

# **Case 2 Business Regulation & Sustainability**

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## **Abstract**

This is a case study about business regulation and sustainability with a focus on the Company Amazon. The major areas covered in this paper include regulations Amazon has interacted with, Amazon's sustainability approach, and its self-regulation. By using Amazon's reports and guidelines this case observes how the company Amazon acts regarding regulation a sustainability. This paper concludes by determining if regulation is enough for Amazon to remain sustainable. Sustainability

## **Keywords**

Amazon Inc., Amazon.com, Amazon, Regulations, Sustainability

## **Introduction**

Amazon is a well-known and widespread company. This retail company has a mission to be the most customer-centric company in the world, which leads to the question: how is this company regulated? This paper will cover regulations about Amazon, Amazon's sustainability approach, and its self-regulations.

## **Readers Defined**

With Amazon's global reach, it is subject to government regulations beyond the United States. Amazon and its affiliates' business can be regulated through regulations and license requirements, which can restrict foreign investment in and operation of the internet, IT infrastructure, delivery, and more, as well as content and products and services sold. One of these countries is the People's Republic of China, where Amazon provides certain technology services through contractual relationships with third parties that hold licenses to meet local ownership,

regulatory licensing, and cybersecurity requirements (Amazon, 2022A), which reflect an economic regulation and not a sustainability issue. The reason for most of these regulations is that China is a socialist state under the Chinese Communist Party, which one of the results is individuals being unable to privately own land. For land ownership, there are many laws, regulations, and organizations involved, such as the Property Rights Law created by the National People's Congress (NPC), the Land Registration Measures created by the Ministry of Land, the Law on Land Management created by the NPC Standing Committee, and more (Zhang, 2015). The major stakeholders of this regulation that are related to Amazon are, Amazon itself, who must operate with strict laws and regulations, and the Chinese government, who grants the land-use rights, and the third party that assists Amazon and allows Amazon to operate with the third party's licenses. This regulation is a negative for Amazon and is reflected in the annual report, where it is seen as a risk and lack of funding or contractual relationships could lead to penalties, loss of license, restructuring, or shutting down entirely (Amazon, 2022A).

As for China's cybersecurity requirement, this reflects a technology issue, and it is regulated by groups such as the Ministry of Industry and Information Technology (MIIT) and the Cyberspace Administration of China (CAC). A recent draft of the Network Data Security Management Regulation affects companies, both international and domestic, and requires companies to meet certain standards which become stricter depending on the data held. These regulations are also used to protect data that could be a threat to national security and require companies to undergo security reviews for certain scenarios (Huld, 2021). This regulation reflects similar stakeholders and consequences as the land regulation, which include Amazon losing access to third party licenses, which will make Amazon unable to comply with government restrictions.

Another country that Amazon operates in, with government economic regulations that make operation difficult, is India. The government restricts the control or ownership of Indian companies by foreign

entities involved in multi-brand retail trading activities, which lead to Amazon to hold indirect minority interest third party sellers on the Indian Amazon marketplace and provide the marketing tools and logistics. (Amazon, 2022A). India's Ministry of Commerce and Industry created this antitrust regulation to target foreign multi-brand companies and one of the main reasons is to fight predatory pricing (PTI, 2019). The major stakeholders for this regulation are the Ministry of Commerce and Industry, who made the regulation, Indian competitors, who will benefit from regulated competitors, Amazon's third-party member, who makes sales on Amazon's behalf, and Amazon itself. Similar to Amazon's presence in China, this government regulation is seen as a risk and could lead to fines, restructure, or shutting down Amazon in India.

Moving away from the topic of foreign governments, Amazon has regulations involving intellectual property (IP). These laws and regulations protect people's and companies,' such as Amazon's intellectual property, such as trademarks, copyrights, patents, domain names, trade-secrets, and more (Amazon, 2022A). This would be a type of economic regulation and in the U.S the laws and regulations would be handled by the U.S. Patent and Trademark Office, the U.S. Copyright Office, and Congress, while the international level is possible through the Patent Cooperation Treaty (PCT) (United States Patent and Trademark Office, n.d.). These regulations are important to protect intellectual property, including technology, and to prevent some of the risks Amazon is facing. Not every country has effective intellectual property protection and Amazon may not be able to prevent third parties from obtaining similar domain names, which can diminish the value of proprietary rights (Amazon, 2022A). The Major stakeholders are Amazon, the U.S. government who manage the laws and regulations in the U.S., The 156 members of PCT (World Intellectual Property Organization, 2022), who accept the intellectual property in their country, and third parties that may infringe on Amazon's IP. This regulation is a positive regulation for Amazon in the countries that recognize its intellectual properties, however it seems like Amazon can be a victim of these kind of regulations as well. Companies have alleged that Amazon has infringed their rights in the past and this costs Amazon money and potential content providers (Amazon, 2022A).

Amazon has had conflicts with laws and regulations in America and other countries. In the year 2021, Amazon has had 3 legal proceedings, with the first being in July of that year. The Luxembourg National Commission for Data Protection, who is responsible for enforcing the EU General Data Protection Regulation (GDPR), a social regulation, claimed Amazon's processing of personal data did not comply with the GDPR's standards (Amazon, 2022A). The GDPR regulation was introduced as an extension to the 1995 European Data Protection Directive, which was made to establish data privacy and security standards and is enforced by an authority, in this case Luxembourg. The GDRP covered legal terms about and how personal data, data processing, data subject, data controller, and data processors should be managed (Wolford, 2018). The stakeholders in this technology issue are the enforcers, who are the Luxembourg National Commission for Data Protection, the users, who Amazon allegedly misused their data, and Amazon itself. The positive of this regulation is that the user's data is being protected, the negative is Amazon is being fined, with Amazon believing the decision is without warrant (Amazon, 2022A).

There was a complaint in November 2021, which was filed by Jawbone Innovations, LLC, and it claimed Amazon infringed several U.S. patents (Amazon, 2022A). The regulation for this is like the IPs mentioned in a previous paragraph. This complaint is an example of an economic regulation for a technology problem and patents. The major stakeholders are Jawbone Innovations, the plaintiff using patent law, the U.S. government, and Amazon. Similar to the earlier paragraph about IP, Amazon has positive and negative consequences from this kind of regulation. Showing that Amazon can be protected or attacked by the laws about IP.

The last legal procedure of 2021 was in December, and it was a claim from the Italian Competition Authority (ICA). The ICA claims Amazon has participated in certain antitrust practices, which violate EU competition rules, involving Amazon's marketplace and logistics (Amazon, 2022A). These rules reflect an economic regulation and include actions against price fixing, market sharing, distribution agreements,

and agreements on customer allocation and production limitation (Your Europe, 2020). These rules are in place to prevent antitrust practices and to allow a fairer market (Bagamery, 2021) and do not appear to reflect any technology or sustainability issues. The stakeholders in this legal proceeding are the ICA, who enforces the regulation in Italy, the businesses that are not receiving all of Amazon's benefits, who could receive more based on the outcome of the proceeding, and Amazon. This regulation could result in Amazon paying a 1.13 billion Euro fine, about 1.1 billion U.S. dollars, however it would allow for more fair competition if the allegation against Amazon is correct.

Amazon has deployed a few strategies in response to government regulation. Using an information strategy in the U.S., Amazon would use lobbying tactics on legislation, such as telehealth. Amazon has supported four telehealth bills specifically in the year 2021 with a focus of systemizing and expanding telehealth services under Medicare, which will help with growth of Amazon's Amazon Care. Stakeholders include Congress, the people who would receive telehealth services, and Amazon, as well as over 40 other groups, including CVS, Blue Cross/Blue Shield, and the U.S. Chamber of Commerce (States News Service, 2021). If these legislations pass, Amazon could expand its health care service, while people will have greater access to telehealth services.

An example of a financial incentive by Amazon is its use of economic leverage in 2021. Amazon sponsored a book publishing event launched by the Mexican government to promote reading (CE Noticias Financieras English, 2021). The stakeholders of this strategy are the government, Amazon, readers, and writers of Mexico. By using this strategy Amazon may get increased sales of books in Mexico, while the government may achieve its goal of encouraging reading among its people.

An example of another political strategy used by Amazon is constituency-building, specifically public relations. On June 8th, a press release came from Amazon Public Relations stating that Amazon holds bad actors accountable, specifically mentioning counterfeit products. This release covered how Amazon is preventing counterfeits, how counter-

feiters are being held accountable, and how Amazon are protecting customers and Amazon's, as well as their partners', brands (Amazon, 2022B). The stakeholders involved with this include Amazon and its partners, the counterfeiters, and Amazon customers. By sharing this information to the public, Amazon can keep their customers' trust and deter counterfeiting.

Moving on to Amazon's sustainability approach, it is important to determine Amazon's environment cost. According to impact-weighted account data, in 2019, Amazon's total monetized cost to the environment was \$3,442,167,475, with its top three areas of improvement being working capacity, the area needing the most improvement, at \$3,367,335,771, Crop production capacity at \$44,808,497, and water production capacity at \$18,464,883. Based on the impact-weighted account data, monetary amount is one way to measure environmental cost, which can be determined based on safeguard subjects, such as working capacity, which that total can be used to determine the environmental intensity using revenue or operating income (Freiberg, Park, Serafeim, & Zochowski, 2020). However, Amazon measures its data as well in relation to its carbon footprint, such as calculating carbon intensity in 2019, which was 122.8 grams of CO<sub>2</sub>e per USD. Another method Amazon uses is CO<sub>2</sub>e per package delivered, which like carbon intensity, they compare their yearly performance as Amazon uses more renewable energy (Amazon, 2020).

Looking at the impact-weighted account data, Amazon is not a true ecologically sustainable organization (ESO), however, Amazon lists sustainable operations on its site and its plans to be more environmentally friendly. Amazon addresses many social, ethical, and environmental issues on its Our Position page, some of which are environment related, including its stance on climate change (Amazon, n.d. B). Many other topics are discussed in more detail, such as a webpage dedicated to Amazon's sustainable operations. Amazon's two main highlights on this page are how Amazon plans to power its operations with 100% renewable energy by 2025 and reaching net-zero carbon by 2040. Also, some data centers are equipped with evaporative technology to reduce

energy and water consumption, which will improve Amazon's environmental cost to water (Amazon, n.d. E). Another page talks about how Amazon is trying to make products more sustainable, as well as the way these items are shipped (Amazon, n.d. C). However, it is important to point out that despite these technologies and goals, Amazon's carbon footprint has actually increased, while the intensity decreased, further proving that Amazon is not a true ESO and is currently not on track with its goal (Amazon, 2020).

Amazon is a large multinational company with a supply chain that reaches around the world and has a presence on every continent, which can lead to a huge impact, socially, ethically, and environmentally, on a global scale. A few of Amazon's environmental supply chain issues can be addressed with Amazon's sustainability practices, so this paragraph will focus on social and environmental impact. In the Amazon Supply Chain Standards document, there is a form of personal regulation by Amazon, the Supplier Code of Conduct, with the major areas covering labor rights, health and safety, protection of the environment and ethical behavior. This supplier code is expected to be followed, even if it exceeds the requirements of law. In the Amazon Supply Chain Standards manual, Amazon believes that a Corrective Action Plan is a useful tool to allow supply chain owners to improve management systems and supply chains. In other words, Amazon is actively improving suppliers to fit their standards and to avoid causing a negative impact with their supply chain (Amazon, n.d. D).

This next couple of sections will cover the topic of Amazon's self-regulation. Firstly, according to part II 9A of the Amazon annual report, Amazon carried out an evaluation required by the Securities Exchange Act (SEC) of 1934, which deemed Amazon's disclosure controls and procedures adequate to follow the rules of SEC. Under the 1934 Act, Amazon Management is responsible for making sure that internal control is effective and provides reasonable assurance of the reliability of the financial reporting (Amazon, 2022A). Next, the regulations related to the CEO and the board of directors. These members must comply with sections of the code of conduct relevant to their positions, such as

rules on conflict of interest and insider trading (Amazon, n.d. A).

The following is a plan that Amazon could use to help create ethical safeguards and to assure the company can avoid fraud, this plan involves a mix of compliance and integrity-based approaches:

### **Top management commitment and involvement**

- Fraud is a crime and should be governed by a strict compliance. If management is guilty of crime, then the company's reputation will suffer, and termination would be an appropriate punishment.
- From an integrity-based approach, management should present themselves as role models and leaders for other workers. In the case of fraud, management should promote an honest environment.

### **Ethics code**

- Based on compliance, ethical policies should have a foundation of how employees should act. For fraud it should provide an example of what fraud is and how to avoid it.
- From an integrity standpoint, it should encourage employees to create an honest and fair environment.

### **Ethics and compliance officers**

- These officers should insure that employee follow Amazon's code of ethics. They should also ensure that Amazon's code of conduct is up to date and that ethical training is efficient.

## **Ethics reporting**

- These systems should allow employees to have access to the proper authorities to ensure compliance in the workplace.
- This promotes integrity by allowing employees to act on appropriate ethical behavior without worrying about repercussions.

## **Ethics training**

- For a compliance-based approach, ethical training should highlight what the company expects from its employees and important laws. This includes terminations for inappropriate behavior.
- For integrity compliance, these trainings should emphasize how ethical behavior can improve the company.

## **Conclusion**

Based on the findings in this analysis, regulations are useful in promoting ethical behavior in a business. Proof of this is the fact that businesses are willing to regulate themselves, however business cannot regulate themselves on their own, they benefit from government regulation to help meet standards set by the country. Through regulations and sustainability methods, companies such as Amazon can make investments to become more environmentally responsible while still making a profit and building a more positive reputation. By becoming more ethically and environmentally responsible, companies should not be using corporate social responsibility programs as a way to cover up a scandal, but should instead use these programs to help pay for damages done and to prevent these damages in the future.

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