



CSR as a legitimatizing tool in carbon market: Evidence from Latin America's Clean Development Mechanism



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ABSTRACT

Clean Development Mechanism (CDM) has incorporated sustainable development as one of their objectives. This objective gives companies an increasing motivation to contribute to sustainable development through their corporate social responsibility (CSR). However, perceived profitability of companies with carbon commodification were negatively associated with CDM projects. This paper aims to identify CSR activities in CDM in three Latin American countries, namely, Brazil, Mexico, and Peru and understand the drivers behind of these CSR initiatives. The study is based on the evaluation of 593 projects registered and Polanyi's theory. We identified some CSR activities corresponding to the social, environmental and economic indicators in the three countries. This is not to say that all CDM developers are acting in a socially responsible manner. Certain CSR activities in most of the cases were implemented as a way to legitimize and as a means to achieve social acceptance.

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1. Introduction

The concept of the corporate social responsibility (CSR) is closely linked with the principles of sustainable development (Asongu, 2007; Hahn, 2011; Kolk and van Tulder, 2010), according to which companies should simultaneously pay attention to social and environmental impact of their activity rather than just looking at economic aspects (Maas and Reniers, 2014). This principle gives companies an increasing motivation by exploiting options to contribute to sustainable development through their CSR activities (Barkemeyer, 2009; Leventon et al., 2015; van Marrewijk, 2003).

The environmental and development challenges that the world faces from resource scarcity to climate change were expressed in the belief that actions and policies would focus on achieving sustainable development (Robinson et al., 2006; Wilson and Mcdaniels, 2007). In particular, the Clean Development Mechanism (CDM) of the Kyoto Protocol has incorporated sustainable development as one of their objectives, along with the reduction of greenhouse gas (GHG) emissions.

The CDM sustainable development objective has been interpreted to include a number of additional objectives such as

increasing awareness about environmental issues, “influencing business and policy thinking, stimulating low-carbon development paths, learning about climate issues, policies, and instruments” (Torvanger et al., 2013, p.472). As a virtuous commodity, it is a form of governance that aims to neutralize resistance by imbuing the products in the carbon market with a self-evident moral quality (Paterson and Strippel, 2012). The CDM has also been used to showcase the CSR activities that benefit communities surrounding the area impacted by the projects (Benites-Lazaro, 2013; Olsen and Fenhann, 2008).

However, the CDM has faced criticism by promoting acts of “colonial neo-dispossession” being regarded as serving the needs of capital by providing low-cost emissions reductions (Lohmann, 2006); or “carbon colonialism” as a new form of acquiring land and resources in poorer countries to sustain the profligate consumption of the rich (Newell and Paterson, 2010). It is considered as a way to increase wealth through “accumulation by dispossession” or “accumulation by decarbonization” (Bumpus and Liverman, 2008); as a new “indulgence trade” in the form of carbon offsets to salve the climate conscience of rich consumers (Smith, 2007). CDM is also considered as a false solution for mitigate climate change, while legitimizing the increase of GHG emissions (Carton, 2014) and provide a cheap way for the rich countries “to avoid taking serious action on climate change” (Okereke, 2010, p. 470).

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Over all, the CDM has been criticized for encouraging a focus on cost-effective emissions reduction through offset production at the expense of achieving or encouraging sustainable development (Torvanger et al., 2013). Furthermore, CDM has been criticized for the lack of transparency and limited opportunities for local stakeholder engagement in the CDM project activity through a transparent, accountable and inclusive decision process (Kuchler, 2015; Lövbrand et al., 2009).

Therefore, it is important for the acceptance of CDM projects that they be considered fair and appropriate by local stakeholders, particularly residents and local authorities. Hence, CSR emerges as one of the ways through which companies can attain legitimacy or social acceptance within their respective societal contexts (Panwar et al., 2014; Scherer et al., 2013). CSR serves to “win the hearts and minds” of people, especially opinion leaders, in gaining influence and involvement in shaping debate about the role of business in society (Alves et al., 2014).

Thus, the question of this research is why CDM project developers implement CSR activities; do they do so from a concern for social and environmental protection or is this a privatized form of business strategy seeking community legitimization of their CDM project?

Considering that CSR in Latin America is still emerging (Lázaro and Gremaud, 2016) and their core concepts in many ways are still unclear (Pozas et al., 2015). The vast majority of companies still marginalize environmental issues (Correa et al., 2010). There are several examples of criticism and conflict that extractive companies faced (Pozas et al., 2015). There are also numerous cases in the region involving abusive corporate practices, from contamination in the environment to human rights abuse, which indicate that the issue of CSR needs to be integrated into the core of the business, and companies revise their objectives, policies, and operating modes (Henderson, 2001; Kemp and Owen, 2013).

CSR as well as business responses to climate change in Latin America need to be studied more and better understood. First, CSR is a “field” of recent interest; the CSR concept integrating environmental and social concerns in business operations and in interactions with stakeholders has still little application among the companies in the region (Lázaro and Gremaud, 2016; Peinado-Vara, 2011). Second, companies play an important role in the development of CDM projects. The overwhelming majority of these projects in Latin America were executed by private companies (Benites-Lazaro, 2013). Thus, it is expected that the experiences and lessons learned from CDM projects will help in the implementation of the new mechanism of the Paris Agreement, which in their Article 6, avows to promote the mitigation of GHG emissions while fostering sustainable development (UNFCCC, 2015). This new mechanism has the same twin objectives as the CDM established in Article 12 of the Kyoto Protocol.

The aim of this study is to identify CSR activities in CDM projects in three Latin American countries, Brazil, Mexico, and Peru, and to understand why CDM project developers implemented CSR activities. The study analyzed 593 projects with registration dates from January 2005 to September 2016 that were assessed using T-Lab software, and combined this with a literature review of Polanyi's embedded and double-movement category to understand the drivers behind CSR initiatives.

To achieve these research objectives, Section 2 presents the literature review in relation to CSR using Polanyi's perspective and describes CSR in Latin America as a movement still limited but gaining attention in the last decades from companies leading the issue. Section 3 explains the methods and materials used in this study. In Section 4, the results and discussion are presented, followed by Section 5 with the conclusion.

2. Literature review

2.1. CSR as social protection and a legitimacy tool

Polanyi's (2001[1944]) seminal study of the social, political, and economic transformations of the 19th century, provides valuable historical context for understanding contemporary CSR (Levy and Kaplan, 2008; Lindsay, 2011; Moncrieff, 2015). Mainly, Polanyi's concepts of “embeddedness” and “double movement” represent how best CSR can be understood. First, as a practice leading to social protection, reducing the negative effects of economic globalization forces (Moncrieff, 2015; Ruggie, 2008; Utting, 2005), and second, as just a business political strategy (Rowe, 2005; Scherer and Palazzo, 2011; Schneider, 2014) that attempts to deflect more critical demands of society to regulate the business as being ethical markets (Turner, 2006). Thus, CSR emerge as a legitimacy mechanism through which companies gain and maintain access to the exploitation of natural resources (Mayes, 2015; Panwar et al., 2014).

In the first perspective, CSR is the “outcome of a protective counter movement that emerges in response to the dislocations and deprivations caused by a disembedded market society” (Bair and Palpacuer, 2015, p.8), as an important mechanism of social protection that suggests the idea that economy is “embedded” in society. As Ruggie (2008) states, CSR is an example of “embedded liberalism”, which perpetuates the interests of economic globalization by creating institutions needed to mitigate and compensate perverse social and environment effects (Utting, 2005). In this way, CSR is viewed as a reactionary double-movements that arise to defend against the market externalities (Rowe, 2005) comprising welfare generating activities that help serve the public interest while presenting capitalism with a human face (Leisinger, 2016).

Statements from Bjorn Stigson, president of the World Business Council for Sustainable Development, such as “business cannot succeed in a society that fails” (Savitz and Weber, 2006, p. 225) or from Stephan Schmidheiny, such as “there are no successful societies with failed companies” (AVINA, 2011, p. 20), highlight the interrelationship between business and society. Such statements convey the idea that companies cannot work isolated from society (Porter and Kramer, 2006).

During the last decades, companies have started to engage in several CSR activities such as the protection of human rights, education, social security, public health systems, and the protection of the natural environment (Scherer and Palazzo, 2011). Such activities are now captured in the proliferation of terms from CSR describing business roles in society as corporate citizenship (Matten and Crane, 2005) civil corporations (Zadek, 2007), stakeholder theory (Donaldson and Preston, 1995; Freeman et al., 2010) and sustainability (Elkington, 1997).

In the second perspective, “the CSR is an outcome of contestation, or a kind of negotiated truce between corporations and their critics” (Bair and Palpacuer, 2015, p.8), resulting in the business' ability to self-regulate in response to social activism (Vogel, 2008). Many companies have adopted voluntary regulatory instruments to govern themselves including self-regulation, market-based instruments, and soft laws to avoid additional regulation or to protect their reputations and brands (Newell, 2008; Vogel, 2008). These “cosmetic” corporate responses are “often glossy CSR reports that showcase companies' social and environmental good deeds” (Porter and Kramer, 2006, p. 81).

The main drivers behind the expansion of CSR activities can be found in the growing pressure from civil society actors that have become adept at holding companies responsible for the social and environmental consequences of their activities (Newell, 2008; Porter and Kramer, 2006; Pozas et al., 2015). CSR can be a means of accommodating pressures, marginalizing more radical activists,

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