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Environmental Corporate Social Responsibility and the Carbon Economy: A Case for CSR, the Triple Bottom Line and Obliquity

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Abstract
Expenditure in pursuit of the goals of Corporate Social Responsibility (CSR) is increasingly compatible with profit-maximisation. The benefits of adopting CSR can have significant advantages for both shareholders and the environment, particularly when undertaken voluntarily. But another factor in favour of CSR is the oblique pressures brought to bear from a sense of moral obligation, a more ethical approach, sweeping into boardrooms. Obliquity may achieve even more than direct measures.

Keywords
Corporate Social Responsibility, environment, Carbon Tax, obliquity

ENVIRONMENTAL CORPORATE SOCIAL RESPONSIBILITY AND THE CARBON ECONOMY:

A CASE FOR CSR, THE TRIPLE BOTTOM LINE AND OBLIQUITY

Sabina Medarevic*

Expenditure in pursuit of the goals of Corporate Social Responsibility (CSR) is increasingly compatible with profit-maximisation. The benefits of adopting CSR can have significant advantages for both shareholders and the environment, particularly when undertaken voluntarily. But another factor in favour of CSR is the oblique pressures brought to bear from a sense of moral obligation, a more ethical approach, sweeping into boardrooms. Obliquity may achieve even more than direct measures.

I INTRODUCTION

In 1970, the 20th century's most prominent economist, Milton Friedman, famously stated, 'the social responsibility of business is to increase profits'.[1] Companies, along with the directors who run them, and the marketplace, are there to make money for the shareholders – who are sometimes inaccurately called the 'owners'.[2] All decisions made by company directors should be in the interest of benefiting those who have invested in the company. This is the 'shareholder primacy theory'. We can argue, instead, that the goal of business should and can aim to maximise returns *and* strive for sustainability. Indeed, to continue with the 'shareholder primacy theory' is to risk long-term profitability given the finite supply of resources on which these companies rely. This article argues the case for voluntary uptake of CSR principles based on both financial and environmental goals.

II CSR, SUSTAINABILITY AND THE ENVIRONMENT

The primary resources on which businesses rely for energy are finite. They will run out. At the current rate of consumption, statisticians have calculated that the world has approximately 15,637 days worth of oil, 152,234 days of coal and 61,064 days of

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1 Milton Friedman, 'The Social Responsibility of Business is to Increase its Profits', *The New York Times Magazine* (New York), 13 September 1970.

2 The shareholders are really not the owners of the company; they own shares or stock in the company. Like human beings, companies own themselves. Thus the shareholders are not the 'principals' in the corporate equation; the company itself is the principal, and the directors are the agents. This is the reality. Often we say things that defy this reality. For example, we sometimes say that directors owe their duties to the company and to the shareholders. Strictly-speaking, they do not owe duties to the shareholders (unless a statute creates such a duty, of course).

gas remaining.[3] As primary resources are depleted so too is their profitability. Of course, once these resources are exhausted, the current cycle of industry will stall. If business cannot be conducted one way, something needs to change. However, if this process is carelessly abused, accountability for environmental devastation will not exist.

CSR is a commitment by businesses to consider, not just the shareholders of an enterprise, but the interests of all stakeholders impacted by its activities. These include the employees, the consumers and suppliers of the business, the community in which it operates, and the environment. This article particularly focuses on the environmental implications of adopting CSR.

CSR contemplates more than pure legal obligations imposed by statute. The commitment is a holistic approach to business that, in light of the state of the environment, attempts to address more than the financial bottom-line. CSR is predicated on the belief that going about 'business as usual' is simply not sustainable.

The global environmental movement, recognising this risk, highlights the rapid rate at which industry is depleting the environment and thus threatening the prosperity of business in the long-term, in an attempt to encourage companies to amend their current business practices and incorporate CSR.

The implications of carrying on 'business as usual' and failing to incorporate CSR might include the development of a second market place, where the environmental repercussions of our industries are traded. In effect, this would create a carbon economy in which industries' harmful environmental practices are tolerated, for a price.

Benefits of CSR in business—and obliquity in goals

There are clear benefits to integrating CSR into business - both financial and environmental. The overt focus may be the financial gains from pursuing CSR, however the oblique outcome will be one of sustainability. Obliquity[4] is attractive, for it can provide a means of decreasing detrimental environmental effects without demanding direct action. The integration of CSR into business will help make businesses globally aware of the issues and the needs of the environment, obliquely affecting every industrial decision and promoting the development of substitute energy sources. By incorporating business practices that thoughtfully consider the effect on the environment, finite natural resources will be stretched further.

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3 Worldometers, *Worldometers: Real World Statistics*, (7 December 2011) <http://www.worldometers.info/>.

4 An astronomical term, 'obliquity' describes the angle of tilt of the earth's axis of rotation. It has also come to mean that, to achieve something, it may be best not to chase it directly. Maybe you can achieve more indirectly. *Obliquity: Why our goals are best achieved indirectly* by John Kay (Penguin 2011) argues that the happiest people are not always those who set out 'to be happy'. So, too, the cleanest country may not be the one that legislates directly to demand cleanliness, but the one for whom this outcome is an indirect benefit of other cleverly-chosen goals.

So what are the commercial benefits to integrating CSR into business, that would allow this obliquity in environmental goals to infuse even the most singularly profit-focused businesses?

A sustainable relationship with consumers is one key advantage. CSR reflects trends in consumerism. Consumers are progressively better educated about the plight the environment is facing. The general population appreciates the role it must take to slow down the rate of decline. As a result, consumers are 'ethically consuming' – deliberately purchasing products that consider the impact on the environment (along with the impact their choices will have on the people and places from which such products are derived). This includes anything from the cars they drive, to the detergents they use. As a result, through a CSR-friendly image, businesses can encourage and build on loyalty to an eco-friendly brand. Such an image would need to accurately reflect the company's decision-making record. The Corporate Responsibility Index encourages companies to divulge their CSR record in order to be benchmarked against others.[5] Companies stand to improve their public image by improving their CSR records.

Incorporating CSR into business practices promotes efficiency. By eliminating waste, whether it is through recycling or innovation,[6] enterprises can simultaneously benefit the environment and lower the cost of production, in turn improving profit margins. While the argument for CSR is strongest when it gives rise to immediate commercial benefits such as savings and increased profits, implementing CSR practices often bears an initial cost. The question then becomes: what makes CSR worthwhile?

In the long-term, aspiring to be more efficient promotes a culture of competition. Competitors striving for efficiency gains will naturally promote a climate of innovation, allowing for new technologies to emerge. Increased efficiency also promotes a more sustainable business model, and that attracts a more satisfied workforce, furthering the long-term sustainability of a business.[7]

Taking on the obligation to limit the damage inflicted on the environment also decreases the likelihood of government regulation. By going beyond what is legally required at the present time, businesses that support initiatives benefitting the environment are less likely to be adversely impacted by any legislation that is introduced in the future. This means they reduce the risk of consequences for non-compliance and we begin to witness gradual transitions that are self-motivated rather than dictated by changes in law.

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5 Corporate Responsibility Index (date of last access) <http://www.corporate-responsibility.com.au/>.

6 For example, Anheuser-Busch made small adjustments to the manufacturing process of its beer cans. Busch now saves 21 million pounds of metal per year by trimming an eighth of an inch off the diameter of its beer cans without reducing the volume of beer in the can (Paul Hawken, Amory Lovins and Hunter Lovins, *Natural Capitalism: Creating a New Type of Industrial Revolution* (Rocky Mountain Institute, 2000).

7 Atle Blomgren, 'Does Corporate Social Responsibility Influence Profit Margins? A Case of Executive Perceptions' (2010) 18(5) *Corporate Social Responsibility and Environment Management*, <http://dx.doi.org/10.1002/csr.246>.

Finally, implementing CSR practices would ensure that the same goal of carbon taxing or pricing is ultimately achieved, without the additional fiscal burden of a new tax.

Is CSR improving the bottom line?

Powerful CSR and a good financial bottom line can co-exist. If one accepts that having no CSR decreases profits in the long run, then the reverse may be true. But how can a business be sure that investing in CSR will improve the bottom line? Causality is unclear. It may be that the research shows such a connection between profitability and CSR because only profitable industries can afford to invest in CSR.[8] The research tying CSR to improving a company's profits is still inconclusive.[9] What is certain is that CSR does improve the 'triple bottom line'. This concept looks beyond shareholder primacy, assessing how well the company serves the interests of the society and the environment, alongside the shareholders. It considers how the company affects its employee recruitment, retention and motivation, learning and innovation, reputation management, risk profile and risk management, competitiveness and market positioning, operational efficiency, investor relations and access to capital, and licences to operate.[10] The ultimate goal is long-term, prosperous sustainability - not immediate profit.

Members of the Corporations and Financial Services Division of the Australian Treasury comment:[11]

> In 2006, both the Parliamentary Joint Committee on Corporations and Financial Services and the Corporations and Markets Advisory Committee released reports examining the extent to which Australian companies should adopt corporate social responsibility. The reports concluded that corporate social responsibility can be an important means for companies to manage non-financial risks and maximise their long-term financial value.
>
> [A] well managed company will generally see it as being in its own commercial interests, in terms of enhancing corporate value or opportunity, or managing risks to its business, to asses and, where appropriate, respond to the impact of its activities on the environmental and social context in which it operates. Companies that fail to do so appropriately may jeopardise their commercial future (CAMAC 2006).
>
> Companies that embrace the concept of corporate responsibility are realising that the long-term financial interests of a company are not 'mutually exclusive' with acting fairly in the interests of stakeholders (other than shareholders) (PJC 2006).

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8 Andrew A King and Michael J Lenox, 'Does It Really Pay to be Green: The Empirical Study of Firm Environmental and Financial Performance' (2001) 5(1) *Journal of Industrial Ecology* 105.

9 Blomgren, above n 9.

10 Matthew Brine, Rebecca Brown and Greg Hackett, 'Corporate social responsibility and financial performance in the Australian context' (date of last access), *Australian Treasury.* <http://www.treasury.gov.au/documents/1268/PDF/04_CSR.pdf>.

11 Ibid.

Taking on CSR – pull don't push

CSR can be implemented by a business without government intervention, yet it often is undertaken through consumer pressure. This self-motivated approach can often be less unsettling than changes imposed by legislation. Here, CSR is proposed as a part of the core business operations of a company, rather than a separate 'add on', distinguishing it from corporate philanthropy, which may be funded out of operations that are damaging to the communities in which business is conducted.[12]

However, governments are increasingly regulating the impacts that businesses have on the environment themselves, while simultaneously enacting legislation that directly or indirectly mandates minimum CSR standards required for businesses to operate. Instead of waiting for such government action, businesses should consider adopting CSR by considering their product's entire life cycle. This means taking into account not only how to get the product into the consumers' hands and the related environmental impact, but also how the product will be used, and, ultimately, disposed of.[13] By considering how the product will end its life, the business can then implement more sustainable means of production as well as developing a method of minimising their carbon footprint. This is done by counteracting any damaging impact the production process may have with a system that helps to nullify it.[14]

By incorporating CSR to this extent, a business will take responsibility for its impact on the environment and the future. If every business did the same, the exhaustion of the non-renewable resources would be thwarted.

Carbon tax – domestic and global

Greenhouse gases, such as carbon dioxide, have been proven to deplete the ozone layer and cause global warming. Global warming is alleged to cause catastrophic environmental events like larger storms, expanding deserts and the melting of the polar ice caps, resulting in rising sea levels—events that are of special relevance to the Australian population. Theories and predictions relating to global warming are still debated, with sceptics mounting strong criticisms about the scientific methodology and rigour of the environmental majority. That debate is not pursued here. This article assumes such research could be valid. Therefore, if the danger of ignoring such predictions is greater than the cost of actions to cure or alleviate the problem, it may justify spending.

The processes of industries, particularly the burning of fossil fuels for energy, result in the release of carbon dioxide as a by-product, contributing to the problem of global warming. Depleting non-renewable resources, for example by cutting down trees, also exacerbates the problem because trees might otherwise counteract the

[12] Ibid.

[13] HP owns massive e-waste recycling plants, where enormous shredders and granulators reduce four million pounds of computer detritus each month to bite-sized chunks - the first step in reclaiming not just steel and plastic but also toxic chemicals like mercury and even some precious metals. HP will take back any brand of equipment; its own machines are 100 percent recyclable.

[14] HP, Starbucks, Continental Airlines, Suncor and Tesco frequently make top 10 lists of companies that have implemented recycling systems that curb the damage of their manufacturing processes.

carbon dioxide by converting it into oxygen, a gas that is not harmful. Such harmful actions could, if the research is correct, put the Australian population at greater risk.

Businesses have, thus far, proven unwilling to bear the cost of actions to cure or alleviate the problem. Therefore, to make businesses responsible for the carbon they release into the atmosphere, the government has intervened: proposing, debating and eventually implementing a tax or price on carbon. A carbon tax, as its name suggests, taxes the carbon released into the atmosphere. The more carbon (and thus the more environmental detriment), the more tax is collected. To minimise the tax payable, businesses may seek out ways to minimise the carbon their processes emit. As a cost-saving measure, this would reduce the carbon emissions and help slow down (and eventually stop, if the tax was severe enough), the detrimental effects such emissions cause. The government's decision to adopt a carbon tax is an indirect way of forcing environmental CSR on business—it is a financial pressure to do good environmentally—which falls short of legislating specific provisions in relation to CSR, as was done in the UK.[15]

Further, the tax collected on a national level could then be used to fund initiatives that promote innovation in technologies that would deviate from processes of production that rely on expelling carbon into the atmosphere.[16] These new technologies would be more environmentally sound and would, in turn, reduce the dependence on fossil fuels, slowing down the rate of their depletion.

The mining sector in Australia has called the tax 'doomsday', arguing that the tax will close coal mines, risk thousands of jobs in a nation with increasing unemployment, raise power bills and hurt international competitiveness.[17] Resource industries that would be most impacted by this tax could adapt, minimising the costs of this tax in two ways: first, they could change operations entirely, moving away from non-renewable to renewable means; or second, they could amend existing practices to ensure that carbon emissions are minimised. ExxonMobil and its CEO have, in the past, denied responsibility for any detrimental environmental effects and stressed that their role was to maximise profits for their shareholders. Their business was in oil and they had no business in exploring or fostering alternatives since these were less profitable. In June 2012, in their Corporate Citizen Report of 2011, the company reported a change of tune - investing $440M into improving energy efficiency, reducing flaring and reducing greenhouse gas emissions.[18] After a long resistance, it appears the biggest offender is reconsidering.

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[15] Section 172 of *Companies Act 2006* (UK) provides that directors have an obligation to consider stakeholders in the decision-making processes for the success of the company. Amongst the more traditional 'shareholder primacy' considerations, there is a specific recognition of the need to consider the long term consequences of any decision (s 172(1)(a)), the interests of employees (s 172(1)(b)) and the impact of the company's operations on the community and environment (s172(1)(d)).

[16] Jim Corkery, 'A Carbon Tax – Onwards' (2009) 19(1) *Revenue Law Journal*.

[17] Sam Favate, 'Australia Moves Closer to Carbon Tax; A Familiar Debate Rages' on *Law Blog – Wall Street Journal* (12 October 2011) <http://blogs.wsj.com/law/2011/10/12/australia-moves-closer-to-carbon-tax-a-familiar-debate-rages>.

[18] Exxon Mobil, *Corporate Citizenship Report 2011*, June 2012 <http://www.exxonmobil.com/Corporate/Files/news_pub_ccr2011.pdf>.

In addition to minimising the costs of such a change, companies could look to the commercial benefits. Tax concessions for adopting these new technologies would make the switch more attractive. Businesses that are seen to be taking responsibility for their own carbon emissions would be afforded these tax concessions, with the costs being ultimately born by the consumers.

Such economic motivation to minimise business costs stands to benefit the environment by reducing the emission of greenhouse gases such as carbon dioxide. Given the reluctance of businesses to spend money on this problem voluntarily, the government took action to improve their businesses and resource technologies in the long-term:

> [C]arbon emissions [must] be taxed to some extent (with no taxation, coal and gas-fired electricity still look[s] cheaper). At heart, putting a price on carbon is a political decision which will be taken and accepted to the extent people accept that they have a responsibility towards future generations and show a willingness to bear (some of the) cost for highly diffuse externalities. Someone will pay for all that carbon in the atmosphere, we just don't know who or when exactly; putting a price on carbon is a collective way to acknowledge that cost and integrate it to current modes of power production.[19]

Adopting a carbon tax is a legal matter. Not following 'rules' has repercussions in law. Perhaps that is what the Kyoto Protocol (intended to curb carbon emissions worldwide) was lacking—consequences for non-compliance. This was recently recognised at the UN Summit on Climate Change in Durban. Although reluctant, even China and India folded to the pressures of the international majority in agreeing to be bound by measures to minimise carbon emissions.

The carbon tax concept is by no means a new one. Finland introduced the world's first in 1990.[20] Since then, Sweden, Norway, Denmark, Costa Rica, Switzerland, Ireland and India have followed suit. Other countries, such as France and Taiwan, have had heated debate over introducing one. In North America, certain US states (Maryland, Colorado and California) and Canadian provinces (Quebec, British Columbia and Alberta) have also introduced carbon taxes. Other nations have favoured an Emissions Trading Scheme (such as most EU member countries).[21] It may be that some schemes will prove more effective and some less effective – but that is a matter for other discussion. Nevertheless, the various approaches do show a global recognition, at government level, of the role oblique measures have to play in protecting the environment as a stakeholder.

The argument follows: had Australia not implemented and collected the tax itself, other countries, particularly those of the EU, would have gained the advantage by enforcing their own laws and policies for carbon tax. In 2012, for example, Qantas

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19 'Exxon Mobil, *A view to 2040*' <http://www.exxonmobil.com/Corporate/energy_outlook_view.aspx>

20 Anonymous, 'Factbox: Carbon taxes around the world (4 March 2012), *Special Broadcasting Service* <http://www.sbs.com.au/news/article/1492651/factbox-carbon-taxes-around-the-world>.

21 Department of Climate Change and Energy Efficiency, 'Global action – Facts and fiction' (4 March 2012), *Australian Government* <http://www.climatechange.gov.au/government/international/global-action-facts-and-fiction.aspx>.

airfares would have increased because of a 15% penalty imposed by the EU on carrier countries that have not implemented a carbon tax.[22] Oblique pressure from the EU worked it appears, even in relation to environmental goals, in other countries.

CONCLUSION

The heaviest emitter of carbon pollution is China—about 20% of the world's carbon pollution. But, per capita, Australia's emissions are more than four times those of China. And, in the last 15 years, despite the prophecies of doom, China has reduced its carbon pollution per unit of GDP more quickly than any large economy.[23] The country's save-the-planet ethic is behind the drive, just as it is in Japan and now in Australia. There, of course, is government stricture and legislation, too —supporting and enhancing this general demeanour of environmental concern and its strong oblique influence.

The US is cataloguing greenhouse gas emissions from the most powerful emitters, providing a statistical base for targets for reductions of emissions. In early 2012, Obama's administration announced an online tool for making public the greenhouse gas emissions of 29 different industrial categories.

Being the largest energy user in the US, the federal administration there has accepted the target of a 28% reduction in carbon emissions by 2020, along with a 13% target reduction in indirect emissions, for example, the carbon cost of commuting to work. They reckon this will save $11 billion dollars in energy costs and unconsumed millions of barrels of oil. The Obama administration has seen almost a doubling of renewable energy generation from geothermal, wind and solar sources since 2008.

Despite the controversy surrounding the introduction of a carbon tax or price in Australia, its implementation will address an environmental problem while being aligned with CSR in a manner that could make businesses more, not less, profitable and sustainable.

Corporate responsibility towards the environment is absorbed and honed through publicity and education, the influence of educated trends, and a core concern for the continued liveability of the environment – oblique rather than direct pressures. With CSR — specifically carbon reduction — weighing on the corporate mind, the many decisions of the corporate body may be incrementally tailored to the needs of the environment and the instincts for preservation of our way of life. In market-speak, the direct and indirect costs of carbon need to outweigh the profits of pollution, in the corporate subconscious. That is where victory will be won against carbon and any other pollution.

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[22] John Birmingham, 'No Carbon Tax? Europe Will Make Us Pay Instead', *Sydney Morning Herald* (online) (31 May 2011 <http://www.smh.com.au/opinion/blogs/blunt-instrument/no-carbon-tax-europe-will-make-us-pay-instead-20110530-1fcu9.html>.

[23] JA, 'A Deal in Durban', *The Economist* (online) 11 December 2001 <http://www.economist.com/blogs/newsbook/2011/12/climate-change-0>.