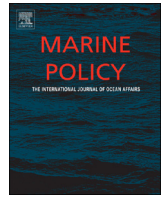




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The business management of the Chilean salmon farming industry

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ABSTRACT

This study reviews and explores the salmon farming industry management in an emerging economy context, in the light of environmental responsibility, restorative justice and moral reengagement. Strategic information were gathered, performing in-depth interviews with CEOs and other key senior executives, to analyze the managerial behavior regarding environmental care and moral engagement to industry production standards. The results reveal issues related to firms and government roles on setting industry standards and enforcing them. Firms required to be perceived as renewed in order to receive help from the government and convince the market on their IPOs. Government lack of technical strength and capacity to reestablish order forced the industry firms association to propose a new regulatory standard. But this new order seems not to be satisfactory and this industry will continue to be on the verge of a crisis.

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1. Introduction

The Chilean salmon farming industry experienced a dramatic downturn in 2007 while firms were seeking profit maximization through overexploitation of natural resources; the increase of fish density in the cultivation ponds deteriorated water quality and farmed fish welfare [35]. Significant associations were found between management factors and salmon mortality [57]. Also, areas were identified in which good management practices were associated with a reduced disease risk. Lizuka and Katz [35] inferred that the long-term decay in industry performance had been the outcome of a complex process of gradual productivity deterioration that started in the middle of a sustained rise in world prices for salmon. The expansion of global demand for salmon products triggered a production boom but the absence of adequate environmental responsibility was disastrous far outweighing short-term economic gains. Misguided management has resulted in higher costs and diminishing market reliability, weakening the international competitive advantages that firms operating in Chile used to have.

Other countries have experienced similar problems in the past concerning mistaken management behaviors in the salmon industry. After suffering from many pests that resulted in production losses, Norway raised its sanitary operational standards accomplishing environmentally responsible milestones such as low antibiotic usage, high food conversion rate and a smaller egg-to-salmon survival rate. Later, Canada followed in that same direction [10]. Therefore, following these examples, environmental responsible management (ERM) for salmon farming firms in Chile can be seen as the way to solve these problems and achieve higher standards in international competitiveness.

The environmental crisis experienced by this industry was triggered by low sanitary production standards catalyzed by managers who experienced moral disengagement due to a *Tragedy of the Commons* situation [52], where self-regulation and detrimental conduct was the result of a dynamic interplay of personal and environmental influences [3]. In the aftermath, the entire industry suffered a financial debacle that was followed by moral reengagement and the search of restorative justice. This change and the establishment of a new order are considered a key opportunity for achieving better industry standards and competitiveness [43].

The aim of this paper is to explore and discuss the processes of moral disengagement observed in the managers of this industry, and the following moral reengagement and the search for restorative justice in the Chilean salmon industry.

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2. Theoretical perspectives

Learning and knowledge accumulation is the base for the proper development of an international strategy, a process aimed to develop skills in foreign markets and the internationalization processes of a firm in several ways [8,46]. An international firm shares knowledge flows with other firms, enabling early and rapid internationalization; the processes of absorptive capacity and open innovation are crucial for international firms to succeed in the international markets. Hence, internal knowledge sharing is also critical for multinational corporations in order to achieve successful strategies [9,39].

2.1. Restorative justice, moral disengagement and reengagement

Moral disengagement in business is discussed in the literature regarding the observed behavior of firm managers and key executives when ethical or psychological concerns lead them to perform managerial decisions that are not considered good practice. Rest [48] states that moral awareness is an important feature of moral reasoning and moral decision-making and, therefore, will end in a managerial strategic planning. Moral issues are common in entrepreneurial situations in which different behavioral norms and interests conflict owing to scarce resources and constant competitive pressures, and when choosing between pursuing self-interest and maintaining normative business ethics [6].

Business ethics researchers have tried to study and understand business malpractice and organizational corruption by examining its key factors and proposing models on executive's moral reasoning processes. For instance, Rest's multi-stage ethical decision-making model [48] proposes a sequential process composed of decisional factors such as moral awareness, moral judgment, moral motivation, and moral behavior. Bandura and Cervone [2] propose a model that depicts the mechanisms through which self-sanctions are selectively activated and disengaged from detrimental conduct at different points in the self-regulatory process. Bryant [6] presents a model of self-regulation and moral awareness among entrepreneurs. Barsky [4] presented a theoretical model of the relationship between mechanisms of moral disengagement, participation, and unethical behavior. O'Fallon and Butterfield [44] and Trevino et al. [56] present comprehensive reviews of the business ethics literature.

In this section, *Moral Reengagement* is defined in business terms as the internal process and consequent conduct performed by firm managers when they return to a moral, ethical and self-regulated work behavior from a former moral disengagement period. The accompanying *Restorative Justice* is defined in business terms as the strategy repairing the harm caused by wrongful management; a sort of new order aimed to reorient business operations and performance that is accomplished through cooperative practices that may include all stakeholders.

This section proposes that managers go through a series of internal processes that guide their final decisions. As observed and obtained from interviews, managers endeavored to increase salmon production to its limits, and were able to do so recklessly due to specific conditions in this industry regarding a low or non-existent control from government agencies in the breeding, farming, production, labor, sanitary and other regulatory matters. As stated by Bandura [3], self-regulation and detrimental conduct is the result of a dynamic interplay of personal and environmental influences, and, in this crisis, managers were forced to face these two behaviors responding to different personal and environmental situations.

2.2. Environmentally responsible management and international competitiveness

A mix of competitiveness indicators can be used to estimate international competitiveness for the exports of the Chilean salmon industry, but technical considerations arise and different evaluation procedures may give different results [16]. When productive problems appear costs will increase, and that will give an advantage to international rival producers like Norway or Canada.

Nowadays many industries are implementing *Environmental Responsible Management* (ERM) to gain a competitive advantage [14], as operational efficiencies require long-term strategic and sustainable methodologies. However, this is not the only reason why ERM is important for internationalization processes. Many countries are offering environmental product policy instruments like taxes and charges, producer responsibilities, eco-labeling (ISO Type I) programs and environmentally responsible public procurement [33,17]. It is expected that ERM will be an enforced requirement if firms want to enter these markets.

International organizations have also been part of these new tendencies that enforce new development paradigms, which are reflected in the UN Millennium Development Goals. In this sense, Dunning and Fortanier [15] asserted that in order to ensure environmental sustainability, a development strategy should be consistent with the natural environment in which it is embedded. However, it should be noted that there is no consensus regarding the extent of environmental preservation. Some scholars [53] argue this should be practiced only if such activities complement firm strategies and enhance business profitability. Other scholars preach in favor of 'green management' for various reasons including moral or normative perspectives, while people expect managers to use resources wisely and responsibly, no matter if it pays [28,37]. In summary, previous research suggests that industry competitiveness and investment attractiveness need not be pursued at the expense of preserving the natural environment.

Also, academic theories of internationalization are incorporating ERM. In the light of the resource-based view, Hart [28] stated that for some kinds of firms environmental social responsibility could constitute a resource or capability that leads to a sustained competitive advantage. In addition, regarding solutions for environmental issues, business managers require analysis of the actors involved in the business operations. Hence, approaches as the Stakeholder Engagement that gives importance to the identification and interests of all actors affected by the activities of the industry have become critical to enhance ERM [45,5].

Developing a set of good management tools in international network standards allows interaction and easy flow through compliance between manufacturers and distant buyers. Regarding this, the implementation of privately-led standards can be disadvantageous to developing countries because of their limited influence on their self-determination [12]. Madsen [36] suggested that although governments in developing countries face a clear trade-off between attracting investments and protecting local environments, their policy should not be setting lax environmental policies causing degradation of local environments. In this case, a certain level of marine pollution may in fact be economically efficient even considering main externalities and, therefore, in an optimal social balance [24]. Policy objectives for economic development through investment should not be set at the expense of environmental preservation. Murphy [42] proposes that tolerant regulatory standards lead to more environmental degradation which encourages governments to set regulatory standards. Therefore, a special strategy must be developed appropriately to manage this ecosystem, which may lead to a sustainable development [58,50].

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