Corporate Environmental Responsibility

Abigail Efua Hilson
Royal Holloway University of London
Abby.hilson@royalholloway.ac.uk

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Abstract

Corporate environmental responsibility (CER), a voluntary endeavour by corporations to determine and minimise the ecological impacts of their business activities is now widespread practice. CER is part and parcel of the umbrella term corporate social responsibility – the idea that organizations must incorporate social and environmental impacts of their business activities in formulating their corporate strategies. CER has become a very important concept in modern times as a result of the changes affecting the natural environment. Critical issues such as climate change and global warming have necessitated a broader inclusion of the impacts of business activities on the natural environment in the planning of all business processes. This article traces the origins of CER, evaluates its current practice and offers a brief snapshot of its future anatomy.
1. **Overview of Corporate Environmental Responsibility**

Corporate environmental responsibility is a voluntary activity by corporations to assess and minimise their ecological footprints in the course of conducting business. These activities fall outside the legal requirements of organisations to reduce the levels of pollution, emissions and environmental degradation associated with their business activities.

Organisations were previously perceived as ‘closed systems’ with no links to their environment and society. As a result, organisations existed for the sole purpose of making a profitable return for their owners or stockholders. In recent years, recurring corporate scandals, which have led to loss of livelihoods, destruction of the natural environment and the collapse of financial markets have inspired a rethink of how organisations operate. Specifically, how their existence affects society and the environment. Today, organisations are considered porous or ‘open systems’. Activities of organisations transcend not just the periphery of their immediate boundaries but also the general society and the natural environment.

Such corporate activities have resulted in water pollution, waste generation, natural resource use and exploitation, emissions and accelerated levels of energy consumption. In response to the realisation that corporate activities can be far reaching, organisations have been called upon to consider their social and environmental impacts through corporate social and environmental responsibility programs. There is some regulation of corporate environmental impacts by governments; however, for the most part, corporate environmental responsibility is voluntary. The application of corporate environmental responsibility across organisations worldwide, differ greatly as it is a voluntary exercise. For example, in 2010, in the course of its oil drilling activities in the Gulf of Mexico, BP Plc (BP) caused a catastrophic oil spill dubbed the ‘Deepwater Horizon Oil Spill’. This oil spill resulted in the death of 11 people and an unprecedented destruction to marine and wildlife. It is widely held that BP took a lacklustre approach to its environmental obligations and that this caused the oil spill. Environmental groups attribute this oil spill to the absence of adequate regulation by government on the ecological impacts of industries. Corporate environmental responsibility is a phenomenon that has gained traction in recent years especially in the face of climate change. This article reviews the concept of corporate environmental responsibility by outlining its origins, how it is currently being practised and offers a brief discussion on its anticipated future anatomy.

2. **Evolution of the Concept of Corporate Environmental Responsibility**

In order to understand how corporate environmental responsibility had evolved, it is instructive to trace its antecedents. Corporate environmental responsibility is a subset of the broader term/activity - Corporate Social Responsibility (CSR) - hence it evolved in tandem with the concept of CSR. Until recent years, CSR has been the umbrella term for all social and environmental initiatives undertaken by organisations. Scholars began to make a distinction between environmental and social responsibility when the environment gained the status of a primary stakeholders. The devastating impact of corporate activities on the environment coupled with the rise of a environmentalism placed the natural environmental at the forefront of government regulations and necessitated a shift in the way that corporations perceived the environment and the impacts of their activities on this stakeholder. In order to discuss the evolution of corporate environmental responsibility, the term social and environmental responsibility will be used interchangeable to mean corporate environmental responsibility as these two responsibilities of business evolved simultaneously and as one concept.

Economic development of the world has ensued vis-à-vis pollution and ecological degradation. Industries such as mining, oil, food production, garments and textiles and tobacco processing, garments and textile are responsible for majority of the world’s environmental problems. Corporate environmental responsibility is the call for organisations to have an environmental and social conscience. This call for a social and environmental conscience has been met with intense debate as those against this view contend that operating in the interest of society is counterintuitive to the existence of a business. These individuals believe that organisations exist to make a profit and that including social and environmental obligations in business activities is suggestive that organisations must act outside the legal requirements
which govern their existence. Milton Friedman in 1962 (Friedman 1962) strongly argued against a social and environmental responsibility of business on the contention that society benefits from the products or services that businesses manufacture; and that any other positive contributions that organizations make toward the environment or society are a gross misappropriation of shareholders’ investment.

At the time Friedman publicised his argument, the social and environmental responsibility of business was only beginning to take shape. Andrews (1973) reports that the issues of corporate responsibility had, however been gestating and debated for over forty years before Friedman’s infamous declaration. In the eighteenth century, major industrialists and philanthropists such as John H. Patterson and Norman Rockefeller began to lay important groundwork for the welfare movement. Most importantly, the Industrial Revolution resulted in a new way of conducting business. This was a turning point in the history of organisations and society as a whole. It was during this period that the middle class rose to challenge the upper class on the conduct of business. Ordinary working people were able to find work in factories albeit under very poor working conditions. It is reported that in the year 1900, a majority of industrial workers in the United States of America still worked for 10 hours a day, in the steel industry it was 12 hours a day. Nonetheless, these workers, were making incomes which were 20% to 40% less than the minimum deemed necessary for a decent life (Anon, 2012). Such poor working conditions and pay resulted in the resentment of business by workers and consumers. Workers began to form trade unions in an effort to demand better working conditions. Additional attacks from both consumers and government intensified the pressure on businesses.

In the period preceding the revolution, industry had been extremely engrossed in its methods of conduction business to ensure efficiency. It had consequently given little consideration to the results of its conduct and was therefore unable to find solutions to the human effects of its business activities. The focus of business on itself had negated any thoughts or consideration for society, that is – employees and consumers. The early 1900s witnessed a new order where workers demanded that businesses take on a social conscience. There was increasing employee unrest forcing businesses to rethink working conditions and employee benefits. As dissent for business grew, business executives realised the negative impact of such resentment on the growth of business. Efforts were made to win back consumers, employees and the whole of society.

The academic discourse prevailing at the time was that business had a responsibility to three stakeholders; namely, its investors, its employees and its consumers. To curb the widespread unrest, businesses began to introduce incentives such as vacation pay, profit sharing and lower prices for consumers.

The mid 1900s also saw pressure being put on governments especially in the United States of America to pass legislation in favour of greater inclusion of minorities, especially women and black Americans in organizations. Organizations had therefore begun to embrace this legislation, albeit with some reservation and a sense of misguidance as to how best to meet the social pressures of conforming to new regulations. The concept of CER had not fully developed at this time. The prevailing concept at the time was Corporate Social Responsibility (CSR). The emphasis here was having a social conscience and not necessarily an environmental conscience.

Moura-Leite and Padgett (2011) provide a useful account of the evolution of corporate social responsibility drawing on the seminal works of Bowen (1953) and Drucker (1954). Drucker (1954) is said to have spawned the modern period of CSR by asking the question: ‘What responsibilities to society are businessmen reasonably being expected to assume?’ Drucker’s text sought to spark debate by underscoring the importance of the several hundred largest businesses at the time to ‘centres of power and decision making’, furthermore highlighting how ‘the actions of these firms touched the lives of citizens at many points’ (p. 4). The latter, explain Moura-Leit and Padgett (2011), helped to advance the importance of including ‘public responsibility as one of the eight key areas in which business objectives should be set’ (p. 530), famously asserting that managers must ‘consider whether the action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength, and harmony’ (Drucker, 1954, p. 388). This foundational work provided an impetus for scholars to develop working definitions of CSR which aligned closely with the business ethics of the day.
Friedman’s (1962) highly criticized analysis was tabled at a time when the environmental movement was gaining considerable momentum in the United States and Europe. Rachel Carson’s book *Silent Spring* written in 1963 captured the public conscience, helping to spark a radical overhaul of environmental regulations, as well as facilitating a change in the general attitude toward industrial pollution worldwide. Pressure was put on regulators by the general public and the environmentalists to order the steps of corporations. Several academic surveys were conducted to evaluate the perceptions of corporate executives on the issues of corporate social and environmental responsibility. The arguments for and against the business existing for the sole purpose of making a profitable return for the stockholder was at the forefront of debates. Social and environmental obligations of business being voluntary were considered a hindrance to revenue generation. The prevailing perception was that businesses could not successfully balance the urge to make profits with spending on non-revenue generating activities such as social welfare and the environment.

This debate continued to play out in the literature throughout the 1970s and early-1980s. Scholars against the case for social and environmental responsibility argued that these efforts were a barrier to economic development. Indeed, there was no definition of the concept of social and environmental responsibility at the time. Organisations were free to define the concepts to suit them. There was no uniform way in the application of the concept. It was and continues to be an increasingly perplexing problem for corporate strategists to find an appropriate posture for what may be called corporate citizenship, environmental or social responsibility. Among the things that make it difficult are two prevalent myths: the activities in this area are in fundamental conflict with the interests of the investor, and that resources committed to such activities come, net, out of the equity holder’s pocket; and that the motivation for such activities lies only in a sense of noblesse oblige on the part of the group formulating the strategy, and again, is an interest not directly related to the equity holder’s welfare.

The criticisms against social and environmental responsibility continued into the late 1990s. The general sentiment among those against the CSR movement was that business executives were against the concept. One scholar asserted that ‘executive interest in corporate social responsibility is waning’ Shanklin (1976, p. 75) when new standards for pollution control and safety came into effect. Toward the mid-1970s, however, a much broader body of analysis – one more positive in outlook – began to take shape. A large share of this literature popularized the merits of CSR (e.g. Gavin and Maynard (1975); Carroll (Carroll 1974, 1978, 1991; Carroll and Beiler, 1975). A series of complementary studies argued how, contrary to their profit-making motives, large businesses were indeed beginning to show a willingness to address, more proactively, environmental and social concerns. It was at this time that organizations had begun to alter their structures and appoint corporate social responsibility officers. These officers were responsible for managing community development and environmental concerns. The discussion at this point was showing how organizations were embracing mounting societal and environmental demands and how this new approach to business was in the best interest of organizations.

The conceptual work of Archie B Carroll (Caroll) (Carrol 1974, 1978, 1991) truly galvanized investigation into whether CSR was in the best interest of large business, and engineered the marked changes in attitudes toward community development and environmental management that surfaced in the 1980s. In 1991, Carroll developed the ‘Pyramid of Corporate Social Responsibility’, a hierarchical model of the various responsibilities of business which he outlined as economic responsibilities (the foundation of all other business activities), legal responsibilities, ethical responsibilities and philanthropic responsibilities at the apex. Carroll’s pioneering model, which, even today, many works still portray as landmark, spawned a new genre of CSR scholarship. The insights it offered, today serve as the foundation of the case for CSR being practiced by organizations around the world.

Towards the end of the 1970s, the once-prominent traditional skeptical view of CSR – those who believed that ideologically, ethical responsibility and profit-making could not be reconciled – began to lose considerable momentum. The sudden popularization of CSR coincided with the implementation of stringent environmental regulations, particularly legislation aimed at combating air pollution, in North America and Europe. It is argued however that companies had been indirectly coerced into embracing CSR. Fines had been built into freshly-implemented legislation giving executives little choice but to embrace the change and make the best out of the new situation. The literature on the business case for
and against CSR evolved in parallel to industries embracing the concept and encouraging members to do the same. As advocates for social and environmental causes proliferated and companies begun to realize the implications of not aligning themselves to particular social causes, CSR begun to flourish.

The current decade has seen a shift from a focus on social responsibility to that of environmental responsibility. Issues such as global warming and climate change have taken center stage in politics, among organizations and in the third sector. The next section discusses the state of corporate environmental responsibility in the world today.

3. Corporate Environmental Responsibility Today

Gradually, many organizations have begun to embrace the call to respond to the environmental agenda. Incidents such as the Exxon Valdez oil spill in 1989, the Bhopal disaster in 1984, Chernobyl disaster in 1986 and recent incidents such as Fukushima Daiichi nuclear disaster 2011 have continued to raise awareness on the importance of environmental responsibility. Most of these disasters have attracted huge sums of money in litigation. On the other hand, ethical businesses have been rewarded by increased consumer traffic. Today’s consumers are prepared to shell out more money for sustainable products. Buzz words such as “biodegradable”, “organic”, “carbon offsetting”, ‘FSC certified”, “eco-friendly”, “renewable” attract consumer attention. People are ‘going green’ – making environmentally friendly choices for their homes and products. Companies are therefore expected to do the same. Today’s organizations are not expected to exist solely for the motive of profit maximization but are also required to align with the social, environmental and regulatory structures within the countries they invest in. Investments in CER programs are now perceived as a requirement for companies to get the necessary buy-ins from the communities within which they operate. That is part of what is termed the ‘social license to operate’.

Another condition that has contributed to the widespread investment in CER programs is the role that governments and industries have played. The current century has seen industries and government take on a strong stand against the impacts of organisational activities on the environment. In sharp contrast to the prevailing ideologies of the 1900s, CER has become an expectation of society such that the financial costs involved in pursuing the environmental agenda is few and far between in the academic literature giving place to what companies are or are not doing well as well us theories underpinning corporate disclosure. Although, there continues to be a wide variation in definition of the concept of CER, the underlying concept of CER is the same – that it is desirable for businesses to minimise their ecological footprints over and above the requirements of law. For firms in the extractive industry for instance, these responsibilities are particularly significant because their business activities result in significant impacts to the environment in the form of pollution, displacement of marine habitats, climate change, soil and water contamination among others. Their activities also often result in displacement of settlements and destruction of sources of human livelihoods. In fact, the extractive industry involves a large number of constituents including governments, shareholders, managers, employees, and customers. Extractive industry firms have been quick to highlight their numerous contributions to society through comprehensive sustainability reports. In the 1980s they were heralded as ‘trailblazers’ for environmental and social responsibility programs in the developing world. In line with idea of the “triple bottom line” corporate reporting put forward by Elkington in 1994, these firms published and continue to publish extensive sustainability reports on their social and environmental efforts. Elkington (1994) advocated for organisations to consider their social, environmental and financial performance and to not just focus the traditional measure of performance - financial performance. Elkington’s (1994) suggestions spawned a new wave of corporate reporting. The annual financial reports typically released by public companies were now accompanied by social and environmental reports.

Companies outside the extractive industries adopted these report. Social and environmental reports typically dubbed ‘sustainability reports’ are not published for stakeholders to see how companies are making a contribution to society and taking care of the natural environment. Several theories have been advanced to explain why companies publish such reports. Fundamentally, it is argued that companies publish these reports for legitimacy purposes. Irrespective of reasons given for corporate
disclosure of environmental activities, the increased presence of these voluntary reports perhaps points to the fact that a lot of companies have embraced the call to take responsibility for their society and the environment seriously.

Visible negative effects of corporate activities have also increased the need for corporations to operate sustainably as the natural resource base of the earth is finite. In the past century, several corporate disasters have been witnessed, which has necessitated this call for action. The Exxon Valdez oil spill alone affected 1,300 miles of shoreline. The carcasses of more than 35,000 birds and 1,000 sea otters were found after the spill, but since most carcasses sink, this is considered to be a small fraction of the actual death toll. The best estimates are: 250,000 seabirds, 2,800 sea otters, 300 harbour seals, 250 bald eagles, up to 22 killer whales, and billions of salmon and herring eggs.

4. **Typical Steps in Corporate Environmental Responsibility Planning**

The previous section has established the origin and current practices in the area of CER. The concept of CER continues to be applied differently across industries and among organisations. Being a voluntary activity, organisations are free to evaluate their internal and external processes in order to identify the perceived impacts on the environment. Generally, organizations take three steps to address their CER. Figure 1 is a depiction on this dynamic process.

![Figure 1: A Generic Structure of Corporate Environmental Responsibility](image)

**Step 1:** The initial step is to identify the environmental impacts of all business activities. These include reviewing the company's supply chain, internal processes (administration and manufacturing, where applicable) and its service or product delivery outlets to identify the ecological impacts of such activities. This involves an extensive stakeholder analysis.

**Step 2:** The next step is to evaluate the extent of the damage to the natural environment. Within this step, organisations prioritise the environmental impacts they identify in step 1. At this stage, stakeholders are grouped in order of significance. As organisations perceive their primary stakeholders as the most important stakeholders, issues that affect this stakeholder group is given priority. A cost benefit analysis is often performed at this stage to determine how best to address these ecological issues. Organisations also consider the prevailing standards in their industries and align their choices with those of the industry. The table below is a selection of international sustainability frameworks, guidelines and
‘best practices’ typically adhered to by organisations. The standards guide organisations in reporting their environmental and social efforts.

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Year Conceived</th>
<th>Description</th>
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<tbody>
<tr>
<td>Global Reporting Initiative</td>
<td>1997</td>
<td>A non-profit organization that promotes economic, environmental and social sustainability by providing companies and organizations with a comprehensive sustainability reporting framework.</td>
</tr>
<tr>
<td>United Nations Commission on Sustainable Development Framework</td>
<td>2002</td>
<td>Three mutually reinforcing pillars of sustainable development (social, economic and environmental) were incorporated into the 2002 Johannesburg Plan of Implementation and the 2002 Earth Summit</td>
</tr>
<tr>
<td>Equator Principles</td>
<td>2002</td>
<td>A credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions.</td>
</tr>
<tr>
<td>UN Global Compact</td>
<td>2000</td>
<td>A strategic policy initiative for businesses that are committed to aligning their operations and strategies with the ten accepted principles in the areas of human rights, labour, environment and anti-corruption.</td>
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Step 3: After prioritisation of the environmental impacts, companies take steps to mitigate their ecological impacts. Typically, responsibility plans include reducing energy consumption, recycling to reduce landfill disposal, reclamation of mined lands, reduction of hazardous waste, reduction in usage of water, replanting trees and the use of sustainable wood and other products.

It is commonplace to find environmental sustainability links on the website of many organisations these days. Most organisations have a corporate environmental policy. Such policy documents comprise environmental codes, details of environmental principles or standards that the organisation subscribes to and environmental standards and codes specific to that organization.

5. Future directions in Corporate Environmental Responsibility

Despite gaining significant traction over the years, there is still considerable room for improvement in the efforts of organizations in the area of environmental responsibility. While companies operating in the developing world have managed to divert attention from the geographical context by projecting positive images of ‘community development’ and ‘environmental management’ in localities affected by their operations, extensive corporate lobbying in the developed world has slowed down legislation on the environmental responsibility. There is widespread belief that corporations will continue to deflect attention through innovative reporting; extensive public engagement; the assembling of dynamic corporate relations departments; and the skillful manipulation of the local media. An emphasis on outcomes, has led to organizations adopting a narrow view when making environmental decisions, the effects of which can be detrimental when it comes to a disempowered, marginalized stakeholder such as the environment. Companies are using their CER programs as a tool for enhancing their legitimacy. This is especially true in areas where activism for the environment is strong. The accounting literature has discussed, extensively, the positive role that voluntary sustainability disclosure plays in an organization’s

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efforts at gaining or enhancing legitimacy. In some instances, it is contested that organizations with strong environmental and social programs use sustainability reports to disclose superiority in the area of CSR or to counter a perceived legitimacy threat. CER was used to deflect criticisms and to regain legitimacy following the Exxon Valdez oil spill in 1989 and the BP oil spill in 2010. Academic scholars note that there were increased self-laudatory environmental disclosures, focusing heavily on preventative measures and emergency response, which, as demonstrated, were made purely in response to heightened public pressure.

In the 21st century, climate change has become and continues to be the most significant environmental challenge facing corporations and society at large. Climate change is a result of carbon dioxide emissions into the environment. These emissions have resulted in a destruction of ecosystems, eradication of species, a change in weather patterns. There is increasing consumer, non-governmental organisations and regulatory pressure on firms to address their carbon footprint. Energy and manufacturing companies have some of the largest carbon footprints. Today’s organizations have to allocate resources after considering the effects of such resource allocation on the climate. Australia, Canada and Europe have the most progressive corporate environmental programs in the world. The European Union EU has the most advanced regulatory environment for climate change. It is home to initiatives such as the European Climate Change Programme 2000 and an Emissions Trading Scheme created in 2005. Worldwide, a number of countries have ratified the Kyoto Principles of 1997; however, important initiatives such as carbon taxing and emissions-trading are not universally practised. Efforts at addressing climate change at the corporate level although progressive have been quite slow. The general sentiment is that apart from the financial implications of engaging in anti-climate change initiatives which have resulted in increasing political lobbying by companies, those who have the technical know-how to address the climate change issue, have been rather pedestrian in releasing innovative ideas as they plan to make as much profit as possible from their ideas.

If these trends continue, it is anticipated that corporate environmental responsibility will for the most part, continue to be a façade, a mere tool which companies use to gain or enhance legitimacy much to the detriment of society and more importantly the future generation.
6. **Cross Reference**

SEE ALSO: Conservation; Environmental Justice; Environmental Perception; Sustainable Development
7. List of References


8. Further Readings


Keywords: Corporate social responsibility (CSR), Sustainability, Environment, climate change, legitimacy