



## Corporate Sustainability: A Case Study on Toyota Motor Corporation

### KEYWORDS

Corporate Sustainability, Corporate Social Responsibility, Environmental Degradation, Social Degradation, Triple Bottom Line Reporting

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**ABSTRACT** *Corporate sustainability is an evolution which describes ethical corporate practices that meet the needs of the people today by not sacrificing the ability of future generations to meet their needs. Global environmental concerns increased the number of environmental activists. In developed countries, environmental protection agencies are coming up with various rules and regulations relating to several environmental issues. Corporations can no longer operate if they become isolated from the social and environmental matters. Therefore, many companies are adopting Triple-Bottom-Line (TBL) accounting to pay and assess the present and future needs accruing to the stakeholders and society at large through sustainable excellence. The paper highlights contribution of Toyota towards maintaining a sustainable society through manufacture and provision of quality products and services.*

### Introduction

Corporations are the fundamental cells of modern economic life and their great success in transforming the earth's resources into wealth has shaped the physical and social world in which we live. The main question that need to be asked that whether the current model of the corporation needs to be modified to contribute for the survival of human beings, for the development of the society at large through creation of work that brings dignity and self-fulfillment to those undertaking it. For long, the corporate houses for their expansion has destroyed forests, polluted rivers, extracted mineral resources and destructed ecosystems as a whole for their own profit making objective without looking at the fate of future generations. Since the last decade, it has been witnessed that the corporate houses are trying to be more conscious about environment and are discharging responsibilities towards it.

In the emerging global economy, the internet, the news media and the information revolution throw light on business practices around the world. The companies are not only going abroad but also serving the overseas customers. Companies are judged on the basis of their environmental stewardship. Consumers want to know more about a company. Therefore, the concept like corporate sustainability emerged which takes into account corporate obligations of not just the investors but of the communities and environment as well. The multinational companies are publishing their annual reports along with the corporate sustainability report through online source.

Corporate social responsibility and corporate sustainability are often used interchangeably but it is necessary to think about corporate social responsibility in terms of vision and mission of the business. Corporate social responsibility consists of those activities which creates a positive impact on society at large whereas corporate sustainability is a business approach that creates long term consumer and employee values by taking into consideration operational dimensions of the business i.e. social, cultural and economic environment.

### Application of Triple Bottom Line Accounting

Earlier the organizations are confined themselves in vol-

untary reporting of some selected environmental and employee matters which usually appeared in the conventional annual report of the companies. A severe change occurred in 1990s in Europe, UK, Canada and USA when the large corporations are concentrating on separate voluntary reports on environmental, social, health and safety matters which means sustainable development focuses on incorporating a forward thinking approach by the corporations to gather ideas on how to make use of natural resources without exploiting it. The company whose mission is true sustainability need to have a better understanding of what "sustainability" defines. Long term sustainable success can only be achieved if one can move away from individualism. One of the approach to measure the sustainability is Triple Bottom Line accounting (Elkington, 1997)

Triple Bottom Line reporting captures an expanded spectrum of values to measure the success of an organization in terms of economy, environment and society. It focuses on value addition for three types of shareholders in a company- shareholders investing in a company for profit motive and economic prosperity, shareholders investing in a company that works for the benefit of the environment and the shareholders investing in a company discharging strong social responsibility. Therefore TBL incorporates 3pillars mainly 3Ps-Profit, Planet and People.

In a TBL reporting, Economic sustainability encompasses economic profitability, employment generation, competitiveness and market creation. Environmental sustainability focuses on efficient use of natural resources, environmental management and protection whereas Social sustainability pertains to fair and beneficial business practices towards the community and the region in which a corporation conducts its business.

### Toyota Motor Corporation: An automobile giant

A Japan based company operates mainly through automobile and finance segments. The automobile segment is engaged in the design, manufacture and sale of car products. The finance segment is engaged in the provision of financial services related to the sale of the company's products. The history of Toyota dated back to 1937 when Toyota Motor Co. Ltd was established. In the year 1947,

it launched its first small passenger car, SA model. During 40s the company extended its operations by adding different models in its product line-up. In 1957, the company established Toyota Motor Sales, U.S.A., Inc. and Toyota do Brasil S.A. in 1958. The company exported its first passenger car 'Crown' in the United States in the year 1957. In 1962, it produced 1 million vehicle domestically and in the same year the company entered Thailand by establishing Toyota Motor Thailand Co. Ltd. The cumulative exports of Toyota reached 1 million units in 1969 which again increased to 5 million units in 1975 and to 10 million units in 1979. In 1982 Toyota Motor Corporation was established with the combination of Toyota Motor Co. Ltd. and Toyota Motor Sales Co. Ltd. In 1988, the annual domestic sales of Toyota reached to 2 million units. Toyota is strengthening their presence in USA with the establishment of Lexus dealerships. In 1999, the annual overseas sales of Toyota exceeded 3 million units. In the same year it got listed on the New York and London Stock Exchanges. Since 2000s, Toyota expanded its operations in markets of Asia, North America and Europe. The company announced its first hybrid car under the brand name 'Prius' in 1997 whose world wide sale achieved 1 million mark in 2008.

Toyota Motor Corporation group companies are manufacturing cars under Toyota, Lexus, Daihatsu and Hino Motors. Daihatsu Motors produces small vehicles and Hino Motors produces trucks and buses. Toyota Motor Corporation is a part of Toyota group which is the largest conglomerates in the world. In 2011, Toyota ranked tenth among the top 500 most admired companies by Fortune Global 500 with revenue of US\$235.3 billion. Productions were disrupted in 2011 due to earthquake and tsunami in Japan followed by floods in Thailand which prevents the suppliers of the company to make up for the earlier output losses of Toyota. Toyota forecasted a brighter 2012 with a jump of 20% in global sales to a record 8.48 million vehicle. As of March 2012, Toyota generated net revenue of US\$18692 millions.

**TBL Reporting of Toyota in a Snapshot**

TBL Approach	Indicators	Position of Toyota
Economic Performance	Business generated	Automotive manufacturers with interest in designing and manufacturing luxury cars, sports vehicles, trucks, minivans and buses with combustion or hybrid engines. Toyota also makes automotive parts for its own use and also for sale.
	Net revenues	Unit sales increases by 44000 but the net revenues decreases by 2.2% to 18583.6 billion yen (2011-12)
	Operating income	355.6 billion yen (2011-12)
	Net Income	283.5 billion yen (2011-12)
	Shareholder's equity	10550.2 billion yen (2011-12)
	Dividend per share	50 yen (2011-12)
	Research and Development expenses	779.8 billion yen (2011-12)
	Vehicle Production	7435 thousand units(2011-12)
	Vehicle Sales	7352 thousand units (2011-12)

Environmental Performance	Material use	Iron, copper, aluminum, platinum, vanadium, nickel, lithium, rare earth and water.
	Environmental Action Plan System	Toyota Earth Charter (formulated in 1992, revised in 2000) was based on the guiding principles and policies (formulated in 1992, revised in 1997) encompass environmental issues. In March 2011, Toyota announced Toyota Global Vision which focuses on reduction of CO2 emissions, recycling of waste, human resource development and various afforestation activities.
	Fuel efficiency standards	Six out of eight vehicles have cleared Financial Year 2010 Fuel efficiency standards.98% of Toyota's gasoline-powered passenger vehicles conformed to the Financial Year 2010 Fuel efficiency standards which is a decrease of 0.2% points over the previous year.
	Reduction of Carbon-dioxide emission in production area	Reduction of Carbon-dioxide emissions of 4.6% per unit (2011) produced in production area by consolidating and optimizing production lines.
	Reduction of Carbon-dioxide emission in logistics area	Reduction of Carbon-dioxide emissions volume to 286,000 tons (2011)
	Volatile Organic Compound (VOC) Reduction	Toyota recapture a larger percentage of solvent and use deionized water for washing as a result total VOC emissions from body paint lines averaged 21g/m <sup>2</sup> (2011).
	Resource Recycling	Resources are to be used effectively to reduce the waste and the industry's impact on global environment.
	Reduction of the volume of discarded materials in production area	Reduction of the volume of waste to 44000 tons in 2011) which is 10.8% less than 2010.
	Reduction of the volume of discarded materials in logistics area	Reduce usage of packaging and wrapping materials to 57,600 tons (2011).
	Reduction of water consumption	1.6% reduction of water consumption in 2011 over 2010.
Recycled Sound Proofing Products		The recycling process of Toyota sort out urethane foam and fiber materials that offers a better mix of sound absorbing and sound isolating features and has been used in 21.9 million vehicles up to 2011.
	"Battery-to-Battery" business	Nickel included in used hybrid batteries is recycled as material for new batteries.

Social Performance	Job creation	Total numbers of Global Production Centre trainees from various regions are 33508 and percentage of non white employees is 91.4.
	Stable Employment and Labor Management Relationship	The Toyota Way 2001 aims to create a healthy corporate culture through equal employment opportunities, ensuring employees health and safety, diversity and inclusion, greater human resource development and fostering pride and loyalty of the employees towards work place, colleagues and the company through mutual trust, understanding and better communication.
	Fostering Mental Health Care Programmes	Many active listening courses are being conducted for managers and young employees for enhancing their ability to notice the signs of poor mental health.
	Reinforcing the Health Management Programmes for Locally Stationed Staffs and Overseas Personnel	Committed to conduct routinely health check ups, making rounds at local sites on medical conditions, providing medical information through Internet and Tele-Conferences.
	Developing Human Resources with Strong Language abilities, Local View and Local Sense of Regions around the world	84 trainees are working in 37 affiliates in 20 countries (as of January, 2012)
	Promoting Self-reliance for overseas affiliates	450 transferees from 48 affiliates in 27 countries are working in Japan
	Measures for female workers to balance work with childcare leave	Total childcare leave is 399 (2011-12)
	Employment of people with disabilities	The number of people with disabilities employed was 1015 (2011-12)

Source: "Corporate Sustainability Report", Toyota Motor Corporation, 2011-12

**TBL, a true measure for sustainability: Controversy Builds**

Resistance comes with adoption of new procedures or regulations. Some companies think that nothing will change whereas other companies are more concerned with nothing will remain the same. Triple Bottom Line Reporting is being criticized in many ways. For any business, profit can be explained in monetary terms but how to measure social and environmental responsibilities. There is no common standard method for calculating the parameters of TBL. So basically TBL reporting is qualitative in nature and finding a common unit of measurement would be a challenge for the companies. Not only that, any concerns for social and environmental matters are very much rare in poor societies. People will never go for sustained recession in order

to regain the lost ecosystem. A compassionate society can form only when people are rich and are contributing tremendously towards making environment clean and protecting the wild life.

Other arguments following are the cost, additional risks, time involved and different expectations of the society at large. To make TBL effective the entire corporate environment has to be rebuilt, the employees have to be made well prepared with new procedures and the whole operations of the company should be readjusted

**Social and environmental expenses meeting the degradation loss: A Myth**

Transportation is the largest source of air-pollution. Many unburnt gases like Hydrocarbons (HC), Carbon Monoxide (CO), Oxides of Nitrogen (NOx) are causing pollution resulting degradation of human health, damaging natural resources and destruction of wildlife. Among the entire TBL factors environment is mostly affected. Automobiles are responsible for environmental degradation in the following ways:

Automobile sector causes major degradation to the global environment and Toyota is not an exception to it. Apart from Prius, all others cars, might be complying the environmental needs as per respective Motor Vehicles Act, but are not environment friendly. The following are the major degradation caused by the automobile sector globally.

**Environmental Degradation**

1. The exhaust from the cars contains various greenhouse gases such as carbon monoxide and nitrous oxide. These gases have an ability to block the sun-rays reflected from the surface of the earth which causes variances in temperature resulting in global warming.
2. Smokes from the exhaust combine with rain and causes acid rain.
3. Oil released from cars due to leakages mixes with storm water and pollutes the natural resources of water.
4. Vehicles are causing noise pollution which ultimately leads to a disturbance in the ecological cycle causing many diseases such as high blood pressure and mental stress.

**Social Degradation**

1. Toyota is mainly focused on developed economy. Customers of developing economy may not afford to buy luxury range of cars of Toyota.
2. Toyota "Prius" has become a symbol of environmental concern portraying that the owner is aware of the humanity's need towards the environment but the car is priced INR 35, 00,000 which is beyond the capacity of middle income group people. Hence Prius is not "People's Car".
3. Social repairing is focused mainly on developed economy mostly Japan. However, their market is global. Hence the company is lacking in discharging the social responsibility in the developing economy.

**Road Ahead**

TBL is an environment degradation management technique. Hence it is a parameter for measuring environmental degradation but not a controlling device. Companies on one hand are causing environmental degradation and then showing their responsibility through TBL reporting. But whether it is a perfect device for measurement of the degradation is still a matter to be proved. Specific stand-

ards has not been set in response to the environmental reporting but the standard setting bodies are trying to come up with certain stringent norms for the purpose of reporting environmental degradation. Hence, introduction of an internationally recognized standard has been the call of the day.

Toyota is selling cars globally whereas discharging social responsibility mainly in Japan. A balance need to be maintained between environmental procurement and environmental degradation globally. Due to increase in popu-

lation, increase in the number of vehicles and with increasing pollution the need for hybrid cars are tremendous in emerging markets. The challenge for Toyota is to make "Prius" popular in emerging markets for which the price of the vehicle needs to be reduced. Hence, the debate can be raised on the issue whether discharging environmental and social responsibility is the ultimate objective of the organization or being an ethically oriented company reflecting environment and social responsibility in its vision, mission and strategy in true sense would be the ultimate goal.

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