

# The Value of Corporate Social Responsibility in the Scope of Triangle Model

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**How to cite this paper:** He, J.W. (2018) The Value of Corporate Social Responsibility in the Scope of Triangle Model. *American Journal of Industrial and Business Management*, 8, 59-68.  
<https://doi.org/10.4236/ajibm.2018.81004>

**Received:** October 10, 2017

**Accepted:** January 12, 2018

**Published:** January 15, 2018

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## Abstract

“Society-Economy-Environment” made up the triangle model of corporate sustainable growth. The internal value and connection of the nodes in the model are driving the corporate to make different choices in the pursuit of benefits. The fundamental need for corporate sustainable growth is to balance different values. This paper believes that in the scope of the triangle model of the corporate sustainable growth, corporate social responsibility has an equilibrium function, which can help the corporate maintain a relatively stable status when facing conflicts against the bottom line. This paper briefly discussed the equilibrium function of the corporate social responsibility and the meaning of investing in CSR, by combing through the development and changes for corporate social responsibility, and by studying the case of a power plant shutdown to analyze the conflicts among the three nodes of its value triangle.

## Keywords

Triangle Model, Society, Economy, Environment, Corporate Social Responsibility, Sustainable Growth

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## 1. Introduction

Society, economy and environment are the interconnected nodes in the triangle model of the corporate sustainable growth. The internal values of the three factors and the balance of its value conflicts are fundamental to the corporate sustainable growth [1].

## 2. The Change and Development of Corporate Social Responsibility

Corporate social responsibility originated from an incident in 1790 when Britain consumers boycotted slave-grown sugar manufactured by British East India

Company (EIC). Its modern concept gradually came in shape in the 20s. The terminology of Corporate Social Responsibility (CSR) is first brought up by Oliver Sheldon in 1923.

Regarding the development of the definition of CSR, despite the continuous analysis of its own meaning, the definition on its paradigm in practice has also kept enriching. The pioneer Oliver Sheldon has associated social responsibility with the obligation for corporate leaders to fulfill business needs, and he believed morality was included. Howard Rothmann Bowen established the modern concept of CSR in the book *Social Responsibilities of the Businessman* in 1953, where he discussed whether or not the entrepreneurs or corporates should take on social responsibilities from the perspective of corporate ethics [2].

From understanding the concept of CSR, the eastern scholars and the western scholars studied and understood the concepts from multiple different fields and dimensions. The western scholars divided the concept of CSR into three parts: firstly, the corporate was the main responsible subject; secondly entrepreneurs are the executors; thirdly the corporate take on the responsibility voluntarily. The four level model of CSR positions CSR as including economic responsibility, legal responsibility, ethic responsibility and charity responsibility. Stakeholder Analysis emphasized that corporates are responsible for shareholders, consumers, staff, environment, the society, governments and so on. Chinese scholars understood CSR from the angles of social contract, believing that ever since the establishment of corporates some forms of social contracts was made with the society, and taking the social responsibilities is to comply with the contract that the corporate made with the society.

### **3. The Triangle Model of Corporate's Sustainable Growth**

John Elkington brought up the concept of Triple Bottom Line, which argues that the corporate needs to fully consider the expectation from stakeholders and the society, which means that the corporate should also focus on the environment and social justice while running the business. Bottom line responsibility can be taken as a full liability which is enforced. Corporates deserve criticism and blame when this bottom line responsibility is not met, but won't and shouldn't be appraised if the bottom line responsibility is fulfilled [3]. Therefore, Triple Bottom Line concept covers the fields of economy, society and environment. Its essence is the fundamental model for corporate to grow sustainably, and also the fundamental concept for the corporate to take on social responsibility. Triple Bottom Line model is a conceptualized and systemized framework, which suggests the internal connection and process in the code of conduct [4].

#### **3.1. The Nodes of the Triangle Model**

Society: A fair, beneficial expectation is related to the labor needed for business operation, community and region. The corporate based on the triangle model framework should strive for benefits for its employee, its community and other related entities.

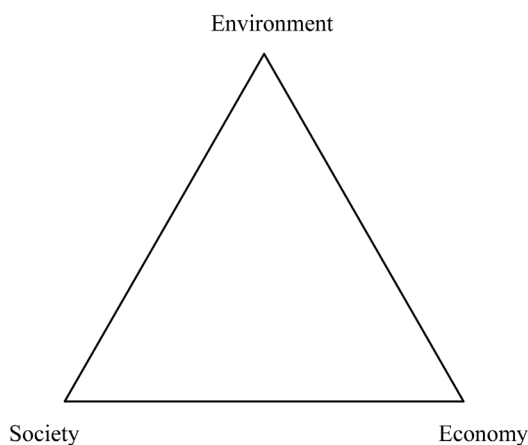
**Economy:** The corporate is responsible of generating returns for shareholders who invested in the companies. Corporate strategies should pursue the long term benefits for the investors. In the triangle model, the corporate should not only creating values, but also provide the society with sustainable economic benefits.

**Environment:** This environment means the impact of the corporate operation on environment. Leaders of the corporate should dedicate to lower the environmental influence by the corporate, and also manage to lower the consumption on natural resources, reduce waste and discharge low hazardous waste safely and legally.

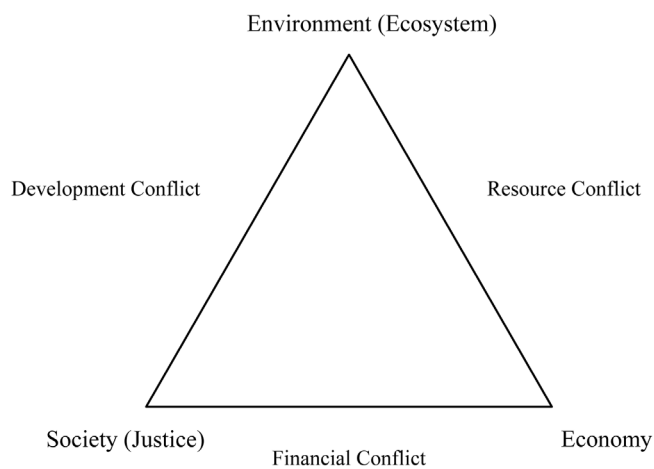
In summary, the nodes of the triangle model are shown in **Figure 1**.

### 3.2. The Value of Corporate Social Responsibility in the Triangle Model

The nodes on the triangle are related to each other. At the same time, the gaming among the strength of each sets of nodes indicate different types of conflicts. The value conflicts among the triangle model are shown in **Figure 2**.



**Figure 1.** Nodes of the triangle model.



**Figure 2.** Value conflict among nodes of triangle model.

The sustainable growth of the corporate should be established on the harmonious relationship between the environment (ecosystem) and the economy, the balance of the economy and the society (justice), as well as the consistency of society (justice) and environment (ecosystem). If the conflict of the allocation of resource, assets and development cannot be fully resolved, then the linking among nodes will broke, which will lead to imbalance and outburst. The status of a stable and sustainable development will not be able to continue. Emphasizing on the triple bottom lines will help improve corporate management, mitigate commercial risks and attract investors [5]. Therefore, the stability of each relationship is resulted from the balancing by CSR value. It means selecting values from the stakeholders, which includes humanity, environment, community and other more socialized events. The World Business Council for Sustainable Development (WBCSD) suggested a broader definition of CSR in 2004, that the corporate strives for contributing to the economic sustainable development, and improves life quality together with its staff, its families, its community and the entire society.

### **3.3. The Tradeoffs among All Nodes of the Triangle**

This paper uses the case of a shutdown of Thermal generator from Meishan electric company in Guangzhou City, from the perspective of triangle value conflict model to analyze the choice and value selection when the corporate taking on social responsibility.

#### **3.3.1. Corporate Situation Background**

Guangzhou Meishan Thermal Electric Company is the second tier public company in Nansha Distric in Guangzhou city. It is the sole supply of electricity, heat and water to around thirty companies in the Meishan Industry District.

This thermal electric company is built in early 1980s following the national environment protection standards at that time. During the business operation, this factory has improved its facility based on relative environmental regulations. Starting from July 1<sup>st</sup> 2014, this thermal electric factory followed the new regulation Thermal Electricity Factories Waste Emissions Standards (GB13223-2011), and has conducted multiple technologies improvement. Yet still the smoke and dust density still at  $24.3 \text{ mg/m}^3$ , which went beyond required standards of a maximum of  $20 \text{ mg/m}^3$  and exceeds of  $4.3 \text{ mg/m}^3$ .

To ensure the execution of the related national, provincial, and city regulations, based on the detailed requirement from county government, its parent company has officially shut down on March 31<sup>st</sup>, 2017. Up until the time when the corporate shut down, all related employees including those from dependent companies are totally at a count of 3000.

#### **3.3.2. Value Selection**

1) Resources conflicts between economy and environment

Due to practical reasons like outdated thermal electric machines, even if the

electric company has upgraded and improved its environmental protection system and process, the fundamental approach is still to reconstruct all machine and facilities to stably reach the new environmental control standards. Estimated by the proposal, the total cost of investment and opportunity lost is at around 80 million RMB.

To sacrifice shareholders' benefits for environment is not a sustainable development plan in terms of economy [6]. The business operation with maximized environmentally benefits will greatly improve operation cost directly. The economic value–ecosystem environment tradeoff is mainly resource conflicts.

### 2) Financial conflict between economy and society

According local government's urban construction planning, this entire industrial district where the thermal electricity factory stands has been reclassified to be developing into commercial and residential area. It's imperative for the thermal electricity factory to follow the trend to exist the industry. But before shutting down the thermal electricity factory for industrial transformation, it's fundamental to appropriately set up arrangements for workers and related companies. Therefore it's necessary to allow the thermal electricity manufacturer to still maintain a certain level of production for transition before all arrangements are in place. During the transition in the second half of 2015, thermal electricity factory has been fined daily by environment department in total of 6 million RMB. The suspension of supply for all electricity, heat and gas has resulted in a complete production halt for all entities in the industrial district, which were forced to relocate and facing issues of high contract compensation. Around 2000 employees worked in related companies lost their jobs. For their own life issues, thousands of unemployed employees have expressed their appeals and strived for their rights through various means such as gathering, sit-in, petitioning, media dissemination and litigation. The various demands and reemployment issues that have arisen thus have an impact on the local economy and stability.

There are benefit game among partial justice and stability of social groups and comparative justice among the entire society, as well as value game between corporate business development and local economy development. These are shown as financial conflict. Only when the government balanced out the benefits of all parties involved can encourage the corporate to proactively shoulder corresponding responsibilities. Government is a supplement to the self-adjustment framework of corporate social responsibility. Government can improve the pure strategic Nash Equilibrium among corporates through supervision and regulatory system, which then leads to the change in the Pareto Equilibrium of benefit game [7].

### 3) Development conflicts between society and environment

Industrial transformation and upgrading, the market exist of thermal electricity manufacturer, are ultimately the business operation adaptation decision made to follow the local development plan. Its essence is to solve the development conflict between society advancement and environment protection. It's also a choice the corporate made to proactively take on social responsibility, for

the mutual benefits of local society and economic benefits, as well as improving its local image. But making the choice of values, the corporate needs to consider both the survival of its stakeholders like employees and rental companies, so as to avoid secondary shock to the society from development conflicts, which will impact the stability of the society.

#### 4) Execution plan for solving the conflict

Peter F. Drucker pointed out a fact that the government must make: the government cannot do and is not good at social or community work. The government needs to establish an appropriate range of intensity to realize the industry transition and upgrading [8]. The government is responsible for establishing and executing the regulatory policy and regulation. Basically the government is going to transition the burden of balancing the society and environment to corporates, and at the same time improved the utilization of resources and efficiency of construction and operation. In this process, the government should support those corporates that take on the social responsibility through regulatory policies and processing procedures. A certain level of motivation and protection should be granted to encourage the corporate solving the value conflicts of society-economy-environment by taking on social responsibility. Also in the virtuous circle of the corporate's future development, that will also encourage the corporates effectively make up for the government's short board, deepen the flexible incentive management [9]. This involves the guidance of governmental regulatory and corporates' consciousness and endogenous on self-management. It's a response to the high regulatory cost and ineffective regulatory revolution. It's a feasible model of incorporating social regulatory and corporate social responsibility [10].

### **4. Adjustment of the Corporate Social Responsibility**

Utilitarianism pursues maximum happiness, and from this perspective to view the triangle model, it's not essentially maximum happiness if only the value of one certain node was emphasized. But if all values can be balanced to continue the corporate development, then the comprehensive value can be realized as multi-dimensional happiness, and through this to maximize happiness.

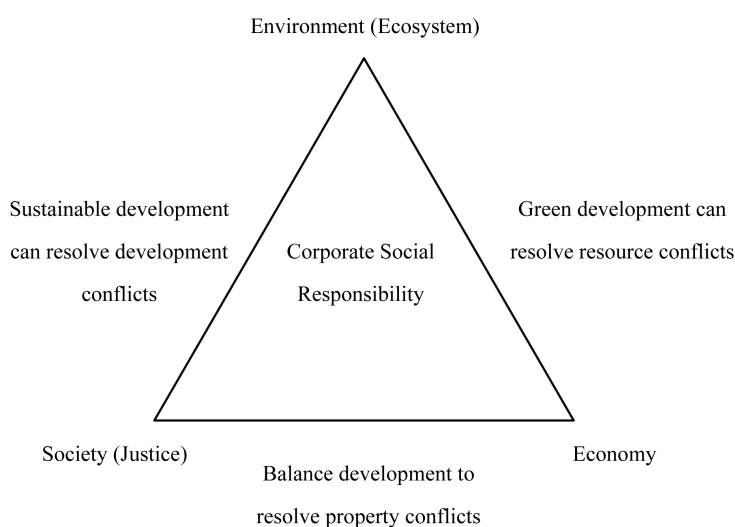
Corporate value also includes other positive factors besides asset value, which is the existence value and development value. The existence value includes investment return and value at risk, which directly related to the future of the company. Development value includes investment return and social recognition, which directly impact the sustainable growth of the corporate.

The balance of the environment, the corporate social responsibility and the enterprise value, is based on the pursuit of investment return maximization. Through actively adjust corporate behavior, to protect environmental benefits as far as possible. This will balance the development of economy, society, and natural environment. The essence of this is to construct a harmonious, stable base for the triangle model, so as to realize the corporate's sustainable development.

“Green Development” extends the meaning of green finance, green GDP, low-carbon economy and other concrete economy concepts. It’s an expression of companies shouldering corporate responsibility in environment. Green development requires the corporates to take environment as the internal factor of economy development, to take sustainable development of economy and environment as goals, and to take the green process and exosystemic results of the business operation as the main subject and methods [11]. The regulation of corporate social responsibility among nodes of Triangle Model is shown in **Figure 3**.

The adjustment function of the triangle model is mainly shown as encouraging reasonable response and action from corporate and related managers to cooperate with parties involved in the perspectives of economy, environment and society. Professor S. Prakash Sethi believes, that there exists a legal distance between corporate’s reaction to any non-market power and what is expected for the corporate to act on from the society. When the social expectation is changing, then the corporate behaviors must follows and adapt. Corporate’s long term self-interest is realized by taking social responsibility, which is a way to reduce or avoid public criticism. For the same reason, taking social responsibility is an effective approach to ease, reduce or avoid resource conflict. While the corporate is pursuing the economic benefits, through taking on environmental and social responsibilities, the corporate can establish a good image to achieve social recognition and positive feedback, and eventually build mutually trust.

Therefore, CSR is the internal requirement of both environment and society, and will be realized in environmental law and justice, morality and obligation, as well as internal financial benefits. This stimulates the proactivity for corporate to shoulder corporate social responsibility, and eventually reaches an ideal state where the financial pursuit for corporates and the environmental protection are balanced and mutually stimulating.



**Figure 3.** The regulation of corporate social responsibility among nodes of triangle model.

## 5. The Investment Value of Social Responsibility

The United States Social Responsibility Investment Forum defines Socially Responsible Investment (SRI) as an investment process, namely under the rigid financial analysis model, using a positive and negative investment selection method, fully considers the environmental and social influence and results by the investment. (Positive method is to choose an investment option referring to a judgmental system collectively follows the standards of environment, society, sustainable development and social responsibility.) Negative method is to avoid any unethical gambling, weapons, tobacco and other industries [12].

Social responsibility investment mainly includes three kinds of investment methods: “screening”, “shareholder advocacy” and “community investment”. SRI market happens to cover the shortages of traditional financial markets, and internally solve any outside questions, so as to pursue the perfect unification of social target and investment benefits. CSR’s investment value can show as a stable connection between itself, society and the environment, so as to stimulate the long term stable development of the corporate.

The decisions of all stakeholders might be deeply affected by regulatory environment, personal preference, and psychological cognition, so as to strengthen leaders’ understanding of the double value of SRI on the corporate itself and the society. It will also increase the demand of SRI information from financial market. By completing the environmental regulation, encouraging the reasonable decision of the corporate, and supervising social opinion on SRI, those corporates that actively take on social responsibility can practice environment protection, establish a good social image, improve corporate public recognition, and therefore attracts more consumers and clients, and eventually realize corporate value growth, which is also share holders’ benefits.

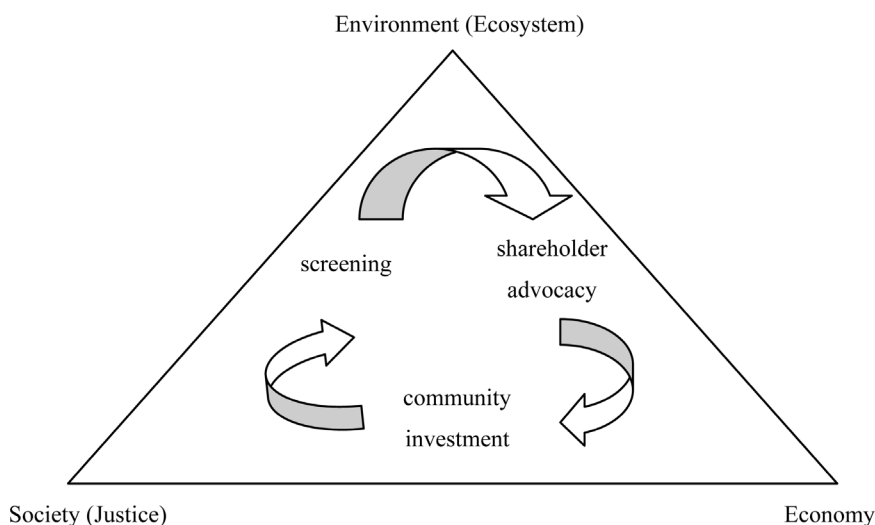
Good corporate social responsibility behavior can be a positive response from stakeholders. At the same time, it helps to obtain political resources. Ultimately improve corporate financial performance. CSR strategy enables companies to establish competitive advantage and establish a positive image in practice, rather than just their own interests. Conversely, companies that treat CSR negatively will be discarded in the entire market and the long-term sustainable development of the company will be seriously adversely affected. As a kind of innovative investment philosophy, the concept of social responsibility investment has become a closely watched investment guideline.

In summary, social responsibility investment in the Nodes of Triangle Model are shown in **Figure 4**.

## 6. Conclusions

This article clarifies all nodes and their relationship of the triangle model. By analyzing the business cases, we can fully understand the regulatory role of CSR and its effect. It helps to recognize the intrinsic value of the CSR and investment. At the same time, it also helps to build a firm foundation for sustainable development.





**Figure 4.** Social responsibility investment in the nodes of triangle model.

In this study, we dig deeper into the intrinsic value and investment implications of CSR from the perspective of the Triangle Model. This paper argues that CSR is not necessarily the strategy driven by the profit-seeking nature of enterprises, nor is it merely a passive response to external parties. CSR implementation is a positive motivation for enterprises to balance sustainable development. This rectified some of the prejudices and misinterpretation of CSR content regarding CSR motivation.

This study explains the regulatory role of CSR in a universal sense. However, the enterprise itself is multidimensional structure and may have different CSR behavior patterns. In order to improve the accuracy of interpretation, future research can classify enterprise categories and explore intrinsic value from the perspective of research methods, the single case method of this study, the lack of comparison of samples. In the future, there is a need to further expand the sample to improve the reliability of the research findings.

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