

## CORPORATE SOCIAL RESPONSIBILITY IN ENVIRONMENTAL ACTIVITY & INDUSTRY PROFITABILITY

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*“Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”*

*By Lord Holme and Richard Watts*

### *Abstract*

*In view of the rapid growth of corporate sector in the Indian economy, the government passed Companies Bill, 2013 becoming the first country to mandate spending on CSR activities through a statutory provision, with the objective of promoting an inclusive growth and development of all sectors of economy accompanied with sustainable development. As per Section 135 of the Act, companies with a specified net worth or turnover or net profit are required to mandatorily spend 2 percent of its average net profit towards specified CSR activities because corporate firms can no longer limit themselves to „profit maximization“ approach while using resources and engaging in production activities., they have to be socially responsible corporate citizens and also contribute to the social good. This paper seeks to study corporate social responsibility in the area of environmental activity and focus on the transition of CSR from being a „philanthropic responsibility“ to a „legal responsibility“, with the help of Pyramid of Corporate Social Responsibility by Archie B. Carroll.*



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**INTRODUCTION**

‘Corporate Social Responsibility’ (CSR), is the way a corporation achieves a balance among its economic, social, and environmental responsibilities in its operations so as to address shareholder and other stakeholder expectations. More generally, CSR is a set of management practices that ensures the company maximizes the positive impacts of its operations on society or operating in a manner that meets and even exceeds the legal, ethical, commercial and public expectations that society has of business<sup>2</sup>. CSR particularly in the realm of environmental protection has gained dominance in the current era of globalization because of the impact of business activities on the environment and need for appropriate policy development to reduce the impact. It is not a new concept, but over the past decade its focus has shifted from labor issues and local philanthropy toward environmental actions.<sup>3</sup> Previously it was voluntary for all the corporate to take steps for betterment of the society except government rules and regulation related to protection of environment but now with the introduction of Companies Law Amendment Act, 2013 corporate activities are coercively motivated to provide social benefit

<sup>1</sup> Author is a student of Institute of Law, Nirma University.

<sup>2</sup> Dima Jamali & Ramez Mirshak, *Corporate Social Responsibility (CSR): Theory and Practice in a Developing Country Context* Journal of Business Ethics (2007)

<sup>3</sup> Thomas P. Lyon and John W. Maxwell, *Does “Green” Corporate Social Responsibility Benefit Society?*, Review of Environmental Economics and Policy, Advance Access published on 11<sup>th</sup> July 2008, Available at [http://www.rff.org/Publications/WPC/Pages/09\\_2\\_Green\\_Corporate\\_Social\\_Responsibility.aspx](http://www.rff.org/Publications/WPC/Pages/09_2_Green_Corporate_Social_Responsibility.aspx). (Last visited on 26<sup>th</sup> Oct 2013)

with the goal of protection of environment, minimizing cost and with the hope of reputational effects of companies.<sup>4</sup>As per United Nations and the European Commission, Corporate Social Responsibility (CSR) leads to triple bottom-line: profits, protection of environment and fight for social justice. It is expected that Civil society, activist groups, Government and corporate sectors should work together to create appropriate means and avenues for the marginalized and bring them to the mainstream. The success of CSR lies in practicing it as a core part of a company's

development strategy. It is important for the corporate sector to identify, promote and implement successful policies and practices that achieve triple bottom-line results. The rationale for focusing on CSR in developing countries as distinct from CSR in the developed world is fourfold:

- ❖ developing countries represent the most rapidly expanding economies, and hence the most lucrative growth markets for business (IMF, 2006);
- ❖ developing countries are where the social and environmental crises are usually most acutely felt in the world (WRI, 2005; UNDP, 2006);
- ❖ developing countries are where globalization, economic growth, investment, and business activity are likely to have the most dramatic social and environment alimpacts (both positive and negative) (World Bank, 2006);and
- ❖ developing countries present a distinctive set of CSR agenda challenges which are collectively quite different to those faced in the developed world.<sup>5</sup>

### **CSR in environmental activity and sustainability**

Sustainability is identified as the means of meeting the needs of present generation without compromising the ability of the future generations to meet their needs, hence sustainable development is the activity and economic growth that does not deplete or degrade the biodiversity, environmental resources and eco system services. Corporate Environmental Sustainability is a necessary approach for social development and to create long term shareholder value. A sustainable company it is required to integrate economic, environmental and social – the

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<sup>4</sup> Jill A. Brown, William R. Forster, *CSR and Stakeholder Theory: A Tale of Adam Smith*, *Journal of Business Ethics*, January 2013, Volume 112, Issue 2, page 301-312, Available at <http://link.springer.com/article/10.1007%2Fs10551-012-1251-4>, (Last visited on 26<sup>th</sup> Oct 2013)

<sup>5</sup>Visser, W. (2008) *Corporate Social Responsibility in Developing Countries*, In A. Crane, A. McWilliams, D. Matten, J. Moon & D. Siegel (eds.), *The Oxford Handbook of Corporate Social Responsibility*, Oxford: Oxford University Press, 473-479

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triple bottom line factors in its business strategies<sup>6</sup>. Companies invest in innovations that focus on cleaner technologies and processes, which use resources in efficient manner. The environmental sustainability is the criteria by which a corporate can be identified and ranked for investment purposes, this is crucial in driving interest and investments in environmental sustainability to the mutual benefit of companies and stakeholders, also for the protection of environment.

Environmental issues have been influencing corporate profitability in various corporate sectors. The industry's product – crude oil, natural gas, minerals- are often extracted in ecologically sensitive areas, using processes that can generate large amounts of waste. Downstream refining and processing operations are energy intensive and chemical intensive and the final petroleum, gas products and minerals emit large volume of air pollutants upon combustion. In addition, risks of accident, environmental degradation, contamination, oil spillage and other water, air and noise pollution are high at every stage of operations. <sup>7</sup> Further environmentalist have traditionally drawn attention to environmental problems by highlighting corporate misdeeds and thereby damaged the good reputations of those companies. These factors create financial pressures including increased operating cost in the form of penalties, fines, settlements and steady demands on capital budgets for pollution-abatement equipment. Increasing number of business organizations have become targets of boycotts and campaigns by environmental groups and the public.<sup>8</sup>

Organizational legitimacy theory predicts that corporations will do whatever they regard as necessary in order to preserve their image of a legitimate business with legitimate aims and methods of achieving it. So due to pressure from stakeholders, global regulations, governmental pressure and long run strategy make companies committed to corporate environmental sustainability by adopting environmental reforms. Therefore companies increasingly desire to appear –green to enhance the reputation and to protect the environment. For instance Dell

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<sup>6</sup>Wayne Norman and Chris MacDonald, *Getting to the Bottom of "Triple Bottom Line"* Business Ethics Quarterly Vol. 14, No. 2 (Apr., 2004), pp. 243-262, Published by: [Philosophy Documentation Center](#), Available at <http://www.jstor.org/discover/10.2307/3857909?uid=2&uid=4&sid=21102827600277>, (Last visited on 27<sup>th</sup> October 2013)

<sup>7</sup> Niroj Kumar Mohanty & Sabhyasachi Ray, *Corporate Environmental Sustainability Index*, Edited by Sumati Reddy, Corporate Social Responsibility, Published by ICFAI University press

<sup>8</sup> Sharon Bedder, *Environmentalism Help Manage Corporate Reputation*, Edited by Sumati Reddy, Corporate Social Responsibility, Published by ICFAI University press

Computer allows customers to buy carbon offsets when they purchase a new computer,<sup>9</sup> PepsiCo buys renewable energy credits for all of its electricity,<sup>10</sup> Nike plans to be carbon neutral by 2011,<sup>11</sup> DuPont has voluntarily cut its greenhouse gas emissions by over 65% since 1991, and claims to have saved over \$2 billion in energy costs in the process<sup>12</sup> etc.<sup>13</sup>

For CSR to be accepted by a conscientious business person, it should be framed in such a way that the entire range of business responsibilities is embraced. It is suggested here that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be depicted as a pyramid.<sup>14</sup> Therefore this paper seeks to emphasize on the evolution of concept of CSR in developing countries with reference to the pyramid model propounded by Archie B. Carroll which represents one of the earliest attempts to integrate the economic, legal, ethical and social responsibilities of the corporation.<sup>15</sup> But research limits its use of model only to the extent of establishing that considering the rapid degradation of environment, there was a need to come out with a legal framework to effectively make companies undertake CSR in the present time- hierarchy of the model is insignificant to this research. The paper finds whether a Western concept such as Carroll's model which is almost entirely based on research in an American context is adequate for describing CSR in developing countries.

<sup>9</sup> Available at [http://blogs.business2.com/greenwombat/2007/03/the\\_corporate\\_c.html](http://blogs.business2.com/greenwombat/2007/03/the_corporate_c.html), (Last visited on 26<sup>th</sup> Oct 2013)

<sup>10</sup> Available at <http://phx.corporate-ir.net/phoenix.zhtml?c=78265&p=irol-newsArticle&ID=992341>, (Last visited on 26<sup>th</sup> Oct 2013)

<sup>11</sup> *Nike Plans To Be Carbon Neutral By 2011*, environmental leader, environment & energy management news, 31<sup>st</sup> May, 2007, Available at <http://www.environmentalleader.com/2007/05/31/nike-plans-to-be-carbon-neutral-by-2011/>, (Last visited on 26<sup>th</sup> Oct 2013)

<sup>12</sup> From a speech by DuPont CEO Chad Holliday, Available at [http://www2.dupont.com/Media\\_Center/en\\_US/speeches/holliday\\_09\\_17\\_05.html](http://www2.dupont.com/Media_Center/en_US/speeches/holliday_09_17_05.html)

<sup>13</sup> *Supra 2*

<sup>14</sup> Archie B. Carroll, *The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders*, Business Horizons, July-August 1991, Available at <http://www-rohan.sdsu.edu/faculty/dunnweb/rprmts.pyramidofcsr.pdf>, (Last visited on 26<sup>th</sup> Oct 2013)

<sup>15</sup> Robert W. Sexty, *Canadian Business and Society: Ethics & Responsibilities*, 2nd Canadian Edition, Memorial University of Newfoundland; Tata Mcgrawhill, *Corporate Social Responsibility: The Concept*, Chapter 7 Available at [http://highered.mcgraw-hill.com/sites/dl/free/0070000263/889911/Sexty2ce\\_Chapter07.pdf](http://highered.mcgraw-hill.com/sites/dl/free/0070000263/889911/Sexty2ce_Chapter07.pdf), (Last visited on 26<sup>th</sup> Oct 2013)

**Pyramid of Corporate Social Responsibility by Archie B. Carroll****1.1 Economic Responsibilities**

Carroll defines economic domain as –Perform in a manner consisting with maximizing earnings per share, being as profitable as possible...<sup>16</sup> Historically business organizations were created as economic entities designed to provide goods and services to societal members, with profit motive being the primary incentive for entrepreneurship.<sup>17</sup> The first category delineates a responsibility that is economic in nature, entailing for example providing a return on investment to owners and shareholders; creating jobs and fair pay for workers; discovering new resources; promoting technological advancement, innovation, and the creation of new products and services. Business from this perspective is the basic economic unit in society and all its other roles are predicated on this fundamental assumption.<sup>18</sup> According to numerous studies in recent years, consumers are increasingly concerned with social and environmental issues, as well as they have greater expectation for a company to act socially responsibly. A survey conducted by the Boston Consulting Group found that more consumers purchased green products in 2008 than in 2007

<sup>16</sup>Mark S. Schwartz & Archie B. Carroll, *Corporate Social Responsibility: A Three Domain Approach*, Vol. 13, Issue 4, Business Ethics Quarterly.

<sup>17</sup>Archie B. Carroll, *The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders*, Available at <http://www-rohan.sdsu.edu/faculty/dunnweb/rprmts.pyramidofcsr.pdf>. (Last visited on 26<sup>th</sup> Oct 2013)

<sup>18</sup>Peter Dobers and Minna Halme, *Editorial Corporate Social Responsibility and Developing Countries*, Vol. 16, Issue 5, 2009, *Corporate Social Responsibility and Environmental Management*, John Wiley & Sons, Available at <http://onlinelibrary.wiley.com/doi/10.1002/csr.212/pdf>. (Last visited on 26<sup>th</sup> Oct 2013)



regardless of the higher price.<sup>19</sup> Evidence suggests that some individuals are willing to pay more for socially responsible goods, the existence of ‘ethical investors’ could—in principle—have consequences for firms that do not participate in CSR activities. For example, if ethical investors’ choices increase the cost of capital for ‘irresponsible’ firms, some of these firms might be forced to adopt more socially responsible practices. If the share price differential becomes sufficiently large, these firms may decide to participate in CSR activities to increase their own stock price.<sup>20</sup> Socially responsible investment (SRI) is becoming another driver for CSR in developing countries. As one indicator of this, notes that approximately 8% of emerging market companies on the Dow Jones World Index are included in the Dow Jones Sustainability Index, compared with around 13% of high-income companies.<sup>21</sup> Also if the corporate charitable donations are tax-advantaged by government then they may find it profit maximizing to engage in CSR activities to attract investors.<sup>22</sup> CSR practices must emphasize on the capability to get new investment and income, manufacture safe products and services for consumers, create more jobs, construct infrastructure, etc. Therefore considering the shift in market forces that determine the profits of corporate firms they have additional moral or social responsibilities to commit resources to environmental protection.

### *1.2 Legal Responsibilities*

Unlike developed countries which follow the classical model of Carroll’s pyramid, legal responsibilities in developing countries are placed at the third priority. The reason being- poorly developed legal infrastructure, lack of independence, resources, and administrative efficiency. There is less pressure for good conduct. Most of developing countries suffer from an insufficiency of foreign direct investment, from high unemployment rate, as well as widespread poverty hence the government highly appreciates the economic contribution of companies in developing countries and the legal framework to promote CSR is either weak or non-

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<sup>19</sup>Nguyen and Vo Thuc Quyen, *Corporate Social Responsibility Implementation By Vietnamese Enterprise*, Lahti University Of Applied Sciences, Thesis in International Business, Spring 2013, Available at [http://publications.theseus.fi/bitstream/handle/10024/54543/Nguyen\\_Vo.pdf?sequence=2](http://publications.theseus.fi/bitstream/handle/10024/54543/Nguyen_Vo.pdf?sequence=2), (Last visited on 26<sup>th</sup> Oct 2013)

<sup>20</sup>Forest L. Reinhardt and Robert N. Stavins, *Corporate social responsibility, business strategy, and the environment*, Volume 26, Number 2, 2010, pp.164–181, Oxford University Press, Available at [http://www.hks.harvard.edu/fs/rstavins/Papers/Reinhardt\\_&\\_Stavins\\_in\\_Oxford\\_Review\\_2010.pdf](http://www.hks.harvard.edu/fs/rstavins/Papers/Reinhardt_&_Stavins_in_Oxford_Review_2010.pdf), (Last visited on 26<sup>th</sup> Oct 2013)

<sup>21</sup>*Supra* 4

<sup>22</sup>*Supra* 2



existent.<sup>23</sup>Corporations must ensure that their business practices are legal. Obeying regulations helps protect consumers, who rely on a business to be truthful about the products it sells, and investors, who stand to lose profits if a company is penalized or shut down because of illegal practices. Although market forces--- for products, capital, and labor are increasingly powerful drivers of corporate environmental improvement, nevertheless, politics and government regulation remain key forces driving environmental improvement.

### *1.3 Ethical Responsibilities*

Ethical responsibility overcomes the limitation of law by creating an ethics ethos that companies can live by. It portrays business as being moral, and doing what is right, just, and fair. Such responsibility is mainly rooted in religious convictions, humane principles, and human rights commitments.<sup>24</sup> Beyond abiding by the letter of the law, an organization's ethical responsibilities include managing waste, recycling and consumption. These areas are sometimes regulated by city, state or federal governments, but often a company can go further than what the law requests and institute policies that help sustain the environment for future generations. Other ethical responsibilities come in the form of advertising, as in not stretching the truth to a customer just to get them to make a purchase, and treatment of employees. A company can provide more than minimum wage and minimum safety precautions for employees; it can provide excellent benefits, insurance and invest resources in building a clean and safe workplace where employees will be happy to come each day.<sup>25</sup> Several environmental hazards with immediate impact require CSR practices, especially of the philanthropic kind, to respond promptly such as the corporate response to the Asian tsunami in Japan (2004).<sup>26</sup>

### *1.4 Philanthropic Responsibilities*

As mentioned in the previous part -Drivers of CSR, the socio-economic situation and the crisis response that demand for CSR actions aiming at philanthropic purpose is a regular norm. This is seen as a direct path to improve firm's image and reputation within community. Generally, developing countries are in the early stage of maturity in CSR, they even consider CSR and

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<sup>23</sup>*Supra 17*

<sup>24</sup>*Supra 1*

<sup>25</sup>Regina Anaejionu & Demand Media, What Is Corporate Social Responsibility?, Available at <http://smallbusiness.chron.com/corporate-social-responsibility-11605.html>, (Last visited on 26<sup>th</sup> Oct 2013)

<sup>26</sup>*Supra 16*

philanthropy equally. Cultural traditions of philanthropy and business ethics are deep-rooted in religions such as Hinduism, Buddhism, Islam, Christianity dated back thousands years, this cultural feature is the leading driver of CSR in developing countries.<sup>27</sup> Social issues are generally given more political, economic, and media emphasis in developing countries than environmental, ethical, or stakeholder issues and there is also still a strong emphasis on the philanthropic tradition in developing countries, which is often focused on community development. Developing countries have more in common with the American model due to reasons such as the socio-economic needs of the developing countries in which companies operate are so great that philanthropy is an expected norm—it is considered the right thing to do by business. Secondly, companies realize that they cannot succeed in societies that fail, and philanthropy is seen as the most direct way to improve the prospects of the communities in which their businesses operate.<sup>28</sup> Thirdly many developing countries have become reliant on foreign aid or donor assistance. Hence, there is often an ingrained culture of philanthropy. And a final reason for developing countries' prioritization of philanthropy is that they are generally still at an early stage of maturity in CSR, sometimes even equating CSR and philanthropy.<sup>29</sup>

### **Conclusion**

In developing countries CSR is often seen as a way to cover for the 'governance gaps' left by weak, corrupt, or under-resourced governments that fail to adequately provide various social services, ethical responsibility is found to be given least priority in the total contribution to CSR as per Carroll's pyramid model. Hence the paper concludes that corporate sector, by undertaking CSR can increase their profitability in the long term, encourage sustainable development and promote the interest of all its stakeholders, also that paying consideration to the rapid environmental degradation it is essential that developing countries enforce a legal framework to regulate CSR contribution towards environmental activity.

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<sup>27</sup>*Supra* 17

<sup>28</sup>*Supra* 2

<sup>29</sup>*Supra* 19