CSR and Corporate Lobbying from an Environmental Perspective

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Chapter

CSR and Corporate Lobbying: From an Environmental Perspective

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Abstract

In this chapter, we analyze the association between CSR and corporate lobbying. Specifically, we study the impact of CSR and corporate lobbying from an environmental perspective on firm performance in the event of environmental misconduct. We further investigate whether these two policies enhance firms' performance and give response to the call for action from their stakeholders and society, or they are just used to cover firms' dirty activities and help them appear cleaner in the market.

Keywords: social responsibility, environmental misconduct, corporate lobbying, firms' value

1. Introduction

Hardly a day passes without news of corporate wrongdoing and misbehavior. Unethical actions by corporations, including employees' safety faults, bribery of officials, scandals, and environmental damages, continue to happen.

Corporate misconduct is considered as a serious phenomenon, which presents a high level of danger in many fields such as the economy, health and safety in the workplace, environmental protection, human rights, and others. Despite the growing awareness of ethical responsibility and the clear penalties and regulations associated with corporate misbehavior, these actions continue to occur.

In recent years, companies are becoming more aware of social and environmental sustainability, and there has been a global movement toward more sustainable ways of working. However, corporate disasters still happen.

Environmental catastrophes are something that every company deals with, including oil spills, industrial explosions, fires, gas emissions, and pollution. These disasters could happen accidentally, or they could be something that happened due to human irresponsibility, which could be prevented if they were paying enough attention.

Nonetheless, following a disaster, companies will have to do their best to overcome the catastrophic situations they made. As these disasters can have serious consequences, companies will need to clean up their mess and rebuild trust with the public by being more responsible and considerate toward the environment.

Environmental disasters are not always predictable because accidents do happen, but it is very difficult to protect the company's image if the disaster could have been prevented. For example, if there is a major fire that was caused due to negligence, the firm could receive backlash from the public. A fire may not only affect the business, but it could also destroy other businesses and harm the environment through air pollution.

A concrete example of an environmental disaster is BP's 2010 major oil spill in the Gulf of Mexico, which is considered as one of the worst companies that caused environmental disasters ever. Not only was this damaging to the ocean environment, but it also had a negative impact on the company's reputation. The company not only lost money from losing its product in the ocean, but it received a lot of backlash and loss of consumers. It is essential for companies to take immediate remedial action in case of an environmental disaster.

Along with the BP disaster, The Niger Delta incident should be mentioned too. During the period of 1970 to 2000, there were over 7.000 oil spills and over 13 million barrels of oil. Explosions were frequent, with the largest one until date, killing more than 1.000 innocent people in 1998. The major convict in the pitiable state of the Niger Delta is Exxon Mobile, which has till date escaped the trials. Local indigenous groups have sprung to action against numerous refineries and have resorted to bombing and firing in the region, to warn the companies to avoid the Niger Delta.

Over the last two decades, the whole globe is becoming more aware and concerned about environmental protection around the world because of the occurrence of some serious environmental accidents, generating negative impacts on health and ecosystems [1].

Undoubtedly, environmental accidents affect firms' value [1, 2], increase political costs, and bring reputation penalties [3], which could be reflected in the market response to these environmental events [1].

According to that, firms can manage potential environmental exposure by pursuing corporate social responsibility (CSR) initiatives or by engaging in political lobbying with the aim of influencing environmental laws [4]. Scholars have broadened a lot of attention to CSR, which is considered as an important phenomenon [5, 6] mostly due to the increasing focus on the environmental aspects [7].

In the present age, environmental protection is considered to be as one of the most important and debated political issues. In recent decades, there have been an increasing number of scientific studies addressing the gravity of the situation of our planet, and the growing awareness toward environmental damages caused by pollution raised large political support for a more environmentally friendly economy and strict environmental regulations [8].

Recently, scholars have broadened great attention to corporate environmental responsibility [3, 9], but the evidence on the economic value of pursuing CSR is still far from conclusive [10–12].

Specifically, there has always been a debate about whether CSR increases firm value [13–15] or presents agency problems that drain shareholder resources and reduce productivity [16, 17].

In contrast to CSR, which includes changing firm behavior, corporate lobbying constitutes an alternative strategy aimed at changing policy proposals to benefit firms or industries in the case of environmental misconduct [18–20].

In this chapter, we will be discussing the relationship between CSR and corporate lobbying in the event of environmental misconduct and their effect on firm performance. Our chapter is organized as follows: Section (2) presents the effect of CSR on firm performance. Then, we analyze the impact of corporate lobbying in Section (3).

2. Corporate social irresponsibility also matters

Recently, research on firm performance and corporate social performance (CSP) has broadened to concurrently evaluate corporate social irresponsibility (CSI) with corporate social responsibility (CSR) [21].

A company's corporate social performance (CSP) includes both the good side through corporate social responsibility (CSR) initiatives and the negative side through corporate social irresponsibility (CSI) incidents [21].

CSR has been widely acknowledged as a highly desired firm action that not only benefits communities but also helps firms achieve better firms value [22, 23].

Until recently, researchers have begun to expand their understanding of the impact of CSR activities on firms' value by including CSI, as an opposing counterpart [11, 24].

Therefore, some companies promote CSR, others have little or no engagement in CSR, and other companies focus on avoiding CSI to avoid any harm [25].

Recently, corporate environmental responsibility (CER) has attracted great managerial and social attention [9] and it's been the center of interest to many researchers alike [26–29].

CER includes corporate practices related to managing and using natural resources, production activities, disposing of waste, environmentally friendly products, recycling, and pollution prevention and control [30]. In other words, CER is referring to how companies undertake their responsibility to minimize and manage the negative impact of their operations and activities on the environment [31, 32].

In the following, we aim to investigate the effect of the environmental dimension of CSR on firms' value, and whether firms' can manage potential environmental exposures by engaging in environmental activities to overcome the misconduct and harm made and enhance their economic value.

2.1 What does CSI refer to?

According to previous researchers, corporate social irresponsibility or misconduct is understood to describe corporate behavior that reasonable stakeholders consider irresponsible. It is related to whether the company conducts harmful activities that benefit a few but causes substantial net harm to other stakeholders [33].

Therefore, companies found to be involved in CSI may have serious dangerous consequences for the environment, employees, communities, and other social entities [34].

Corporate misbehavior does not seem to generate positive implications for the firm. Research has shown that consumers are now more aware of environmental issues [35]. When consumers become aware of socially irresponsible behavior, their positive identification of the company is interrupted. Since consumers are no longer interested in the company or no longer buying products [36], their identities become negative [36], resulting in a loss of income. This negative perception of the firm may likewise harm its reputation and brand [37].

CSI may additionally undermine the environmental supportiveness of stakeholders due to the fact that the CSI can endanger communities, as in the case of BP's oil spill. Environmental supportiveness is vital for first-rate corporation performance, and if lost, can lead to increased pressures in handling relationships with the community, public, government, or other social groups [38].

This pressure may eventually be transferred to channel members, partners, and agencies within the business network [39].

Unfortunately, due to the negative effects of corporate misconduct, the ability of the firm to attain high incomes will be reduced like its shareholder's value.

Accordingly, stakeholder theory conceptualizes CSI as a contradictory force to CSR that causes negative stakeholder perceptions and connections and leads to negative firm consequences in the form of costly lawsuits, costs related to negative firm reputation, sales revenue losses, increased capital costs, and increased financial risk [35, 40].

Otherwise, the corporate social performance also initiates social responsibility that interacts with social and environmental concerns to overcome the harm made [41].

In the interest of managing the firm's reputation, companies can focus on their environmental, community, and social responsibility to highlight their ethical, social, and environmental performance [42].

Fombrun [43] emphasized that corporate reputation brings tangible benefits to the organization, such as greater product prices, lower capital and labor costs, and increased employee loyalty. Similarly, Fombrun and Van Riel [43], according to previous studies, declared that "a corporate reputation is a collective representation of a firm's past actions and results that describes a firm's ability to deliver valued outcomes to multiple stakeholders." We can assume that reputation provides organizations with multiple strategic advantages.

Therefore, stakeholder theory suggests that CSR strategies enhance shareholder value through improving stakeholder relationships [44], thereby harmonizing corporate environmental responsibilities with value-maximization goals [45] and generating a favorable firm image [46, 47]. However, prior research has produced mixed evidence on the relationship between CSR and firm value [48].

On the one hand, relevant CSR has been associated with higher market valuation [13, 49], higher returns rating from investment activities [14], easier access to financing [50], and lower cost of capital [51–53].

On the other hand, other researchers have found that firm valuation has not improved [54] or it has been related to lower financial performance [17, 55]. In addition, Lys, Naughton, and Wang [56] argued that CSR does not cause superior firm financial performance; on the contrary, firms that expect finer future performance signal their expectations by improving their CSR engagements.

Moreover, consistent with the view that CSR constitutes a form of agency problem, previous studies have linked CSR policies to executive narcissism [56], political ideology [17, 18, 57], and lower manager–shareholder interest alignment [58]. Overall, the empirical evidence on the economic value of following CSR is far from conclusive [10, 12, 54].

From the perspective of environmental CSR, previous researchers documented a negative market reaction to environmental misconduct and infractions [3]. Some studies propose that environmental initiatives increase firms' financial performance [11], whereas other studies have found that the impact of sustainability priorities on company performance is either neutral [59, 60] or negative [61].

In the same line, Karpoff, Lott, and Wehrly [3] assumed that firms pay substantial legal penalties and suffer corresponding market value losses following violations of environmental regulations. Consequently, investments that reduce toxic firms' exposure to the risk of losses arising from environmental accidents, lawsuits, and fines can create value for all shareholders by lowering expected costs of financial distress, financing costs, and underinvestment [62, 63].

Hence, scholars shed light that reputational capital could enable a firm to avoid consumer boycotts knowing that customers are now more aware of environmental issues [38] and access capital from green investors [51, 64].

According to Godfrey [65] and from a competitive perspective, CSR provides an "insurance-like protection" against negative shocks caused by corporate social irresponsibility (CSI), by taking advantage of the goodwill of stakeholder groups [15, 66].

For example, Hong and Liskovich [67] found that firms with better CSR engagements incur more lenient financial penalties for bribing foreign officials than firms with poor CSR.

3. Why we should think of corporate lobbying to enhance both financial and social performance?

While in the previous section, we interrogate the effect of corporate environmental responsibility (CER) as a strategic policy used by companies in the events of environmental misconduct, it is also necessary to analyze the impact of corporate lobbying, as a technique introduced by firms' to affect their value. While lobbying was more a matter of a few individuals attempting to influence others through various means, the activity has today found various ways to grow and evolve in a legal way.

Lobbying refers to the political activities that special interests, including corporations, are engaged in to influence legislators at different levels of the government. It has a long history in the United States and is protected by the Constitution as a basic right of "freedom of speech."

At the federal level, lobbying is defined as "any communication made on behalf of a client to members of Congress, congressional staffers, the President, White House staff and high-level employees of nearly 200 agencies, regarding the formulation, modification, or adoption of legislation" (The Center for Public Integrity). It is regulated by the Lobbying Disclosure Act of 1995.

Recently, researchers start to investigate the relationship between corporate lobbying expenditures and shareholder value. While some studies conclude that lobbying activities generally increase the firm value [68–70], other studies provide evidence that lobbying activities are associated with decreases in firm value [71, 72] or are not associated with firm value [73].

A study conducted by Aggarwal, Meschke, and Wang [74] and Skaife [75] suggested that firms could incur lobbying expenditures as a strategic investment intended to generate future benefits for firms and their shareholders. Alternatively, lobbying expenditures could be symptomatic of agency problems, whereby managers personally benefit from the political power and influence associated with lobbying activities, at the expense of shareholders.

Lobbying represents an alternative strategy that "aims to change policy recommendations to benefit the company and/or industry" [19]. Prior research found that lobbying can build political capital and enhance company's value [76] by increasing firm's reputation [19, 70].

Based on previous studies, political lobbying is associated with better access to finance, and/or lower taxation, government bailouts, higher market returns, more government contracts, greater market share [77], lower takeover risk, and preferential awards of government contracts and investments [4].

It is found that political power and connections significantly affect firm value [78–80]. According to the latest work by Vidal, Draca, and Fons Rosen [81], firms' are prepared to pay higher fees for lobbying activities for people with power like politicians believing that these connections can enhance a firm's value.

One of the most controversial and debated issues in the main time is the environmental protection. Over the past few decades, huge numbers of scientific research have evaluated the earth's condition, and consumers are becoming more conscious of the environmental harm caused by polluting firms, which may lead to a decrease in incomes due to consumers' boycotts and government penalties, and consequently a decline in shareholder wealth.

As an example, firms that are involved in lawsuits, controversies, or scandals such as Enron, WorldCom, Phillip Morris, and Halliburton, spent heavily on lobbying. Previous research found that lobbying decreases the risk of companies suffering from fraudulent compliance actions [82, 83] and labor lawsuits [19]. Lobbying allows companies to use its power to "capture" value in the political field to defend acquired positions and/or to create new market opportunities and decrease monetary penalties [82, 83].

4. Conclusion

Our study examines the role of corporate environmental responsibilities and corporate lobbying in the event of corporate misconduct.

In recent years, environmental protection has received increasing attention in both economic research and practical management fields. Going beyond, business activities and taking care of the environment can bring firms benefits. Now companies have realized that business activity in an environmentally responsible way is not only a legal duty but also a responsibility.

Over the past few years, shareholders increasingly require companies to become more environmentally aware and responsible. Hence, companies are now using different policies to manage their environmental exposures and enhance their value. The main objective of this study is to extend the recent research on CSR and corporate lobbying. In this chapter, we attempt to investigate whether a firm's corporate social responsibility and corporate lobbying efforts enhance a firm's performance in the events of environmental misconduct. On the one hand, we study the impact of corporate misconduct on firm value. Then, we shed light on the engagement of companies in corporate social responsibility to overcome the losses caused by their irresponsibility. On the other hand, we investigate the relationship between corporate lobbying and firm performance.

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