

**The Ethical Corporation**  
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**Lecture - 30**  
**Environmental Obligations: What Can an Ethical Corporation Do?**

This is our last lecture on Environmental Obligations, natural environment and Ethical Corporation. So, what can the ethical corporation do, this is the question that we will take upon this.

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And, we will this is going to be on our plate today, we will talk about the private and social cost of production and what are the duties? What can the ethical corporation do? And, then I will end with some best practices both in India as well as outside of India.

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**Environmental ethics for a corporation**

- For centuries, it was believed: Nature existed free and for humans to exploit. The more trees we can cut, the more rivers we can build dams to harness, the better the quality of our lives will be with the production of goods and services. It was easy to believe that.
- **Corporations used to be run with that mindset.**
- **But, corporations cannot do business in the same way as before .** Social pressure, regulations, consumer sentiment, investors interest, all are against it. It also cannot stop its business.
- Then how should it change its ways? E.g.: How should a corporation's use of energy, sourcing, production, and packaging change? What are the practical solutions for a corporation?

So, let us first of all bring it on together is that, we have talked about various ways to ground the ethical obligations and we have talked about last in our last lecture, about the internal changes too. Now, earlier the business used to be run with certain outlook towards natural environment, that it was free the resources are all free and for humans to exploit. So, it was really seriously believed that the more trees we can cut, the more rivers that we can build dams on, the better the quality of our lives will be, this is what they used to believe.

Now, whatever you have heard so far either from the law or from the business strategy or from ethical grounds. The point that comes through is that, that earlier way of business is no longer viable. Corporations just cannot do business in the same way as they used to do. There are several reasons for that we have discussed all of that, but now the questions if that is not how businesses is to be run. Then, today how is business going to be run, we still have to do all those activities, but how. For example, we still have to use energy, but in this time and day, how should our ethical corporation try to use energy. We still have to do production and the process is involved certain things.

So, with ethical sensitivity what can a corporation do? So, this lecture is more about practical solutions, some of these things perhaps you know, but some of the things you may not know. So, for everybody's sake let us put it all together. So, we will talk about the how of ethical corporations taking out the obligations towards natural environment.

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**Cost is no excuse anymore**

- Studies show the firm size is inversely proportional to pro-environmental actions: Most SMEs do not have environmental management. They used to be left out of regulatory and social pressures to show environmental responsibility.
- However, their cumulative contribution to pollution and other environmental concerns is **very significant** (Hobbs 2000).
- For larger organizations, **cost should not be an excuse**. Sustainability practice, sustainability reporting are the order of the day.
- There is also the global environmental regulations: Legal compliance is required to remain globally competitive.

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One point we I want to dismiss right away is that the cost issue. Typically, you will hear the people who are reluctant to engage in environmental duties. The best those businesses typically argue, that it is costly, that it is expensive. Now, and this has been the repeated argument from the SMEs, the Small Medium Enterprises, that we do not have the resources and that we do not have the financial power to engage in such environmental responsibility. And, they used to be left out of the regulatory and social pressures, that is how the use to do.

Big or big corporations were always asked to be environmentally responsible, but SMEs people used to say they are too small. Even that has changed, because slowly people have realized that though one particular SME may not make a significant damage to the environment, but when you take them collectively, their cumulative, contribution is enormous and it is stupendously huge to affect the environment negatively, very very significant.

But, our talking points are the large corporations for whom the cost should not be an excuse. Environmental management systems well they do mean that there are there is that is an additional expense, sustainability reporting, preparing the sustainability reporting, practicing the sustainability, each of these means some expenses have to be committed, but that should not be a problem for the large corporations.

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**Speaking of costs.....**

- **Private costs:** What it cost a private manufacturer to produce a product
- ✓ **Social costs:** What the manufacture of that product cost society as a whole

Suppose a firm F consumes a certain quantity of power, fuel, labour, water, equipments to produce its product P. The cost of these is the **private cost**, of F for producing P. F pays for these, and fixes the price of P accordingly.

However, when F burns the fuel, it generates fumes, and its processes produce some by-products, e.g. fly ash, which are emitted in the air. The fumes and the fly ash pervade the neighbourhood air, even the nearby settlements. People there have to pay for the cleaning, and for any medical problems that the fume and fly ash create.

F does not pay for these costs, and fixes the price only based on private cost. But, from the society's point of view, the total cost for producing P is much more: Includes these external costs. The **social cost**.

So, with that out of the way, let us talk about what we can now meaningfully say are the duties. Now, I have talked about cost, in that connection I have to make a very important distinction here. Between private cost and social cost, you can also say internal cost and external cost. What is a private cost? In terms of business try to imagine this scenario that suppose this is the product.

And, in order to produce that a company has to consume certain quantity of power, it has to also expand on some fuel, water, equipment's, employee, you know in order to produce that; each of this means there is a cost. This cost to produce this item are the private costs of the company, which the company pays for, when it fixes the price of this for example, then it looks into it is the cost that has gone into the production, keeping the profit margin in mind it fixes the price.

So, that is private cost based pricing, private here means private to the business. Now, try to understand this scenario. In order to produce this suppose that the company has to now burn the fuel or run certain processes, and there are byproducts of this processes. Suppose that you know in order to have a chemical product produced certain emissions have to be made into the atmosphere, certain effluents have to be released as waste from the process. Maybe there was a byproduct for example, some fly ash coming out of the production process.

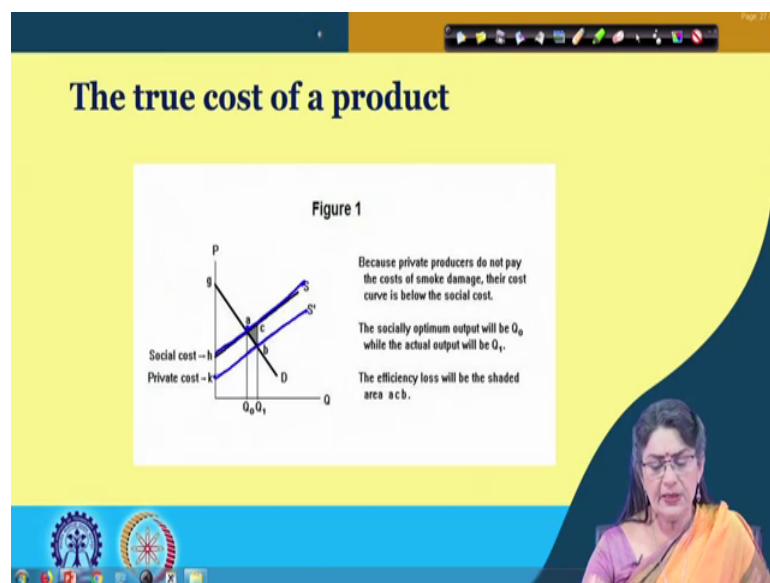
Now, the fly ash the effluent or the gas emission from the process they do not stick and find in the company premises. It goes out into the society; it actually goes out into the environment. And, the fly ash for example, might settle on the neighborhood cars, neighborhood houses, on the roofs, on their plants, on their garden.

So, there is a cleaning cost there, if the fly ash covers everything or the soot from the production process covers everything in the neighborhood, then there is a cleaning cost. If, the soot the fly ash or the gas creates respiratorial problem for some people, the person has to go to the doctor and the doctor does not see the patient without the fees. So, there is a cost.

So, there are costs there which the society incurs. The person who gets sick he or she incurs, the person whose house gets covered by the soot or the fly ash that person incurs the cleaning cost; the company does not pick up those steps. So, these are what we call social cost? That is being borne by the society. Though, it is been caused by the business as part of the production business does not pick up those steps, but it fixes the price of the product only on the basis of what it thinks is the private cost.

But, that if you want to know the true cost of the production of that item then you have to include also the external costs, which I just mentioned, which are unhappily borne knowingly or unknowingly by people in general, we call it the social cost all right.

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So, if you want to see it schematically, then in picture you can see that the private cost is going to be always lower than the social cost; this is your private cost line. And, if you include the external cost it is certainly going to be high, all right. So, this is the typical scenario business does not own up the social cost, they only fix price with the private cost in mind. So, the pricing of the item is typically at a much lower than it is true cost.

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**Private cost Vs Social Cost**

Firm's private costs are always **lesser** than the total social costs.

Industrial Pollution and other environmental adverse effects caused by corporations: Actually the **divergence** between private and social costs.

- This **divergence is indeed a problem**; for,
  - (a) The market does **not** show the price of the commodities truly. As a result, more and more limited resources are consumed, and the society as a whole suffers.
  - (b) Because the firm does not pay for the **external costs**, the firm makes **no attempt to minimize** the social costs. It, for example, has no incentive to look out for alternative, more eco-friendly technological ways.
  - (c) External costs impose **unfair price differential** on the same good: Everyone does not pay the same price. People who live closer to the mines will pay a higher cost (including the healthcare costs than those consumers who live away).

Now, this creates and this is where people say, this is where the whole puzzle can be solved here, why industries do not engage in responsible behavior. Now, first of all if you think sorry, if you think that you know the market does not show the true price of the commodity.

If, you only take the private cost, then the product is not priced accurately truly, as a result more and more limited resources are spent on the production. Because, the pricing means that it you do not realize, that it is acted it is actual price is much higher. So, at a lower price you can afford to buy more resources. So, more resources are consumed and society as a whole suffers.

Second, because the firm is not make to pick up the external cost. So, the firm makes no it does not take any steps to minimize those social costs, all right. It is only taking up the private cost. So, the external cause it has no incentive to even minimize or to eliminate. So, it has no incentive for example, to look for other alternatives or look for more eco-friendly ways of production, that is another fallout.

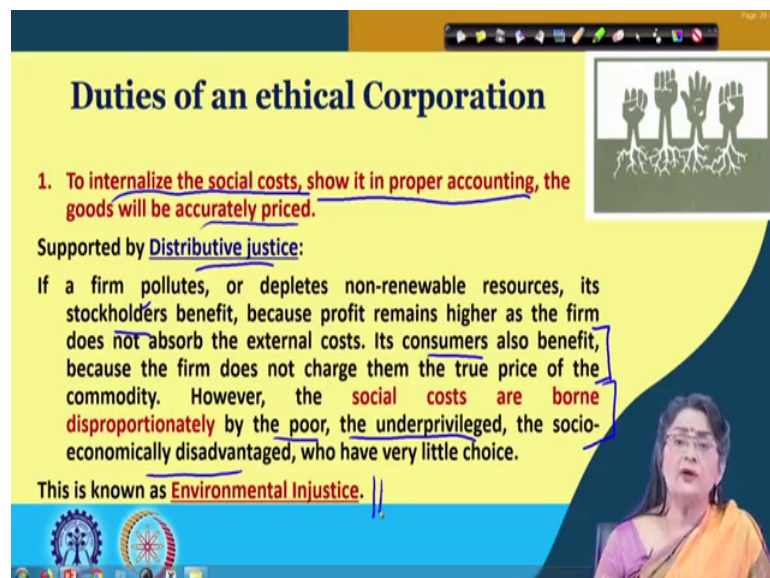


Moreover the external cost actually impose serious unfair price differential on the same product. So, every person in the society does not really pay the same price if you take both external and the internal cost together, then you would see that for the same product some people pay more, in terms of their health, in terms of their discomfort and so on.

Let me give you an example, suppose I mean there is a plant where you know this detergent or some chemical item is being produced. There are people who live around that plant, all right. Now, that the product that this plant is making, suppose it is a soap of a certain kind or detergent of a some kind, when it goes to the market those who live away from this plant, they pay a price say you know 60 rupees per piece.

Now, the people who live close to the plant they also pay 60 rupees, but they do not realize that they pay something extra. Namely, because they live close to the plant and as I said, if the processes include some sort of toxic emission. For example, they are breathing that air in and out every day and it may do some health problems for them or it might pollute the environment and they are living in that polluted environment, that there is a steep cost about. So, in fact, though they are shelling out 60 rupees to buy that soap, but to in totality they are paying a much higher price, if you take all total.

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**Duties of an ethical Corporation**

1. To internalize the social costs, show it in proper accounting, the goods will be accurately priced.

Supported by Distributive justice:

If a firm pollutes, or depletes non-renewable resources, its stockholders benefit, because profit remains higher as the firm does not absorb the external costs. Its consumers also benefit, because the firm does not charge them the true price of the commodity. However, the social costs are borne disproportionately by the poor, the underprivileged, the socio-economically disadvantaged, who have very little choice.

This is known as Environmental Injustice.

The slide features a graphic of three hands with roots, a video inset of a woman in a purple and orange sari, and a navigation bar at the top.

So, what are the duties, under the circumstances if we have understood it all first duty is to. Make it possible for the corporations to internalize the social costs and make it part of the proper accounting. So, that the goods are accurately priced, properly priced, all right.

Now, if we do not do it, what happens is that you violate the principle of distributive justice. Remember distributive justice fair allocation of benefits and burdens.

Now, if you do not show the true cost of the production of a price what happens, that the firm pollutes or uses up you know deplete some non-renewable resource; who benefits, the company and its shareholders, because there is profit. Profit remains high because the true price is never captured so, at a private cost the profit margin is much higher, benefits go directly to the company and to the shareholders.

Because, the price remains low not the true price, but at the private cost the consumers also are beneficiaries, because at a low price they are buying the item, but the social costs, those who have to pay the social costs. As, I said they are disproportionately burdened, who are they studies are the studies have said, they are typically the poor who have no choice, but to live in a certain area. You know have you seen in your cities who live closer to the garbage dumps, the city produces the garbage, but who gets to live near the garbage dump. The answer is those who have no other choice, but to live there and they are typically the poor or the underprivileged.

So, the benefits of the city life is taken by some people, but the burdens of city life namely the produced garbage the collectively produced garbage is dumped on the people who are practically no choice. The socioeconomically disadvantaged and this is known as the environmental injustice.

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The slide is titled "Adopt Green Practices" and features a "Green Practice" logo with a leaf. It lists four practices:

- 1. Energy efficiency:** Reviewing energy usage, energy-efficient lighting usage, checking for insulation, leaks and cracks that allow expensive cooling or heating to escape.
- 2. Unplug when not in use:** Regular switching off routines.
- 3. Logistics or transportation:** A major source of negative impact on the environment. Review the transportation method within the corporation. Check if the need for transportation may be reduced: Employing a local supplier. Hold more meetings via video-conferencing.
- 4. Use green cleaning products for office space cleaning:** Many cleaning products are rather harsh on the environment. Eco-friendly products are available.

Must involve the employees in it. Otherwise the plans cannot be put into practice properly.

The slide also includes a video feed of a woman in an orange sari in the bottom right corner and a navigation bar at the top.



Other things that, we can talk about as duties of ethical corporation is to adopt green practices. These are short term environmental measures, practices. Short term as in you know you do not have to do much, but even for a limited time if you continue, you still get to see the results. For example, check the energy efficiency in the corporation, if you have expensive air conditioning or heating going on then having cracks or you know some small leaks, it is going to be not very good friendly.

So, check your energy efficiency, you know unplug or switch off whenever things are not in use check transportation or logistics. Because a major source of environmental impact comes from transportation (Refer Time: 16:36) products, whether it is air cargo, whether it is the trucks that you see on the highways or whether it is the coal based rail engine. Each way you are living carbon footprint. So, there is always scope for checking and reviewing the logistics, for seeing where things can be improved.

Maybe there are alternatives that you can think about a lot of companies these days have tried to minimize air travel and insist more upon the video conferencing. And, this is also possible that office supplies while procuring those the corporation can look into the green products. For example, green cleaning products, those are not harsh on the environment and those also are eco-friendly more eco-friendly.

Each of these practices; however, need the support from the employees. The corporation cannot do it alone, the top tier is not going to be able to accomplish this, you need people on board. So, that is another thing that we must think about.

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**Adopt Green Strategies**

3. Adopt strategic focus to create value for long term. E.g.:

1. **Full cost accounting:** Account for “externalities”. Including pollution control, accounting for waste. Capturing true cost by measuring the resources it uses, and its social and environmental impacts.
2. **Alternative energy usage:** Reviewing possible usage of alternative energy.; e.g. solar panels.
3. **Greening the supply chain:** Instead of only focusing on the company's own direct contributions, examine each step of the supply chain for environmental impact. Insist upon environmental compliance.
4. **Review packaging:** Plastic pollution due to packaging with plastic. Major part of plastics end up in the ocean, where it breaks up into tiny pieces, which kill marine life. Eliminate unnecessarily packaging. Or, use ecofriendly packaging.

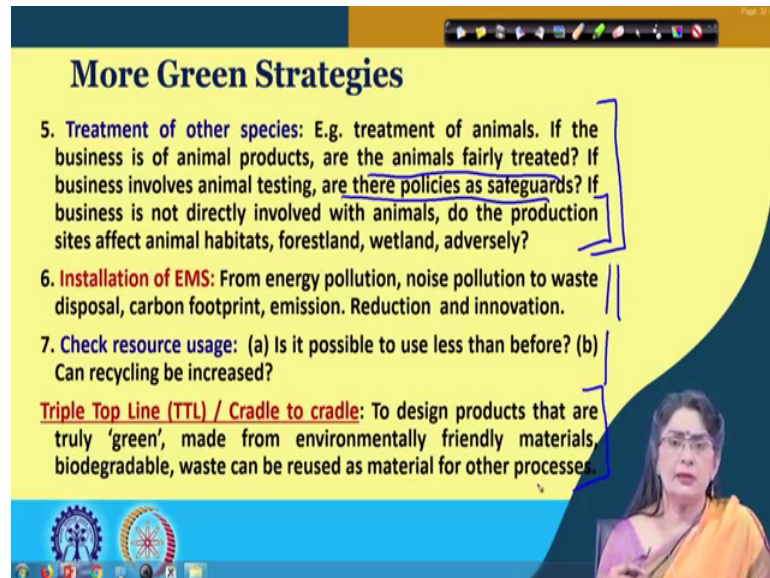
I also say that adopting green strategies is the other duty. These are long term solutions for various things and with the strategic focus. For example, we said include the external cost internalize it. So; that means, the accounting has to be changed, I have already told you about that there are different accounting standards available now for including the environmental impact. So, this means that the company has to shift to another kind of an accounting process a different audit will be done on the environmental impact.

Alternative energy usage, it is not a short term thing you have to seriously think, where you can make a difference and you will see there is a long term benefit also that comes with it, but initially it is a major change. Greening the supply chain, while thinking about how to be environmentally more responsible people only think at some times only about the corporation offices, but if you are that kind of a corporation, which has a long supply chain perhaps that is whether the review has to be done, whether each step in the supply chain has any negative environmental impact or not. Suppliers can be asked to check for environmental compliance, otherwise you can say that we will have to seek another supplier packaging.

Packaging of the product you know very well that plastic pollution is one of the big problems of today, because the plastic somehow ends up in the water bodies, especially in the oceans and it is creating it is actually taking lives of marine creatures, because they digest, they swallow it all with the whatever they cannot digest it. So, apart from plastic

usage perhaps if there is time to think about, how you can reduce the environmental impact through innovative eco-friendly packaging.

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**More Green Strategies**

- 5. Treatment of other species:** E.g. treatment of animals. If the business is of animal products, are the animals fairly treated? If business involves animal testing, are there policies as safeguards? If business is not directly involved with animals, do the production sites affect animal habitats, forestland, wetland, adversely?
- 6. Installation of EMS:** From energy pollution, noise pollution to waste disposal, carbon footprint, emission. Reduction and innovation.
- 7. Check resource usage:** (a) Is it possible to use less than before? (b) Can recycling be increased?

**Triple Top Line (TTL) / Cradle to cradle:** To design products that are truly 'green', made from environmentally friendly materials, biodegradable, waste can be reused as material for other processes.

Moreover there are other things also we can talk about you know, if the business is such that it includes some sort of interaction or some sort of use of animals, then suddenly there are reasons to be concerned about, whether the company is treating the animals fairly and properly. If, it involves animal testing for example, if you are a cosmetics company, if it includes testing on the animals then these days this is a very sensitive issue and the company needs to ask are there policies is safeguards for the company.

If, the business is not directly involved with animals or animals tasting, then you need to ask questions, whether the corporate activity is somehow affecting the habitats of animals.

I talked about environmental management systems, you know those are really a good strategic move to install, because they prescribe ways, they bench help you to benchmark they help you to improve the environmental performance. 7 point is about checking the resource, how much of what is being used; in that connection I will remind you I have talked about triple top line and cradle to cradle design. So, designing the product as truly green, right from the board the drawing board till it comes back into the system has recycled you to try to think it as a proper resource usage.

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**Green strategies**

8. Annual sustainability reporting: Using a global format.

9. **Green marketing:**

(a) **Green positioning:** Branding the product promoting sustainability values. E.g. The Body Shop: No animal testing, protect the plant, uphold human rights, support fair trade, i.e. responsibly sourced. It raises funds for HIV/AIDs, domestic violence.

(b) **Green pricing:** Pricing can be linked to sustainability values. E.g. Detergent that conserve water may be priced higher.

Must take employees on-board. Implementation of good plans into practice requires a concerted effort.

The sustainability reporting, annual sustainability reporting is a strategic move, the data how to collect it, how to present it in the right format and there are global format I have mentioned already the GRI various versions of GRI, GRI 3, GRI 4 and so on.

The last point for now would be the green marketing, you know this is also being discussed, how you can position your brand by highlighting it is sustainability values, body shop for example, does it very effectively. Those of you who use body shop products you will immediately realize, how they advertise these products. And, in fact, they have some negative criteria for example, they will say no animal testing is involved, then they will say that you know they uphold human rights etcetera etcetera.

So, sustainability values, there is something called green pricing, the premium price, that customers might pay for the product being particularly eco friendly you know. So, there are all kinds of strategy moves available and we are including them, as the duties of the corporation towards the natural environment. In all of that it is needless to say that you need the support from the employees, the corporation alone cannot do much.

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Here is an example from India, you know of sustainable outlook of a business; I have taken with a random sample of Infosys as you can see that they have neatly divided their priorities into three groups; the social, the business and the environment. And each one they have then broken down into sub parameters.

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**Sustainability practices in businesses: Global picture**

**Competitive edge / Brand differentiation:** Pro-environmental business has a positive brand image. Top sustainable companies, 2018, globally (Forbes, Jan 23, 2018) :

- Dassault Systemes:** A French firm. Its product: Engineering Software that helps organizations in waste reduction. Has strong female representation in its Board of Directors. Has a small gap between the pay of its CEO, and the average worker pay. Has been paying more than 26% of its earnings in taxes for the past 5 years.
- Neste:** A Finnish firm. Product: Renewable diesel and other petroleum products. Within the next five years, more than half of its revenue will come from renewable fuel and bio-material.
- Valeo:** A French firm. Manufactures automotive parts. Its products help auto makers reduce emissions.

The slide includes a globe icon with a green leaf and a small inset image of a woman in the bottom right corner.

Forbes in 28, they actually release the ranking of various companies who are into sustainability practices. Let me give you one or two examples from outside of India, this



is Dassault Systemes, it is a French firm. Its product is an engineering software, which is a solution to a problem it helps organization in waste reduction.

So, it advises other corporations how to reduce its waste and for that they design the engineering software. So, the product itself is eco-friendly. And, then they have strong female representation in its board of directors ok, that is pro social. Also there is a very small gap between the pay of its CEO and the average workers. Remember corporate governance related matter.

So, the CEO is not excessively highly paid. And, in fact, there is paying equity in that office and they have steadily paid their taxes at a nice rate for the last 5 years. So, in all dimensions of sustainability they have done well. This is another Finnish firm, they work with renewable diesel and other petroleum products, notice renewable diesel, it is not a depletable one. And, they are trying to improve their product also.

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**Sustainability practices in businesses: India**

- Water positive corporations, India: (a) Lowest specific water consumption in production, (b) Zero waste water discharge: Recycling, (c) Creating positive water footprint: rainwater harvesting in company premises, and in watershed projects.
- **Mahindra Lifespaces:** Claims they practice beyond mere compliance, and follow the global best practices. First real-estate company to publish a sustainability report (2018) following **GRI G3 guidelines**. Did a materiality issue analysis in FY 13-14.
- **The materiality priorities include the environmental:** Conservation of water, energy, resources, to be carbon positive, minimize pollution from construction activities.

**Targets by 2020:** 10% reduction in energy usage and GHG emission, 10% improvement in water efficiency, 5% energy usage of alternative energy, 20% waste reduction, 50% of construction materials procured within 400 Kms, zero fatalities at all sites.

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Similarly, if we look into India will see that the practices have just started. So, specifically, because we have the water scarcity in our country in various regions so, you will find that there is a lot of concerted effort going on towards becoming water positive corporations. We are talking about conservation of water; we are talking about zero waste water discharge so, that he does not go into the groundwater, we are talking about rainwater harvesting and so on.



In fact, when I was looking around I found that Mahendra life spaces is advertising itself as the very first real estate company to publish a sustainability report and they follow GRI G 3 guidelines ok.

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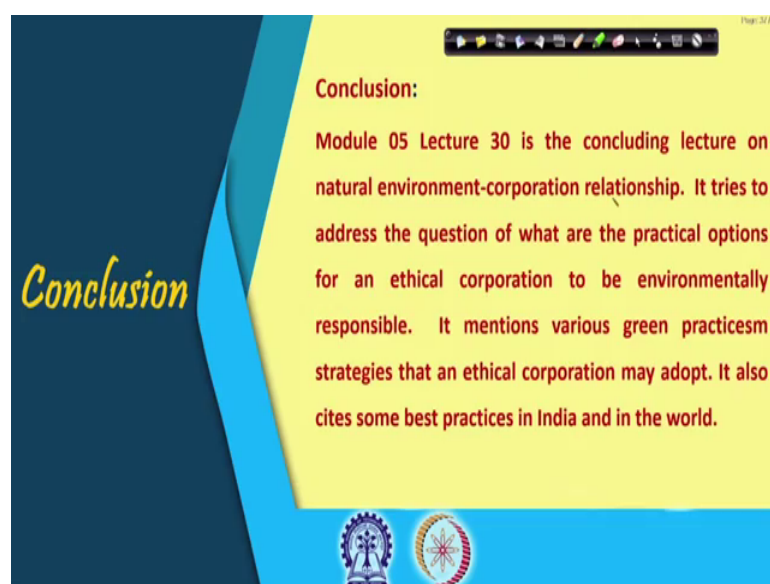
References:

- Hobbs, J. 2000. Promoting cleaner productions in SMEs. In R.Hilary (ed.) SMEs and Environment. S
- Strauss, K. The World's most sustainable companies. *The Forbes*, Jan 23, 2018. Sheffield: Greenleaf Publishing: 149-157.

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So, this is just an idea about that this is doable first of all what are the duties and, that people are actually doing it that is what I wanted to establish and has been the content of this lecture.

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Conclusion:

Module 05 Lecture 30 is the concluding lecture on natural environment-corporation relationship. It tries to address the question of what are the practical options for an ethical corporation to be environmentally responsible. It mentions various green practicesm strategies that an ethical corporation may adopt. It also cites some best practices in India and in the world.

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So, with that I am going to end this lecture as well as the topic of natural environment and what are the duties of the ethical corporation towards it. From next week we will talk about some other topic.

Thank you very much.