

# **CORPORATE ENVIRONMENTAL BEHAVIOUR: A COMPARATIVE STUDY OF TWO INDUSTRIES IN INDIA**

## **ABSTRACT**

Environmental response of business units refers to their compliance with existing norms and involvement in voluntary schemes that go beyond existing norms or implement environmental management programs. Other responses could be investment decisions for pollution prevention strategies, and/or adopting newer and cleaner technologies. Business units, depending on the objective function that they are seeking to maximise, could decide to obstruct, collaborate or collude with regulators and in so doing seek to influence both the process of policy making and the policy itself.

This thesis looks at how Indian firms in the steel and paper industry have sought to integrate environmental factors in economic decision making. It attempts to explore how the environmental strategies of these firms emerged over time and give feasible interpretations of why the strategies took the shape they did. Four firms have been studied, two in the public sector and two in the private sector, in each industry.

A framework for analyzing corporate environmental decisions is first developed, after which information from in depth case studies is used to understand the behaviour of different firms. Given that environmental initiatives are an outcome of rational decision making processes coupled with firm history and their institutional context, case studies are helpful in understanding how environmental issues are dealt with in business organizations. The aim of this thesis is to show how technology choices are an outcome of an interaction between the institutional context within which a firm operates, firm level capabilities and socio-economic, domestic, and international policies. It is hoped that this would equip policymakers with an improved understanding of how best to deal with issues related to environmental compliance.

This thesis highlights the fact that when faced with changing environmental scenarios, firms react in ways other than revising production targets. While regulatory pressure evokes a reactive response, social pressure or enlightened self interest elicits proactive or innovative responses from firms. Judicial activism, competitive market conditions, global integration and appropriate resource pricing encourage environment friendly firm behaviour. Lower resource and pollution intensity are associated with firms with larger operating scales and/or firms located in areas which have a more environmentally aware and active community. Although environmental activity and production activity are linked, the link is weak and production activity is given priority over environmental activity. Nevertheless, all major improvements in environmental performance are related to large investments in new technologies, driven by profits. Moreover, for sustainable development environment management departments have to evolve from engaging only in compliance related activity to integrating environmental concerns into the firm's production activity.

Between the Indian Steel and Paper industry, our studies indicate that the former is ahead with respect to benchmarking with the best global environment management practices. For the steel industry the constraining parameter for reducing pollution intensity is the vintage of the plant, rather than its technology, which has undergone/ is undergoing some modernisation over time. Obsolete technology is the problem plaguing the paper industry, perhaps because of shallower pockets and smaller scales of operation. The way an industry is organised within the institutional context can affect the rate of diffusion of environmental management practices. While firms in the Indian steel sector are more aware of each other's practices, firms in the paper industry have an insulated existence.

Regulators can encourage better environment management practices by forming partnerships with industry, using graded penalties, enhancing existing market based incentives like water cess, encouraging industrial ecology practices and issuing specific standards for firms depending on the carrying capacity of the area in which it operates. The government can promote environment friendly behaviour by promoting industry associations and research laboratories to develop sustainable technologies and solutions to environmental problems, ensure capital availability for environmental projects, guiding industrial philanthropic activity, and work towards creation of environmental value.

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