunns to obtain recognition that its activities affected all stakeholders. It was definite to observe that Gunns already had cognition that its activities affected the income of shareholders hence the company strived hard to achieve these shareholders' interests. However, Gunns had lack of acknowledgement that its activities also had impact on other stakeholders particularly communities and environmentalist which commonly concerned on job security, human's health and environmental safety. It signifies that Gunns's activities may give influences to support or harm these concerns.

#### **Cognition of Stakeholders' Influences to Company**

Systems thinking also contributed to give acknowledgement that shows stakeholders' activities had potential impact for Gunns. These impacts were derived into several stakeholders' influence. The first example was an influence from the government regulation in Gunns's operation license. Secondly, shareholders' decision to make and (or) continue investment or disinvestment in Gunns. The third influence came from communities and environmentalist who criticized Gunns's activities which might lead to threat for Gunns's reputation.

### **CONFLICT OF INTERESTS AND SYSTEMS THINKING**

Conflict of interests particularly occurred among stakeholders (particularly the Tasmanian government, environmentalists and communities), Gunns and environmentalists, Gunns and communities, and conflict of interests among Tasmanian government, environmentalists and communities. The condition of systems thinking associated with conflict of interests is represented in the following exhibit:

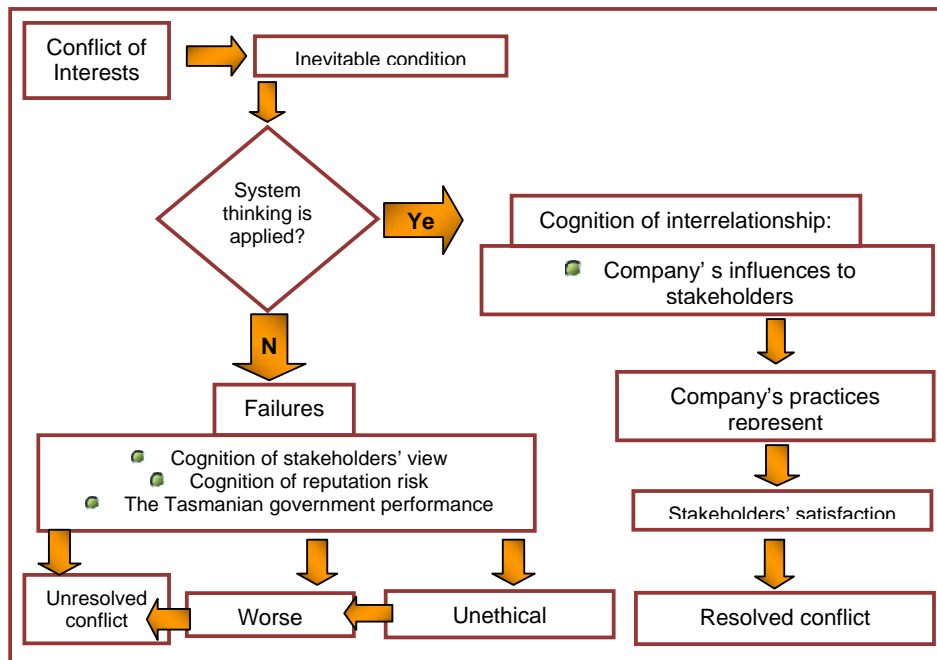


Exhibit 2. Conflict of Interest and Systems Thinking

### Conflict of Organisational Stakeholders

Conflict of interests was inevitable condition in Gunns which had multiple stakeholders with different preferences. The operation in Tasmania forest and the projected pulp mill generated high magnitude of conflict among stakeholders. In the case, the primary stakeholders who were involved in the core conflict are Gunns, environmentalist, the Tasmanian government and communities.

The Tasmanian Government viewed the projected pulp mill was forecasted to provide essential contribution to economic and social benefits to Tasmania. In economy term, the state would attain significant revenue from the trading and tax. Moreover, the government expected the pulp mill would decline export requirements of paper because the state was able to produce the paper through the pulp mill. It also signifies that the pulp mill was perceived as resolution of deficit in Australia's paper production (Anjani 2007). In term of social aspect, the Tasmania government assumed that the project would create job opportunity (Anjani, 2007). Accordingly, it was considered as significant conditions to increase wealth of local communities which lead to improvement of social life.

On the contrary, communities and environmentalists concerned the negative impact of the operation to environment. The operation was estimated to endanger species and job opportunity of local people as the operation polluted water, land and air. The circumstance was threat for job in agriculture, fishery and tourism. Consequently, the condition

created loss of job opportunities for local people which give further consequences to the increase of poverty (Parry, 2003).

### **Gunns and Environmentalists**

Gunns asserted that it had sustainable forestry management according to Australian Forestry Standards. In addition, Gunns also claimed that its operation had the best practice standards in order to protect the environment from pollution and wastes (Gay, 2006). Furthermore, the pulp mill project was stated to be the highest standard practice worldwide. Gunns affirmed that the pulp mill would be environmental friendly practices and adhered to Tasmanian and Commonwealth environmental regulation. In addition, Gunns proposed a plan to utilize sophisticated technology in the pulp mill in order to comply with emission limit guidelines issued by the Tasmanian Government (Revised Project Scope, 2005).

On the contrary, environmentalists which primarily consist of The Wilderness Society and Tasmanians against the Pulp Mill (TAP) had adverse opinions. The project was considered to generate severe damages to the environment. Environmentalists argued that the pulp mill would cause high pollution to deteriorate the environment. It was supported by a survey that shows data of 1,270,000,000 tonnes effluents were produced into Base Strait including over 7,000 tonnes of organochlorines which contained some of the most toxic substances (*Mixed reaction to decision on pulp mill assessment*, 2007). Consequently, there would be severe damages which endanger seals, dolphins and fishing industry. Furthermore, the mill also polluted air which was predicaments for humans' health. Environmentalists also argued that Gunns's building plan procedure assessment was considered fairly unauthentic because there was a short period for public comments and less authoritative criteria. In addition, it had been published that Gunns had failed to meet levels of dioxin and official air pollution guidelines (Flanagan, 2007). These conditions generated more criticisms from environmentalists.

### **Gunns and Communities**

The case was divided local communities into two groups: pros and contra of the project. One group disagreed with company's operation. In general, the group of communities had the same view with environmentalists. Communities had the same concern with environmentalists to accuse the project because it harmed environment and human's health. In addition, the project would generate negative influences to local industries such as restaurant, tourism, fishing and farming (Tamar tourism operators air their pulp mill fears, 2007). Conversely, the other group of communities supported the operation because it would create job opportunities and investment to communities.

In addition, there was also conflict in an assessment procedure transparency to the pulp mill. Gunns' project proposal had included plenty of community consultation. For example, Gunns guaranteed that public would be invited to communities' forums to learn the project. In addition, Gunns also promised that public demands would be concerned. Moreover, Gunns also involved regular media briefings and publicity events to explain prominent elements of the project and built telephone lines to answer public inquiries (Revised Project Scope, 2005). Conversely, a wide range of anger and refuses had emerged from the communities because they believed Gunns had failed to complete these promises to involve public participation during the evaluation of this project. They also argued that the 20 days public comment period was too short thus they had lack of opportunities to give comments on the plan (Federal govt's pulp mill assessment 'illegal', 2007).

The conflict of interests was improperly managed by Gunns because the systems thinking were precluded in the process. Consequently, stakeholders' views and reputation risks were failed to be acknowledged.

#### **Failure of the Absence of Systems Thinking**

The conflict of interests required good practices to effectively manage the conflict. However, Gunns failed to manage the conflict which resulted in failure to solve the conflict. The case reflects a situation that Gunns ignored systems thinking in managing its stakeholders' interests because Gunns solely focused on several stakeholders' demands but ignoring other stakeholders' interests. Gunns had been incapable to aware with communities' and environmentalists' interests thus every action conducted lead to these stakeholders' dissatisfaction. As a consequence, Gunns failed to solve problem and even created other problems.

The other problems represents practices frowned on by Gunns. It led to other dysfunctional applications which excluded ethical concern in business practices especially in a case to encounter criticisms. Some examples of these dysfunctional practices were manipulation of public opinion, severe treatments to several parties that disagreed with company's operation, improper cooperation with government and political involvement (Flanagan, 2007). The absence of systems thinking in resolving the conflict of interests led to failure in cognition of stakeholders' views and failure in cognition of reputation risk.

#### **Failure in Cognition of Stakeholders' Views**

Gunns's failure in systems thinking led to failure to correctly recognise stakeholders' views. Gunns focused on shareholder's interests which was maximization shareholders' welfare. Accordingly, every effort taken in its operation was directed to the goal. Accordingly, Gunns's practices which resulted in a high profit had been a benefit for its shareholders. For example, these shareholders obtained a five-fold share price increase from in the late 1997 to 2004 (Anjani, 2007). It



signifies that Gunns had succeeded to satisfy shareholders' interests. However, these actions gave negative consequences for other stakeholders particularly public and environmentalists who concerned in environmental damage and human health. These demands were excluded in Gunns's activities. As a consequence, Gunns's activities resulted in preponderance negative impacts on environment which implied on failures to satisfy public and environmentalist interests. The condition is supported by Neu et. al. (1998) cited in Deegan (2002) that found particular companies were more responsive to the preferences of financial stakeholders and government regulators rather than the concerns of environmentalists.

The Tasmanian Government also contributed to the absence of systems thinking. The Tasmanian Government basically had responsibility to control business operation by regulation to ensure that companies' activities were safe for environment and public. However, the absence of systems thinking made the government had solely focuses on the benefit of income from Gunns but ignoring society's interests. Therefore, every decision made will be beneficial for Gunns but gave negative impacts for society. The circumstance was contradictive with the actual objective of the government role as public servant. The example of the case is the Tasmanian government in regulation influence. Gunns and the Tasmanian government used court against parties which had environmental concern. However, if these parties had better positions to win the environmental case, the Tasmanian government would change the law (Flanagan, 2007). Therefore, public also mistrusted the Tasmanian government performance.

In addition, Gunns engaged in several practices that influence the government role by implementing lobby<sup>1</sup> and direct candidate support<sup>2</sup> (Schermerhorn, 1993). The company realized that its operation would provoke huge criticism so the company attempted to continue its operation by using government relationship approach rather than ethically conducted to the environment and the society. It was also obvious that Gunns had prominent involvement in politics. One of the examples was Gunns's expenditure of \$486,000 in election campaign advertisement of federal election in 2005 (Flanagan, 2007).

According to the case, Gunns realized an importance of its good cooperation with the government to ensure the continuity of company's operation. Consequently, the condition became usual solutions for Gunns to encounter criticisms from public. The solution was basically predicament for Gunns because the Gunns became dependant on the government's role and ignored other alternatives to solve its problem (Senge, 1990). Accordingly, Gunns kept ignoring

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<sup>1</sup> Lobbying is a process applied by company to discuss its interest with the government (Schermerhorn 1993).

<sup>2</sup> Companies support candidates for public office (Schermerhorn 1993).

systems thinking in decision making which became a determinant factor to solve the conflict.

### **Failure in Cognition of Reputation Risk**

Gunns's failure in systems thinking as an absence of recognition that high criticism from public leads to detrimental situations for company. An environmental damage has been a high concern in public nowadays. Therefore, it has been a prominent factor in forestry decision making (Manring, 2005). The operation in Tasmania forest and the projected pulp mill stimulated numerous criticisms from public because it devastated the environment and harmed people's health. Accordingly, a failure in the environmental management may result in great refusals from public. These refusals may lead to immense problem in company's reputation. The company reputation has been the highest risk encountered by companies nowadays (Hofmann, 2007). The poor reputation may give further consequences in a decline of sales, investment and continuity of company's activities. These circumstances are severe for economic conditions. This view of importance of reputation risk was excluded in Gunns management which resulted in an ignorance to satisfy communities and environmentalist preferences. It indicates that Gunns failed to recognise that stakeholders give potential consequences to company.

## **THE IMPLICATIONS OF SYSTEMS THINKING**

According to the core problem in Gunns case was an absence of systems thinking, solution to overcome the conflict of interests was primarily focused on efforts to build systems thinking. The absence of systems thinking led to failures in recognition of value of stakeholders' interests. However, a good management requires ability to recognise the value of various viewpoints and uses them in problem solving (Schermerhorn, 1993).

A stakeholder theory requires actions to identify and manage stakeholders' demands particularly in environmental issue (Deegan, 2002). Good acknowledgement of all stakeholders' preferences leads to efforts to conduct ethical practices to meet these interests which are beneficial for all stakeholders. These ethical practices comprise sustainable environmental management, the performance improvement of the Tasmanian Government's, negotiation, good relationship with communities and environmentalists.

### **Sustainable Environmental Management and Corporate Sustainability Report**

The systemstinking helpGunns to consider a whole picture about consequences of its operation to natural environment and society. The operation required sophisticated technology and method which became determinant factors to eliminate environmental damage and increase productivity (Hanson, 2005). Although it required high costs, it

would avoid further negative consequences such as pollutions and high criticisms. Pollution has been considered as difficult problem to control and requires high costs (Inyang&Essien 1995 cited in Ogri, 2001). If the company fails to realize the importance of the sustainable method, there will be higher costs to solve problem of pollutant and high criticisms.

The sustainable management on environment should be supported by publishing a Corporate Sustainability Report (CSR). Companies or other researches may use different term like Corporate Social Report (CSR). The report represents an open and transparent communication about an organisation's activities towards and impacts on the environment (Burritt and Welch, 1997). According to Moerman and Laan (2005), the dynamic and complex relationship between organisations and their stakeholders involve responsibility and accountability in a form of CSR as a part of a "contractual" relationship between organisational stakeholders. The information in CSR provides opportunities for stakeholders to acknowledge the activities conducted by the company and may take decisions and (or) actions toward the activities. The ethical and real information should be considered as the most prominent factor in delivering information through the CSR.

### **Good Relationships with Communities and Environmentalists**

The forestry management requires the involvement of environmentalists and local people participation in forestry decision making. It can be applied by building close relationship with all stakeholders particularly communities and environmentalists. Under stakeholder theory, organisations are required to manage the relationship by delivering information as a primary element to gain stakeholders' support and approval or to distract stakeholder's opposition and disapproval (Deegan, 2002). There are requirements to provide transparent communication about organisation's activities towards and impact on the environment.

The communication might be in forms of CSR, news on website and other media. The other effort should be relationship in form of providing access to Gunns's planning and require feedback on Gunns's operation which may give environmental impacts (Briggs, 2005). Accordingly, Gunns learn to apply responsible practices towards the environment (Parry, 2003). In addition, it is also necessary to give financial support for communities who are affected by Gunns's operation. Negotiations might become effective tool to hold communication with communities and environmentalists. Driscoll suggests that dialogue is significant to comprehend different point of view (Driscoll, 1996). The dialogue involves Gunns, the Tasmanian government, environmentalists, and communities. It is important to evolve shared visions and principles for sustainable development in Tasmania forest (Driscoll, 1996). Accordingly, Gunns and the Tasmanian government might broaden its view to the other perspective about the importance of environment security and public's interests. The

negotiation is absolutely demands the existence of system thinking to realise other parties' interests.

### **The Improvement of Corporate Governance<sup>3</sup>**

The system thinking gives assistance to apply ethical corporate governance. The ethical concern in corporate governance helps companies to obtain trust from public. The first application is an organizing structure which focuses on redefining job description in order to attain cognition of the influence of job responsibility on others (Senge, 1990). In this case, business role must be combined with social responsibility. Secondly, the company must conduct transparency of its operation to all stakeholders. It signifies that all stakeholders including communities also must frequently obtain good and reliable information about the company operation. The last practice is an involvement of independent party which can be a considerable controller of the company operation. In this case, there is a royal commission which can be a significant part to ensure the business engaged in appropriate conducts.

### **The Improvement of the Tasmanian Government's Performance**

The systems thinking help the government to realize that its actions will affect the society. In addition, the Tasmanian government also realizes that society has immense influence to the Tasmanian government. Accordingly, the Tasmanian government must build trust from the public by applying actions that represent public interests. The Tasmanian government should realise that it has position as controller of business activity in order to ensure that businesses are safe for society. There are two practices that the Tasmanian government can apply in this case. Firstly, the Tasmanian government regulates laws to refrain the operation if Gunns breaks the rule of environment guideline. Secondly, the government must become independent party to effectively control Gunns's activities.

## **CONCLUSION**

Conflict of interests has been predominant issue in companies that have multiple stakeholders. The conflict is inevitable circumstance because different stakeholders have different preferences. Therefore, the situation is perceived as normal conditions for companies. However, the conflict may lead to predicaments for companies if it is ineffectively managed. The management of conflict primarily requires systems thinking which have potential contribution for companies in order to have cognition that their activities influence stakeholders and stakeholders' activities also give impact on companies. Accordingly, it helps companies to broaden their views to give equal good value to all

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<sup>3</sup> A system to direct and control companies (Cadbury 1992, p. 15 cited in Kaler J. 2002, p. 331)

stakeholders' interests. As a result, companies will direct their activities and decision making in order to satisfy these stakeholders' preferences.

However, several companies ignore systems thinking in managing conflict of interests. Gunns is an example of these companies which precluded systems thinking in order to solve problems of conflict of interests. Gunns's operation in Tasmania forest and the projected pulp mill in the Tamar Valley relates to environmental risk which stimulated criticisms from environmentalists and communities. Therefore, there had been conflicts of interests among Gunns, communities, the Tasmanian government and environmentalists. Gunns and the Tasmanian government were in the same position to support the project. The Tasmanian government concerned the project's benefits to give potential contribution to the state economy and job opportunities for local people.

These conflicts were ineffectively managed because systems thinking were excluded to manage these conflicts. Consequently, there were failures in cognition of stakeholders' view and reputation risk. The absence of systems thinking also had impact on poor performance of the Tasmanian government. These failures led to several practices which were unethical conducts that dissatisfied several stakeholders such as communities and environmentalists. Consequently, the problem of conflict of interests had been unsolved and became worse.

According to the case, Gunns and the Tasmanian Government require systems thinking to encounter the conflict of interests. Therefore, this report recommends systems thinking as a compulsory to solve the conflict of interests. The systems thinking will result in ethical practices that are beneficial for all stakeholders. Accordingly, this report also recommends several solutions of ethical practices which are results of the existence of system thinking. They are sustainable environmental management and CSR, building good relationships with communities and environmentalists, improvement of corporate governance and a requirement of improvement in the Tasmanian government performance

These ethical practices are applicable if systems thinking are involved in Gunns's operation and decision making. The systems thinking give opportunity for Gunns and other companies to accommodate stakeholders' interests in form of ethical practices. Therefore, companies' stakeholders satisfaction can be achieved which refers to a conflict resolution.

Finally (hopefully) this essay will also highly contribute to solve similar cases in Indonesia particularly for companies that have environmental and social issues. In addition, further researches are required to analyse the systems thinking as a prominent solution to manage conflict of interests encountered by the majority of companies in Indonesia.

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