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Exploring the Drivers of CSR and Creating a Sustainable Corporate Institution: Environmental Education, Politics, and Business Practices

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Exploring the Drivers of CSR and Creating a Sustainable Corporate Institution: Environmental Education, Politics, and Business Practices

By Eric Osuna

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Abstract

Corporations represent one of the greatest threats to modern society. Their impacts on the natural systems and communities have brought about irreparable harm, and finding ways to address this is of paramount importance. Corporate Social Responsibility programs have been largely ineffective at producing institutional change, largely because the underlying framework for success has been neglected. By working to increase environmental education among students as well as consumers, and implementing more uniform national and international policies governing corporate activity, businesses can enter into a new era of sustainability.

Introduction

Humanity is facing an unparalleled challenge in meeting human needs in the coming century. Human populations are increasing at an unstoppable rate and as more and more people are elevated into the middle class the landscape of production must shift accordingly to meet their wants and needs. The UN projects that by 2050 world population will have grown to over 9 billion people, growth that will be seen mostly in developing countries. After the fall of the Soviet Union market economics took a firm hold nearly everywhere around the globe and these additional people will become major players in it (Friedman 2008). Accordingly large rates of growth in global consumption are going to cause increases in deforestation, overfishing, water shortages, and air and water pollution which will further exacerbate environmental issues like global warming and social ones like poverty. While the combined effects that these factors will have on our way of life are uncertain, what is clear is that we are on a collision course with the effluent of our own affluence. We need to rethink the way we use our increasingly limited resources. Meeting these limitless needs has largely been accomplished through corporations, which have become adept at organizing production and distribution of goods and services on a multinational scale, although not without major costs. In an effort to remain competitive they have pursued making their operations more efficient and

cutting costs often at the expense of society and natural systems. In essence businesses have not become more efficient, just more efficient at externalizing and taking advantage of a political system that allows them to do pretty much whatever they please. By guiding corporations in the right direction our needs can be met in a more sustainable fashion. Corporate Social Responsibility holds the key to achieving this goal, but needs significant reworking in order to become more than just a public relations ploy. The first step will be to increase environmental education in schools and among consumers, which will be followed by a revamping of environmental policy to make corporations more accountable for their actions and therefore less likely to externalize costs, and finally a new CSR can be designed to fit within this new framework that will reward innovative corporations.

History of the Corporation

The first step in understanding why the modern corporation is so dangerous is to understand the history and very nature of the corporate structure. The traditional form of business that corporations eventually began to replace was that of a partnership between a small group of individuals. In a partnership, a group of acquaintances embarked on a venture together in which they utilized their combined economic resources to create a business that they owned as well as ran. This arrangement proved too limited for the needs of a growing industrial economy, and a

precursor to the corporations, the joint-stock venture, was created. In a joint-stock venture a group of investors bought a share in a business idea which was meant to benefit the public good. These types of projects could usually not be financed by a few men alone and therefore as a matter of necessity they were granted permission to sell a limited number of shares to the public. Projects included things like utilities and the financing of colonial ventures which brought exotic goods into the British Empire. The key difference in structure, however, is a separation between those who own the company and those who manage it. There are inherent issues with this institutional form because of a decreasing in accountability between investors and their business. British Parliament eventually banned the corporate form in 1720 with that passing of "The Bubble Act", seeing the obvious faults with an institution where directors were in charge of the management of other people's money with little or no liability themselves. The allure of creating these massive organizations proved too great however because they were capable of undertaking ventures that no small group possibly could. The industrial revolution began to take hold in the United States, with railroad barons being credited for establishing the modern era of corporations. The sheer amount of capital required to undertake the building of a railroad system simply could not have been accomplished without the selling of public shares. Seeing the successes that their former compatriots were having with these unbridled corporations, the English

repealed the bubble act and “the amount of capital raised by railways, mainly through joint-stock companies, increased from £200,000 to £230 million” within a little over 20 years. Business was forever changed (Bakan 2005).

With corporations on the rise, business minded individuals wanted to create a business climate in which the growing middle class could join in the stock purchasing craze. One of the last remaining barriers to the middle class, and ironically one of the last barriers to the completely amoral corporation we see today was liability. When an investor purchased stock in a company, he gained a portion of ownership in said company, and as such had liability to its debts should they ever be called upon during the failure of a corporation. This meant that his debtors could take freely from an investor’s personal wealth to cover any losses experienced by doing business with the corporation. The wealthy elite of the day saw a solution in limited liability, in which an investor is responsible only for the amount that he invested in a company. This not only allowed broad participation in investing but also released said investors from being forced to repay the debts of the corporation they had helped to finance. This allowed them to be “recklessly unconcerned about their company’s fortunes” (Bakan 2005).

Problems with Corporations and Why CSR has failed

Earth provides enough to satisfy every man's need, but not every man's greed.

-Mahatma Gandhi

It is not the corporation itself or the people who run it that are necessarily evil, but the framework into which corporations are operating that is driving them to produce such massive damage to communities and the environment. These problems are a natural result of a capitalistic economy populated with disenfranchised citizens and consumers as well a government that is unwilling to take a stand against big business.

Unbridled production has created massive environmental damage that threatens the very fabric of society. Needless to say corporations are equally threatened and refusal to change now will have long lasting impacts on them economically. The figure below outlines the many services provided by natural systems and the related social effects that they affect. It is clear that depleting these services will reduce availability of resources and regulatory services that corporations rely on. It also has a major impact on the well being of the society that corporations operation within.

The Millennium Ecosystem assessment finds that 60% of ecosystem services worldwide are in decline, with only food production increasing, but at the expense of other services. The loss of these services will have

unimaginable consequences for humanity and business. It also identifies six major trends that could devastate businesses if not properly dealt with. These include water scarcity, climate change, habitat change, biodiversity loss, overexploitation of oceans, and nutrient overloading. To some degree corporations are affected by and also affect these trends, so they have a responsibility to find new approaches in dealing with them. A prime example of an ecosystem service being depleted to the point of uselessness is the collapse of the Atlantic cod stocks off the coast of Newfoundland. Despite warnings from government agencies and the implementation of a quota system, exploitation increased to the breaking point of the stock. No single company wanted to lose out on the opportunity so each attempted to utilize greater quantity to remain competitive. Now the fishery is barren and produces neither revenues nor food. It goes to show that there is no magic indicator that corporations should stop what they are doing, they must take responsibility themselves (MEA 2012).

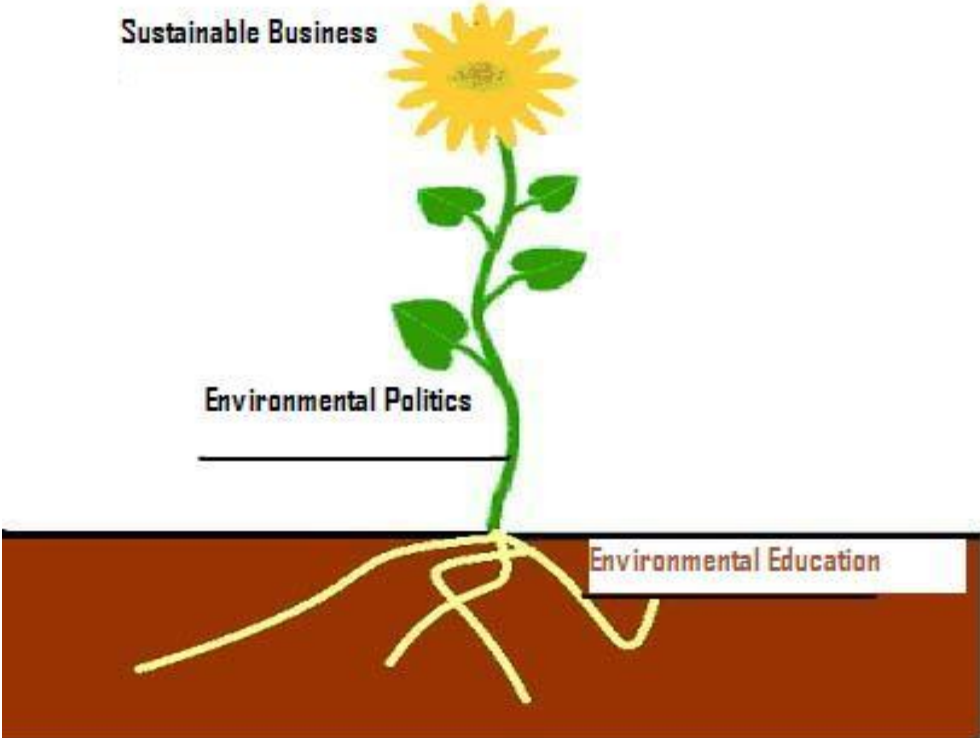
The social repercussions of corporate activity are also astounding. Human rights violations have been linked back to major corporations and they go beyond findings of sweatshop labor. In *Kiobel v Royal Dutch Petroleum*, a Nigerian leader and 11 of his compatriots were executed for speaking out against the actions of Shell and there is strong evidence that the corporation was complicit in the extrajudicial murders (CCRJ 2012). Putting profits before human life has become a normal activity for

corporations and it cannot continue if they are to become credible agents of change.

Corporate Social Responsibility (CSR) can be defined as, "the way in which business consistently creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement" (Visser 2010). This to me is the goal of a true systemic CSR that can only be reached under the right circumstances, which must come from outside drivers before change within will take place. Left to their own devices leaders of corporations have been forced by corporate laws to formulate CSR programs only as a strategic move to appease the public and improve company image. By their nature corporations first and foremost allegiance is to their shareholders, and the only thing shareholders are concerned with is the value of the company. Concerning board directors and CEOs, corporate law, "compels them to prioritize the interests of their companies and shareholders above all others and forbids them from being socially responsibly, at least genuinely so" (Bakan 2005). There are even historical accounts of this that still hold true in court. Henry Ford was receiving handsome profits from his newly released and massively successful Model T, and he decided that he would lower the prices of the car to make it more accessible and also pay his workers twice the market wage. He did this in lieu of paying out dividends to shareholders, two of whom had problems with this. The Dodge brothers wished to use the dividends to start their own

automobile company and argued that Ford Motors had deprived them of what was legally theirs. The Supreme Court ruled in favor of the Dodge brothers and Henry was forced to pay them dividends. This entrenched idea of shareholder supremacy has inhibited CSR from reaching its true potential in business.

Given these circumstances CSR has developed largely into a public relations scheme to increase trust in a brand while producing little actual good for society. Clever marketing has misguided the public into thinking that things are going well and that buying products that are made of recycled water bottles will solve the world's problems. In essence current CSR has done more to hinder true CSR aims than anything. Now that the problem's with the current form of CSR is abundantly clear it is time to tackle a more difficult but also more optimistic task, that of changing the corporation to something that we can all be proud of. I present the "Flowering of CSR 2.0" diagram, in which I lay out a plan that addresses the fundamental flaws in CSR in its current form and provides a systematic way to tackle them. Through this system I believe corporations can be restructured to endure these trying times and will emerge as leaders in the international community in creating empowered communities and promoting environmental sustainability.



The Root's of CSR: Environmental Education

At a time when most children can identify more than a thousand corporate logos but cannot name the plants or trees or birds in their own neighborhoods, or say who lived in their towns a hundred years ago, or describe where their drinking water comes from, finding ways to make the world a vibrant and interesting-and a meaningful- place for kids is critical.

–Pamela Michaels

Our relationship with the natural surroundings is the building block from which we develop an environmental ethic. For millennia humans have struggled to explain every phenomenon they observed in nature, somehow sensing that they were intricately connected and reliant upon the world around them. All of their needs could be satisfied by nature and entire civilizations were built around worshipping it. In modern society we have largely lost this understanding and indeed one of the key goals of corporations has been to create a disconnect between consumers and the source of their products. Food now comes from supermarkets and clothes from malls instead of from the earth itself; a shade has been pulled over our eyes to conceal the truth of how we get the things we perceive that we need. In this way corporations stifle questions about the true costs of producing goods to people across an ocean that we will never meet living in places swamped in smoke and grime that we will never see. The first step in

lifting this blind begins early in early child development and environmental education is a key component of this. Once this base has been established children grow to be informed and environmentally conscious adults with the knowledge and desire to make the world a better place; not only through lifestyle decisions but also through active participation in questioning the very structure of our consumer society.

One of the greatest tragedies to education has been the loss of the arts in schools and the ever growing gap in environmental education. The No Child Let Behind Act has undone a decade of work under the Nation Environmental Education Act by emphasizing the importance of standardized testing and the fields of study most useful for working within a corporate setting, namely math and language arts. The National Environmental Education Act was signed into law on November 16, 1990 and was created in response to the growing citizen concern over the effects of global environmental degradation. One of the main findings was that "effective solutions to environmental problems and effective implementation of environmental programs require a well educated and trained, professional work force"(NEEA 1990). Training these professionals is a lifelong pursuit, and schools are the first place to recruit promising young minds. Developing a concern and connection with our natural environmental is a crucial step toward culturing a young professional who will enter the work force determined to be an agent of change. Introductory courses allow greater

contact with nature and foster creativity and problem solving skills that are invaluable later in life. The "No Child Left Behind Act" served to place greater emphasis and set benchmarks for students to pass in the language arts and math sectors which has brought about some unintended consequences. Teachers have responded to increased pressure to train students to perform well on tests by reducing or eliminating altogether subjects not featured on the standardized tests. While standard setting can help to ensure that students are reaching necessary milestones in their education, they often ignore the fact that students learn at different paces and develop certain skills through lenses that math and language arts may not cover. Despite having been very good at it once, I cannot honestly say that I remember how to solve a derivative or balance a chemical equation yet I spent countless hours poring over these types of problems. What I can say however is that my problem solving skills in general are excellent and have allowed me to excel in other areas unrelated to school. Studies have shown that some students who have trouble sitting still in traditional classroom settings come to life outside and during more hands on projects, and barring children like this from developing their unique skills in a different manner than other children is to deny a large portion of kids the right to a meaningful and fruitful educational experience. Because of this major reforms to education are required.

Many environmentalists can attribute their love of the outdoors to experiences in their childhood. I know that for me one of the most memorable events in my life was during my camp experience after graduating from 6th grade Cuyamaca campgrounds. We were instructed to go into the forest for a couple hours on our own and take a notebook and write whatever we wanted. After spending an hour or so walking around, I realized that it was one of the first times in my life I had been truly alone, surrounded in silence save for the rustling of leaves and the occasional squirrel scampering by. Devoid of any distractions, I began to notice how full the forest was with life of all kinds; colonies of ants carrying out the daily routine in their microscopic world, butterflies flitting about completely unaware of my existence. All at once I felt so very small and very large; a world existed outside of the daily hustle bustle of "civilization" and in it there was beauty worth protecting for no other reason than that it deserved to exist. I feel that my experience was not unique and given the chance I believe all children would be drawn to the outdoors if they were properly motivated. Designing and implementing programs in early education that emphasize a connectedness with nature can give children another outlet by which to express themselves and find meaning to life. This kind of insightfulness will be invaluable in reforming corporations.

Pamela Michael argues in "Helping Children Fall in Live with the Earth: Environmental Education and the Arts" that the arts are a vital area of study

for children in the development a connection with nature. "There's hardly anything more effective than art for developing and refining a child's ability to recognize and express patterns". By observing these patterns in natural systems children not only expand their understanding of the world in a systemic way but also learn problem solving skills and the power of observation. Through the initiation of a national poetry contest in which students wrote poems based on observations they made of the watersheds in their hometowns, Michaels saw the impact that getting kids to look objectively at their environment could have. She received fantastic feedback from teachers and students, and even more promising was that teachers noticed students who had problems in traditional classroom settings excelled in these alternative settings and produced works of poetry that won national acclaim. These talents would otherwise have gone unnoticed and praise forgotten had programs like this not existed. More importantly was that this program got children excited about being outside and in the process they learned something about the importance of watersheds, the pollution of which is a huge issue and one that corporations are largely responsible for worldwide.

Another promising story involves the creation of a garden at Martin Luther King Jr. elementary in Berkeley, California. Leslie Comnes became the principal of the school in the mid nineties with a clear goal of creating a new learning experience in her school. With the help of community members

and faculty they were able to rip out the asphalt in an area on the school grounds and plant a small garden that was supervised by a staff member and visited by children. At first only a few classes would visit the garden and learn about the life processes, but this soon grew so that all grades in the school were making trips to the garden. One of the more substantive effects of this was teaching children just how much effort and time went into creating food that was healthy to eat, and as these children grow they will inevitably ask the question, what kinds of gardens do the foods in supermarkets come from? More importantly however was allowing these children to interact with nature and recognize that valuable lessons could be gained with just the power of observation; not everything needed to be spoon fed in a state mandated curriculum. When the students later filled out surveys assessing what they thought deserved additional funding, they place P.E, field trips, and the garden as their top three choices respectively. It is no mistake that all three involve untraditional learning environments, perhaps showing that even children sense a void being filled by these programs, because "learning isn't just about books, life is about learning" (Comnes 2005)

With a strong base in environmental education the next generation will view their lifestyle choices in a completely different light than we do. Their first impact can be as informed purchasers, questioning the validity of claims made by corporations who present products as eco friendly alternatives but

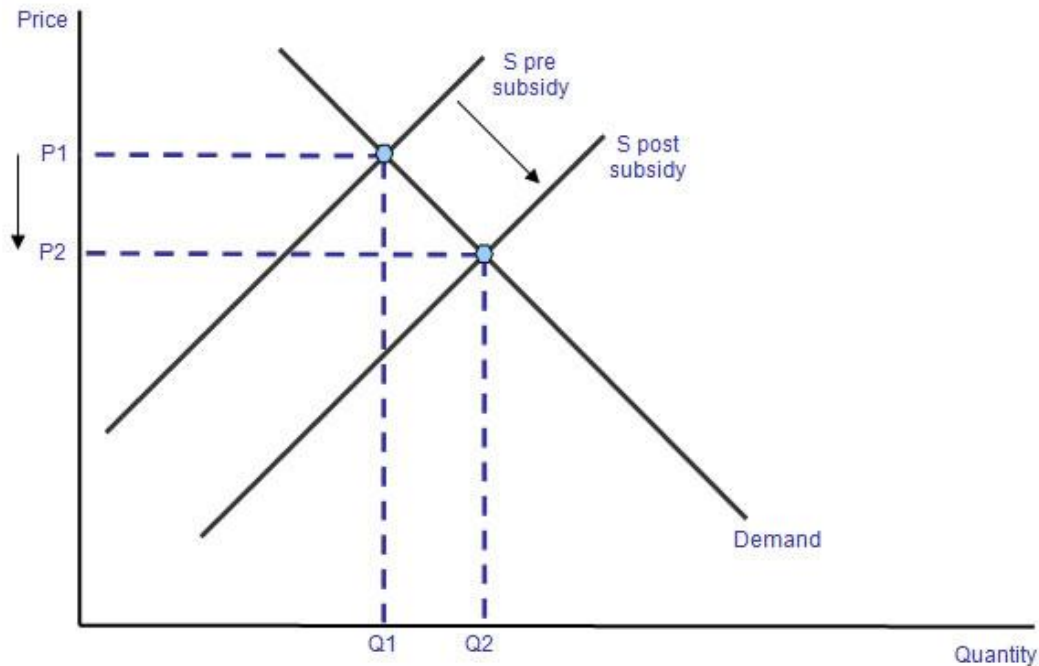
are generally just as bad as other options and sometimes worse in the case of greenwashing. The traditional consumer buys into this not only because they lack the knowledge that no car or chemical cleaning product could ever be "green", but because it also resolves their cognitive dissonance of doing something they know is harming the environment. The goal is for consumers to understand that in the aggregate all consumers express purchasing power and corporations will react to demand. If there is a general demand for accountability and transparency in the production process then corporations will be forced to act upon this or risk losing the large margins they enjoy today. They must move away from being "good enough", to "truly good".

The other impact that increased environmental education could have is within corporations themselves. As I will show later and as I have said before, corporations are not inherently evil, they are products of their environment. By filling them with individuals who are problem solvers and idea-people they can become more sustainable entities that work toward social change and environmental protection.

Environmental Politics: Corporate Reform through Government oversight

Environmental politics is possibly the most important factor in creating a successful CSR initiative within corporations and it provides the rigid stem for my CSR Flower. Regulation of corporations was designed as a method of counteracting the infinite greed that corporations impose upon society, however our elected officials have shirked away from their duty to stand up to big business. Corporations have been allowed too great a say in the formation of US policy and it has created a highly inefficient system that has failed to address the environmental and social problems that are so obvious. The complex nature of environmental problems and social ills requires that corporations be regulated both by the governments in countries they operate from as well as international organizations and agencies.

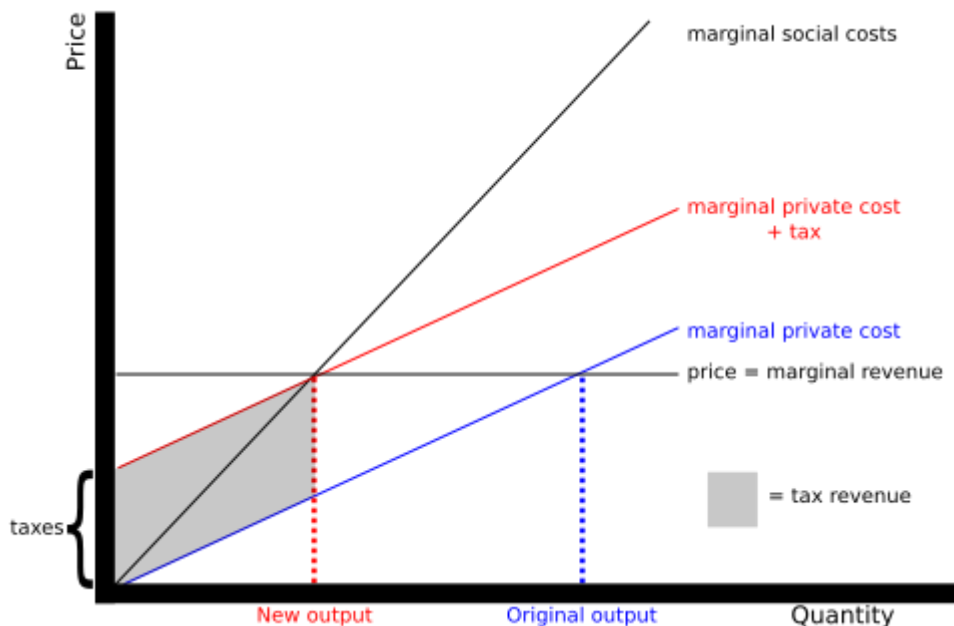
United States policy toward corporations is rife with issues that only worsen environmental and social problems that they cause. One controversial area is that of subsidies, which have a huge impact on the market and skew production of certain goods. The most problematic are those on oil and agriculture, because they have such far reaching global repercussions. Subsidies impede the market from adjusting to changes in supply and demand as is shown in the figure below.



The World Bank accuses oil subsidies of giving oil companies an unfair advantage in the energy market, with global spending on them at over half a trillion dollars. Rather than let demand fall as prices exceed willingness to pay in the US, our demand continues to rise which makes supply for less developed countries difficult to compete for. This in turn leads to greater agricultural production in the US which is further increased by substantial tax breaks. With farmers being paid to plant crops that are not needed on the domestic market, they are exported and have created a dangerous system of reliance abroad with farmers there being unable to compete with such artificially low prices on US imports (Friedman 2008). By incentivizing the use of oil the US government is worsening problems like climate change and starvation abroad with people being unable to afford producing their own food with US prices so much lower. Tying back into corporations, they

will produce goods until it becomes unprofitable to do so, and correcting the market by eliminating subsidies in the form of tax breaks and direct monetary payments will guide them toward limiting production and finding more sustainable ways to do so.

Another way to coerce corporations is to apply a pigouvian tax, which has the opposite effect of a subsidy and decreases supply. It is illustrated in this figure and has been discussed as a way to limit negative externalities of production.



In theory, this tax takes into account the “Social Marginal Costs” of producing a product. This includes environmental factors such as air pollution and water pollution, and ideally would somehow quantify social costs such as harm to workers and communities from pollution. When applied, this form of tax raises the price of the product by (t) the value of

the tax, and thereby causes the firm to produce at equilibrium within the constraints of society's ability and desire to cope with said costs. While this seems like fairly straightforward economic theory, putting this system into practice is tricky business because of the huge sway that corporate interests have over government. Taking the current proposed cap and trade system, allocation rights are difficult to decide (Cooper 2007). Some propose that they should be auctioned off and other propose that they be given out based on historical records of emissions. In the case of auctions it is the richest corporations who would be able to absorb the cost and even pass it on to consumers. This will have little effect on actual emissions reductions. If they are distributed based upon historical emission this rewards those corporations that have remained dirtiest while requiring those that were early innovators to purchase these expensive credits. This would simply be another ingenious way for big businesses to become even richer. Government need to take into account all of these factors and do their best to ensure that corporations that refuse to innovate will pay.

There are examples of successful policy in the US that have had major impacts. In 2005, New York City council member David Yassky brainstormed ideas of ways to make NYC more livable and green. He set his sights on New York's taxi's which were huge polluters. While trying to discover a policy alternative that would usher in a new era of less polluting cars, he discovered that there was a NYC mandate that required taxi's to be a certain

size, which greatly favored Ford Crown Victorias. After negotiating with the head of the taxi commission of the many benefits of hybrids, the measure passed. Bloomberg even mandated that by 2013 all New York City taxis be hybrids or get at least 30mpg. This story illustrates how large government impact can be in environmental policy, and it rewarded the corporation that was already far ahead in the automobile industry, Toyota. This gives incentives for others to follow suit or risk being left behind. This success was followed by another mandate that requires all Limo's and Town cars to switch to hybrids. The mandate was proposed by the limousine companies themselves in an effort to provide a level playing field between companies, which is another thing that government policy is effective for. By eliminating the need for cost benefit analysis and making requirements, NYC government made a successful and quick change that drastically improved air quality and reduced oil consumption. (Friedman 2008)

Another area of governance that has an impact on corporation action is that of international agencies. Environmental problems are global in scope and social issues like poverty cannot be dealt with in a piecemeal fashion by region. International organizations have a duty to appease both economic development needs as well as environmental ones. Some like the WTO have greatly hindered this while other like UNEP and its associated agencies are well on their way to meeting sustainable development goals.

The World Trade Organization (WTO) was created to supervise and liberalize international trade agreements in 1995, and has since been a dominant force in solving international trade conflicts. It has had some successes but there is an ongoing conflict within the organization itself over how to address both environmental problems and social problems. This occurs because they are caught between enforcing stricter environmental regulations before products can be sold on the international market, and the fact that this is a barrier to trade for developing countries with fewer resources for development. Naturally the WTO leaned toward economic development and gave greater leeway in process and production methods (PPMs), which greatly favors corporations operating abroad. GlobalExchange, a watchdog group, noted that the US Trade Representative is lobbied heavily by industry sector while citizens and environmental organizations are rarely granted a meeting, showing just how favorable WTO legislation is to big business (James 2012). The organization also holds the power of law that takes precedence over a member countries own laws. They are often cited for striking down policies that give a bias toward domestic goods and services and impede imports from foreign countries. This prevents us as citizens from electing government officials who will ban goods not produced in compliance with standards that we find meaningful. Two examples illustrate how it can impact the environment and society. In 1990 the US tried to limit the import of tuna made in Mexico that did not take measures

to prevent dolphins from being caught. The U.S lost and could not refuse to import the tuna on the grounds that it could not mandate PPM's in a foreign country. This issue resurfaced again in 2013 when American companies were forced to remove labels that claimed the tuna was dolphin-free, as this was discriminatory against Mexico (Cameron 2007). Another recent example comes from Ontario where legislators enacted a policy Feed-in Tariff program that put Ontario on track to develop a much needed green energy infrastructure by offering higher rates for renewable energy for the next 20 years. It is responsible for creating 20,000 green jobs and bringing in 27\$ billion in investment being utilized by 30 clean energy companies. The only stipulation was that 50-60% of the projects material must originate in Ontario. Japan and the EU challenged this through the WTO saying that it gave domestically produced goods a comparative advantage over imported ones. The WTO ruled against Ontario and required them to repeal the section of the policy that mandate local goods. They argued that this was the only reason that the program had been so successful and without it all of the economic development would be lost (Sierra Club 2013). Both of these examples illustrate how effective the WTO is in limiting environmental initiatives that have positive social impacts in the name of corporations abroad that are able to exploit cheap labor and weak government enforcement. Indeed this is one of the key reasons that the WTO makes no explicit statements on labor standards despite the fact that the competitive

advantage enjoyed by developing countries comes at the expense of the many poor and benefits the country's elite and corporations that operate there. The WTO focuses too narrowly on trade and lacks any transparency, which is why I believe it's policies should be made after considering Multilateral Environmental Agreements and receiving input from other organizations like the United Nation Environmental Programme (UNEP). This would make it more accountable to the people and not just business interests.

The UNEP is posited with the task of overseeing negotiations between countries and regions on issues of environmental and social problems, which are formulated into MEA's. I would argue that these agreements, given the power of law, would be the best method to formulating a global environmental regulatory system that would prevent corporations from hiding their wrongdoing in developing countries who have little other choice than to accept the business. They have been highly successful when they are tailored to specific issues and regions and are guided with meaningful language and assessment tools. Some notable examples include regional sea environmental quality and things like ozone depletion and acid rain reduction in Canada. This specialization is important in that it recognizes that issues can be better dealt with when all the factors of specific issue can be laid out and understood. Specialization, however, has led to the creation of an enormous number of MEA's and governing over them and is a monumental

task. Often they are redundant and sometimes even conflicting. For example the Montreal Protocol advocates for the use of hydrofluorocarbons as an alternative to chlorofluorocarbons, but the Kyoto protocol called for the reduction of both as they are greenhouse gasses. With conflicting messages it is difficult even for willing businesses to know what regulations are most meaningful for sustainability. Creating a World Environmental Organization would go a long way toward consolidating these vital mandates and would be an effective counter to the WTO's economic focus (Cameron 2007):

To create a new international governance system supporting sustainable development would, at a minimum, require the agreement of the major industrialized countries whose economic activities do the most harm to the global environment and whose financial resources would be needed to overcome the development losses that might otherwise be suffered. (Cameron 2008)

Corporations based in developed countries are benefitting from the lack of a cohesive plan to address the issues at hand and it is in their best interest to resist any steps to increase regulations. It is the international community's job to resist them.

What is apparent is that there are institutions on the national and international scale that either contribute or hinder corporate reform. The goal of these various policies and international organizations is to build a rigid framework within which the "free" market can flourish. It is the

government's job to create a system that punishes those who exploit for their own benefit and rewards those who are trailblazers. If this is accomplished, sustainable businesses will be the new norm, and as can be seen in the next section they have already begun to appear.

Environmental Economics and Sustainable Business

Traditional economic theory has produced many of the environmental and societal woes that business creates. In producing externalities corporations place costs on people who have little or no say in them, and when production occurs in poor and disenfranchised areas there is even less chance that something will be done to abate the harm. They understand things only in terms of profit, and cost benefit analysis rules the decision making process. A famous case that illustrates their willingness to externalize costs to consumers comes from *Anderson v General Motors*. General Motors designed a new model of car and placed the fuel tank dangerously close to the bumper of the vehicle. Their reason for doing so was that it would save them approximately \$6.19 per car produced, with a downside being that the car had a higher chance of bursting into flames and killing its passengers in the event of an accident. It weighed the savings it would receive against the cost of paying out settlements to grieving family members, and the savings were greater so they kept the feature. A human life was quantifiable in dollar terms to a corporation, and there is documentation of it (Bakan 2005). The same assessment is made when

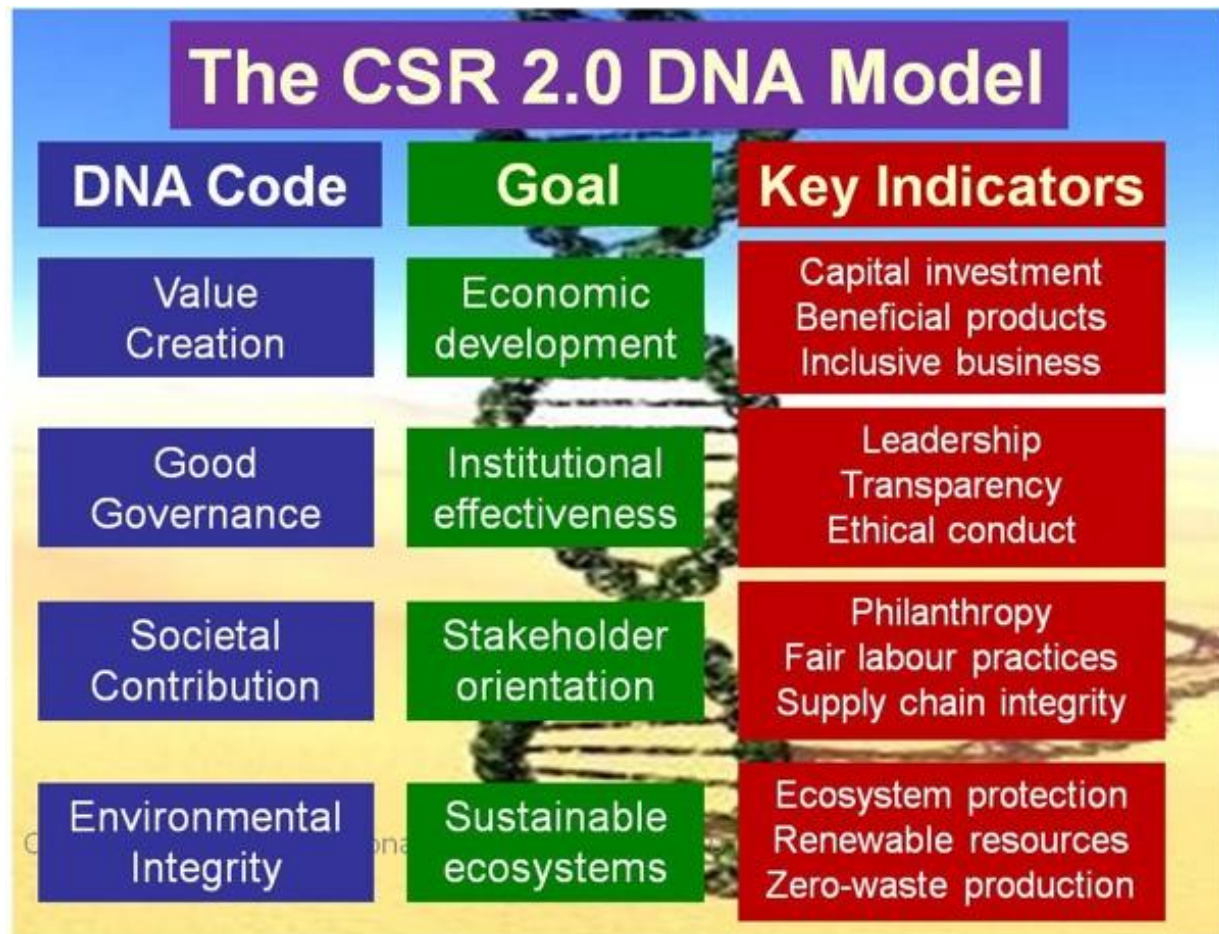
deciding whether to pollute, and without proper regulation corporations see polluting as zero cost and therefore limitlessly beneficial to them.

Environmental economics seeks to incorporate environmental and social impacts into policy decision making. It is effective at creating a realistic approach to allocating the resources that a company has to reach socially optimal solutions (Smith 2011). This may not always lead to pollution being eliminated entirely, but from a business perspective gives decision makers a way to visualize how sustainable business practices can produce long term benefits and company value.

Running the Numbers: Making Green by Being Green

The creation of a truly sustainable business is the culminating “fruit” of the efforts of politicians and concerned citizens. The corporation of tomorrow will not simply have a section of their web page explaining what they are doing in terms of CSR, but instead the principles of responsible management will permeate the entire corporate structure. From rethinking supply chains to employing cradle to cradle principles when designing products, CSR will be the driver of decisions at every level. The challenge that remains is creating such a plan that effectively addresses what Wayne Visser refers to as the four DNA Responsibility Bases; value creation, good governance, societal contribution, and environmental integrity. Their strategic goals and indicators are outlined in the figure below. Companies that implement them will begin to view sustainability not as an annoyance but as a great

opportunity to revolutionize governance and production.



This model takes much influence from the triple bottom line but includes details that make it more applicable to the modern corporation, the most important of which is value creation. Instead of focusing on just economic stability of the company it looks to societal indicators as key functions of economic development. Increases in capital investment in areas where companies operate create additional jobs and provide opportunities for skill enhancement of employees there, which can further benefits the company as well as lift many out of the cycle of poverty. Good governance is another new area and it looks to institutional leaders to spearhead

sustainability initiatives and increase transparency within the company, which increases the effectiveness of all of the other problematic areas. Giving back to society is an important factor in CSR, and it cannot be limited to short sighted charitable contributions. It must involve recognizing a company's responsibility to become a positive force in the community it is investing in. Finally environmental integrity focuses on completely overhauling production and eliminating waste completely. A lofty goal, but an economic imperative to corporations wishing to remain competitive in the coming years. Integrating these principles into a cohesive program is another invaluable step toward CSR.

Developing a corporate sustainability strategy comes about in three stages; management of regulatory compliance, achieving competitive advantage, and finally completing social, economic, and environmental integration (Epstein 2008). The first step requires the corporations to look at its operations and decide where it is making its greatest impacts on society and the environment. This is crucial because each corporation will need to approach sustainability from a different angle. Government regulations that they must abide by are important indicators of problematic areas but should represent only a base level reading. These negative externalities represent risks to the corporation in that they can quickly become costs if not addressed. Creating an environmental management system and a method of auditing progress will eliminate these costs. Upon

seeing how these management systems can reduce costs, a company will move into the next stage. Applying the same management principles they actively look for ways to gain an edge over the competition by not just limiting costs but looking forward to how future costs can be avoided. By emphasizing things like life-cycle management companies can create better products that increase value for the company. As sustainability gains a greater presence in a corporation it will move into stage three and become systemic with the help of leadership.

These CSR practices can be extremely profitable and there are numerous companies doing well by doing good, but they require leadership in corporations to create explicit plans and emphasize their importance down through the ranks. Rather than focusing efforts into a specific department, CSR should be a theme in every department and employees should understand what the company is attempting to accomplish in terms of broad scale goals. This holistic approach will allow greater participation in greening the company, but employees will need greater direction from the top. Epstein outlines 4 responsibilities of directors and CEO's in initiating a sustainability protocol (Epstein 2008):

1. Integrate awareness of social and environmental issues into corporate decisions at all levels and ensure such concerns have representation on the board.

2. Develop measures to identify, measure, report, and manage the social and environmental impacts of corporate activities
3. Modify the corporate structure as needed to integrate sustainability throughout the organization
4. Create incentives promoting socially and environmentally responsible behaviors and integrate them into the performance evaluation system and corporate culture.

If employees see that management is committed to sustainability it will give them incentive to pursue ideas in the area. Crowdsourcing solutions from within is a cost effective way to gain better understanding of where a company's weaknesses lie. When this occurs, the focus of the business becomes less about accumulation and more about reducing costs and increasing value through innovation. There are a number of companies exemplifying these goals already.

Sun Microsystems is a technologies manufacturer that has seen great benefits from implementing new CSR practices into its business model. The vice president for eco-responsibility, David Douglas, emphasizes just how easy it is to "outgreen" the competition when there are outlets for suggestions. They received an idea from an operations manager about reducing the number of server manuals sent out to large buyers, which were a huge redundancy. This saved the company hundreds of thousands of dollars as well as cutting paper use by an amazing 60%. Realizing the huge

reductions in cost they were seeing with this action they decided to digitalize their shareholders report and put it on the web, saving “ 12,000 trees, nine million gallons of fresh water-and the best part: \$600,000.”(Friedman 2008). Sun Microsystems then began to reevaluate everything they did with environmental impacts in mind an. Their servers generated a tremendous amount of heat and air- conditioning costs to run them were far greater in a year than the cost of the machines themselves. They decided to be innovators and pursue a processor chip that went against the industry norm of peak speed obsession and created one that ran cooler and was perfect for smaller processes, which many online actions fall under. This became one of their most successful products and turned the company around. This is great example of how a company can save tremendous amounts of money as well as “outgreen” the competition when CSR practices begin at the top and are emphasized at every level of operation (Friedman 2008).

Another amazing story of CSR reform is that of Patagonia. While their products may be expensive and out of reach for some, this is because they take into account the true costs of their production and curb consumption by limiting most people’s purchasing power. Yvon Couinard, founder and CEO, wished to reinvent the way that Patagonia was impacting the world by going places that no corporation had gone. He organized a program called the Footprint Chronicles that would examine the impacts of each and every product from harvesting of raw materials and assembly, to their

transportation and eventual distribution. For those willing to take the time to look at the results, they are astounding. Put into understandable terms (such as the amount of water required to produce a pair of jeans and how many days this could supply a human for survival) these bits of data attract customers for clothing who "need it rather than want it" (Visser 2011). The project also reveals data on working conditions at each factory, highlighting any recent issues with great detail. It even reported things as insignificant as toilet paper shortages and how they were pursuing solutions. This goes against the traditional business model that corporations abide by, one where consumers must be tricked into buying things that they don't need through advertisement and marketing. Patagonia was making a statement by moving away from a growth imperative and relying on creating greater market value through transparency and quality. They were able to sell high quality products at high prices while creating value for the company in the public's eyes. Similar to Sun, they had successes in examining their supply chain for ways to cut costs as well. On their website Patagonia discusses how they discovered that their shipping methods could be made more efficient by moving their port from Los Angeles to San Francisco. In doing so they were able to save over \$300,000 a year and reduce carbon emissions by 31% (Patagonia 2012). Simple changes like these can have huge impacts. When asked about the switch, Tony Ferguson, the employee in charge of U.S imports said "there are a lot of legacy operations companies don't question

because it's the way they've always done it. Shifting our port of importation from Los Angeles to Oakland was an easy fix that is paying dividends" (Patagonia). Through these acts they were doing something that ultimately will serve them well. They were exposing themselves as a flawed company and recognizing that they were just as much a part of the problem as any other company. By doing this however they gave themselves incentives to change and they have concrete areas that they can realistically address. Given that policies will only get stricter and resources more scarce, those who find ways to make their businesses run more efficiently and honestly will survive in the long run, and those who refuse to innovate will fail.

Conclusion

There is no doubt that humanity has reaching a critical juncture in its development. We are at a crossroads and the path we choose to follow will determine not only our survival as a species but also answer the fundamental question of what it means to be a human being. This will be our legacy and we have the duty and privilege to see our society through these trying times safely. Corporations are here to stay, but upon grasping why sustainability can be so attractive they can emerge as different entities, gentle giants changing the world. I have proposed a few policy suggestions within this paper but there are numerous others that could be of great important to the success of a new CSR. The most important is that policy

makers give regulators the tools with which to punish corporations that refuse to comply with current standards of environmental and social conduct. The costs of behaving inefficiently toward society will increase greatly and sustainable business practices will be the only option left. To reduce the race to the bottom that we are currently witnessing in developing countries, global standards and fines should be set that will ensure a level playing field.

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