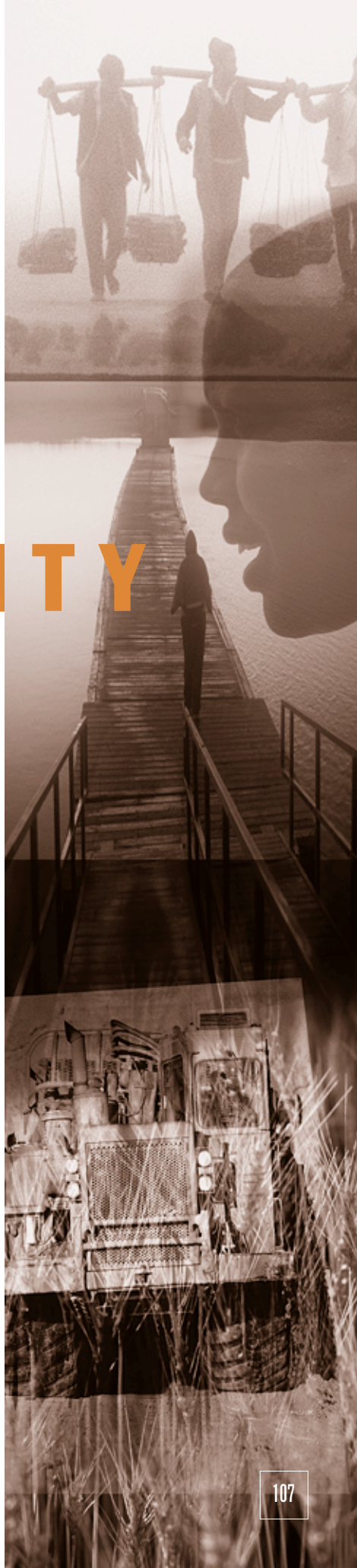
CHAPTER 6

DRIVING BUSINESS ACCOUNTABILITY



Business transparency and accountability are prerequisites for better environmental governance. They are the necessary complement to greater openness on the part of governments and more public participation in government policies. As is the case with government, one of the most potent tools to drive greater business accountability is public access to information. *Public disclosure*–from mandatory pollution reporting, to voluntary "sustainability reporting," to eco-labeling–is the face of a new and more participatory approach to regulating the environmental performance of businesses. Using the tool of disclosure, communities and consumers enter a new relationship with business that can speed the transition to a greener business model.

Getting Business on Board

The link between business and environmental governance is simple. Businesses are among the world's most influential institutions. As society's mechanism for production and consumption, their decisions have significant environmental effects. Those decisions have ever-greater reach as companies globalize and national resources are privatized. Better environmental governance simply isn't possible without business on board. That means sharing information with stakeholders, making decisions in an open and transparent process rather than behind closed boardroom doors, and actively seeking investments that can benefit both the environment and the bottom line.

Greater information disclosure by businesses can help address the weaknesses of traditional regulation.

Beyond Traditional Regulation

Government-imposed regulations, enforced with inspections and penalties for noncompliance, are the traditional means of ensuring that businesses are accountable for their environmental impacts. A typical approach is to limit the amount of pollutants that businesses can release or the rate at which they can extract natural resources. This "command and control" approach has greatly improved air and water quality in most industrial countries (Coglianese and Nash 2001:1, 7).

However, command and control regulation has many limitations. Its success rests on vigorous and timely enforcement. This is difficult in countries where state authority is weak, budgets are constrained, or technical capacity is low. The rigidity of these regulations is also a problem. Many companies and policy-makers contend that standard government regulation doesn't leave them the flexibility to fix environmental problems in the most efficient ways and doesn't encourage improvements beyond those specified by law.

In response, governments have begun to employ market-based approaches to regulation, such as pollution charges and tradable emissions permits. These can also pose serious challenges of design, implementation, monitoring, and enforcement, reducing their effectiveness in many countries (Tietenberg and Wheller 1998).

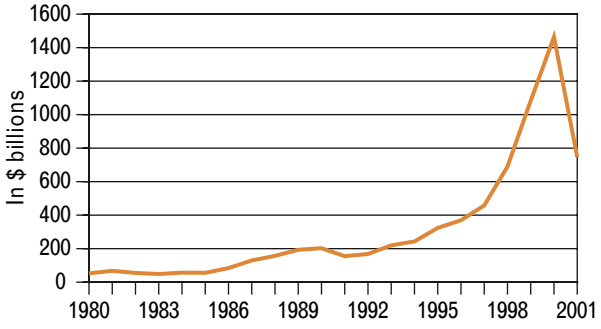
Nor do traditional regulations address the governance challenges posed by the increasing globalization of corporate activity. In the face of competition to attract business, some nations are less willing or able to regulate transnational corporations effectively. In this case, transnationals largely regulate themselves, with little accountability to communities or consumers for their impacts (see Box 6.1).

Greater information disclosure on the part of businesses can help address some of the weaknesses of traditional regulatory approaches, empowering civil society and local communities to join the regulatory process. There is a growing array of public and private efforts to increase the availability

Box 6.1 Growing Corporate Influence

More than ever before, the public is paying attention to corporate behavior. One reason is the dramatic growth and economic dominance of multinational—or "transnational"—corporations (TNCs). Today, more than 65,000 corporations are transnational, meaning that they do business and control assets in more than one country. Together, these companies control some 850,000 affiliates, or subsidiary companies (UNCTAD 2002:14). Between 1990 and 2000, the sales of the largest one hundred TNCs increased from $3.2 trillion to almost $4.8 trillion (UNCTAD 2002:90).

Foreign Direct Investment 1980–2001



Source: World Bank 2003

Transnationals were also significant local employers. Foreign employment by TNCs—people employed outside of a corporation's home country—grew from 24 million in 1990 to 54 million people in 2001 (UNCTAD 2002:xv).

Investment in foreign operations is a good measure of the increasing economic power of transnational corporations. The value of cross-border mergers and acquisitions—a transaction in which a foreign corporation acquires more than a 10 percent stake in an existing domestic enterprise—skyrocketed from $94 billion to $866 billion between 1996 and 2000 (UNCTAD 2002:12). In developing countries, the number of cross-border mergers and acquisitions increased by 50 percent from 1995 to 1999 (World Bank 2001:40–41).

Transnational corporations are considered to be both global and local citizens. In theory, they are accountable to numerous constituencies. They bring undeniable benefits to local communities, including investment, jobs, and sometimes healthcare, roads, and schools. Yet, they are often perceived as having little accountability to anyone except their shareholders. Some citizens and communities worry that global companies will use their power to evade national regulatory requirements, engage in unfair labor practices, or damage the local environment. Consumers also feel that it is difficult to make informed purchases—and hold companies accountable

of information about companies and their products–and to help consumers, shareholders, workers, and others use that information as a lever to encourage more environmentally friendly business decisions (WRI and USEPA 1999:11–13). These efforts include:

- *Government-mandated pollution disclosure programs,* such as the Toxics Release Inventory, which requires companies in the United States to detail the pollutants and wastes they discharge as a matter of public record.

- *Voluntary corporate disclosure initiatives,* such as industry-wide codes of conduct, or the Global Reporting Initiative, which provides companies with guidelines for generating a "sustainability report" that stakeholders can use to evaluate environmental and social performance.

- *Consumer- and investor-based efforts,* such as socially responsible investing, eco-labels, and product certifications that offer a market-based appeal to companies to make their operations more transparent and to embrace production methods that are less environmentally and socially damaging.

Business Tools for Environmental Accountability

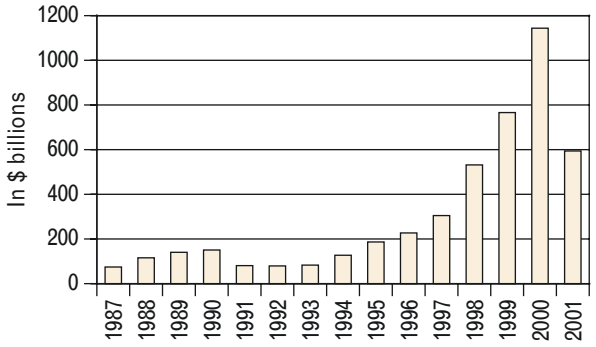
Traditional Accountability Mechanism
- Government-mandated environmental regulations and permits

New Disclosure-Based Mechanisms
- Government-mandated disclosure of environmental performance
  - Pollution registers
  - Mandated corporate environmental reports
- Voluntary corporate initiatives
  - Corporate codes of conduct
  - Voluntary corporate environmental reports
  - Environmental management systems
  - Eco-labels
  - Voluntary industry-government agreements
- Public action and advocacy
  - Socially responsible investing
  - Eco-labels/green consumption

through the marketplace—when a corporation's operations are widely spread and information on their environmental performance in different countries is hard to obtain.

Another reason for the rising public concern about corporate citizenship is the trend toward privatization of natural resources in many countries. Increasingly, governments are allowing private companies to own or manage projects in the energy, telecommunications, transport, and water and sanitation sectors. Between 1990 and 2001, 132 low- and middle-income countries introduced private sector participation in these sectors (World Bank 2002:1). During this period, the private sector assumed the operation or construction of almost 2,500 infrastructure projects in developing countries, with investments totaling $750 billion (World Bank 2002:1). Such privatization shifts the decision-making processes for water and power provision, timber production, mining, and similar natural resource-based activities to organizations that the government and civil society may not have the capacity to hold accountable for compliance with environmental standards and acceptable customer service (Panayotou 1997:60–61). (See Box 5.3.)

Cross-border Mergers and Acquisitions 1987–2001



Source: UNCTAD 2002: 337

Corporate influence on government politics is also a concern. Critics warn that corporations are using their economic muscle and close government connections to coax decision-makers to favor corporate interests over other stakeholders. In the United States, for instance, energy, mining, and waste management industries contributed $29.7 million to political campaigns in 1999–2000, and spent another $159 million on direct lobbying activities in 2000 (Center for Responsive Politics 2003).

Information Disclosure Is the Key

These information disclosure strategies are beginning to connect businesses to their stakeholders in a direct way. They help backstop and reinforce the minimum standards of environmental performance that governments set, and also help align business objectives with sustainable development goals. In other words, they do not replace standard regulation, but enhance its effectiveness, encouraging businesses to adopt greener behavior to guard their reputations and market power.

Disclosure tools work because they empower the public to hold businesses accountable for their environmental performance. For example, public information about an industrial facility's emissions gives NGOs and community groups the ammunition with which to pressure the worst polluters to improve, and helps government inspectors do their jobs more efficiently. Information about a company's practices in handling toxic chemicals or managing hazardous wastes helps investors avoid companies whose operations or products might expose them to major liabilities, government fines, and expensive lawsuits. In short, public disclosure prevents corporations from relying on invisibility to avoid accountability.

Just as importantly, disclosure offers businesses potential benefits. A company's efforts to track and disclose its wastes, for example, often leads to insights that can increase process efficiency and cut costs (Danish Environmental Protection Agency 2003). Some businesses see information disclosure as positive advertising, using environmental certifications or eco-labels to distinguish themselves from poor environmental performers and to reap rewards in the marketplace. When information disclosure benefits the bottom line in this way, it helps companies develop an internal rationale for making environmentally sound decisions.

The time is ripe for disclosure tools. The cost of information collection and dissemination is falling, while the demand for information about firms and products is on the rise (Ditz and Ranganathan 1997:1; WBCSD 2002:9). That

Box 6.2 A Community's Right to Know: The U.S. Toxics Release Inventory

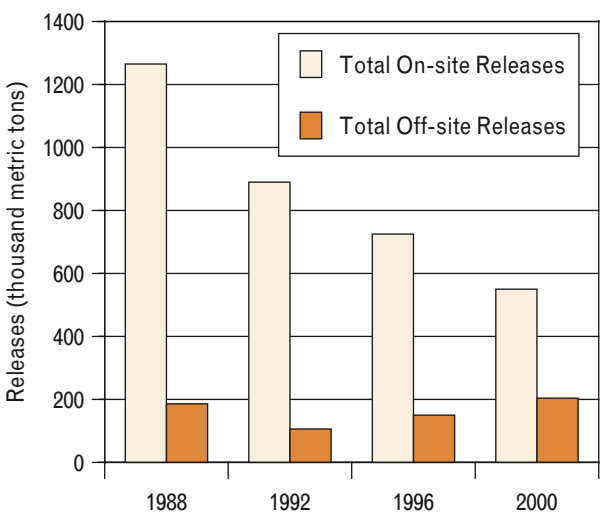
On December 3, 1984, 45 tons of methyl isocyanate gas leaked from a Union Carbide plant in Bhopal, India. Four safety mechanisms failed to stop the escaping gas, due to inadequate maintenance. The accident killed 3,000 and at least 40,000 were seriously injured (Robins 1990:106; Shrivastava 1996:121, 125).

The tragedy at Bhopal made citizens and NGOs acutely aware of their ignorance about what local industries were producing. In the United States, workers and communities had called for the right to know about chemicals in their workplaces and neighborhoods since the 1970s. Political momentum peaked in 1986, when the U.S. Congress passed the Emergency Planning and Community Right to Know Act. The legislation required the U.S. Environmental Protection Agency to establish a publicly accessible electronic database that would allow users to track the quantities of pollutants released by major businesses to air, land, and water. The database also tracked pollutants and wastes that companies transferred for various "off-site" waste management treatments such as landfill disposal, incineration, chemical treatment, or recycling.

This Toxics Release Inventory (TRI) is specifically intended to make it easy for anyone—journalist, policymaker, investor, parent—to learn exactly what and how much companies are releasing from their smokestacks and discharge pipes. The data from each facility are reported in a standard format, with standardized names for each chemical listed. Thus, they can be compared over time to determine emission patterns and to rank facilities on their emission records.

The database has proven both popular and useful. A government website offers simple instructions for searching the database, making it easy to check the record of industrial facilities (see http://www.epa.gov/tri/index.htm). Other environmental groups also offer convenient access to the data as well as explanations of pollution regulations and human health risks to help interpret the information (see http://www.scorecard.org/).

Toxic Releases in the United States, 1988–2000



Source: USEPA 2003

Ideal Business Governance

"[A responsible company] is built on the concept of eco-efficiency with its emphasis on doing more with less. It is profitable and continues to add environmental and financial value for its shareholders and to create wealth in society. It devises management systems that help it measure, monitor, and continually improve its performance in contributing to the goal of sustainable development. It conforms to best practices in its sector and reports regularly on its social and environmental performance. It has an open and transparent relationship with everyone outside as well as inside the company who has a legitimate interest in its activities—its stakeholders. It ensures that its decisions are fair and just to those affected and it encourages full participation with wide consultation with its stakeholders before it acts."
— Schmidheiny et al. 1997.

growing demand for corporate transparency and accountability is essential. Businesses don't change their behavior simply because more information about their environmental practices becomes publicly available. They change their practices when employees, consumers, NGOs, and government officials are motivated and able to use the information to force action. Or when companies themselves conclude that disclosing information will boost their competitiveness and protect their standing in the communities in which they operate.

Government-Mandated Disclosure

No business wants to be known as a big polluter. That reputation can hurt them in the marketplace, jeopardize the goodwill of neighboring communities, and invite scrutiny by regulators, investors, and environmentalists. Accordingly, governments increasingly employ the spotlight of public scrutiny to encourage businesses to behave responsibly. Rather than mandate reductions, they mandate that businesses publicly report the pollutants and wastes their facilities produce.

The TRI has inspired notable reductions in emissions from industrial facilities. Working in conjunction with other laws and regulations, the TRI has helped reduce total pollutant releases by 1.5 billion pounds (680 million kg) or 48 percent between 1988 and 2000 (USEPA 2002a:12). This comes despite the fact that the data were never intended to be used by government agents to check for regulatory compliance. Their purpose was simply to inform the public.

The power of public disclosure was clear from the start. When the first TRI data were reported, many firms showing large pollutant releases—making them polluters in the public mind—suffered declines in their stock prices (Hamilton 1995:109). The link between TRI data and public perception proved a powerful stimulus for some companies. In fact, those firms experiencing the largest stock price declines on the day that their TRI emissions were disclosed subsequently reduced their emissions more than their industry peers. Companies with the most significant drop in their stock price reduced 1.84 pounds of pollutants per thousand dollars revenue, compared to about 0.17 pounds by others in the industry (Konar and Cohen 1997:120).

Many companies found that in the long run, the TRI actually helped them. For example, TRI reporting requirements spurred the Haartz Corporation, a U.S. manufacturer of coated fabrics, to install a chemical recycling system to cut its releases of the toxic solvent MEK, saving $200,000 annually (Doa 2003:104). Other companies made reductions that saved them money in fines, and as they paid more attention to each step of the manufacturing process, the quality of their products often improved.

Of course, the TRI is not without flaws. One notable failure is that it does not require small businesses to report their emissions and wastes. Only facilities that manufacture or process over 25,000 pounds of at least one listed TRI chemical, or use more than 10,000 pounds of at least one TRI chemical need to file a report. That leaves many businesses like dry cleaners, gasoline service stations, and a variety of small manufacturers and service providers out of the public eye (Scorecard 2003). In addition, the lag time for making new emissions data available to the public averages 18 months—making it difficult for the public to track a company's current performance (USEPA 2002a; USEPA 2002b).

Another significant flaw is that the TRI offers a definite incentive to businesses to reduce certain kinds of toxic emissions, but not necessarily to reduce the total amount of waste they produce. For example, data show that the amount of "on-site" releases, such as pollutants emitted into the air in the vicinity of a factory, has decreased. But "off-site" releases—chemicals transferred for recycling, incineration, treatment, and landfill—have increased since 1988. This suggests that companies may be storing and treating more of their wastes rather than converting to processes that are inherently less polluting. While this may be an improvement over directly releasing pollutants into a sewer or from a stack, it does not reduce the overall waste stream, and may simply transfer problem substances to another community where final treatment—and potential exposure or contamination—takes place (Harrison and Antweiler 2001:17).

Table 6.1 Global Status of Pollution Registers, 2003

Countries Operating a Pollution Register

Data available to the public on emissions to all media (air, water, and land)

Australia	Ireland*	Korea	Norway*	United Kingdom*
Canada	Japan	Netherlands*	Slovak Republic	United States
Mexico (preparing regulations for new mandatory system)				

Countries that Have Taken Steps Toward a Pollution Register

Have taken concrete steps such as public reporting on pollutants in a single medium, a pilot project, or are members of EU and thus required to participate in the European Polluting Emissions Register

Austria*	Estonia*	Hungary*	Luxembourg*	Slovenia*
Belgium*	Finland*	Italy*	Malta	Spain*
Cyprus*	France*	Latvia*	Poland*	Sweden*
Czech Republic*	Germany*	Lithuania*	Portugal*	Switzerland*
Denmark*	Greece*			

Countries that Have Demonstrated Interest in a Pollution Register

Have worked with UNITAR, UNEP, or with bilateral assistance on designing a pollution register, or actively participated in preparation of the Aarhus Protocol on Pollutant Release and Transfer Registers

Albania	Brazil	Ecuador	Kazakhstan	South Africa
Argentina	Bulgaria*	Egypt	Romania*	Ukraine*
Armenia*	Chile	Georgia*	Russia	Uzbekistan
Azerbaijan	Costa Rica	Macedonia*	Serbia and Montenegro*	Taiwan
Belarus	Croatia*	Moldova*	Tajikistan*	Turkey
Bosnia and Herzegovina*	Cuba	Monaco		

Countries Using or Developing a Public Rating Program

Publicly rates compliance of industrial facilities with national pollution standards, without making public the compliance data

China	Indonesia	Philippines	Thailand

*Country signed the Protocol on Pollutant Release and Transfer Registers In Kiev in May 2003.
Note: A pollution register is also called a "pollutant release and transfer register," or PRTR.
Sources: OECD 2002; Fenerol 2003; Irwin 2003; UNECE 2003b; UNITAR 2003; vandermost 2003

Perhaps the best known example of this strategy in action is the Toxics Release Inventory (TRI) in the United States. The TRI is a plant-by-plant accounting of industrial pollution–a *pollution register*–that the government makes publicly accessible via the Internet and published reports. The TRI has been instrumental in cutting industrial pollutant releases of tracked chemicals by 48 percent from 1988 to 2000, pressuring some firms not only to comply with government regulations, but to reduce pollution beyond their legal obligation (USEPA 2002:12). (See Box 6.2.)

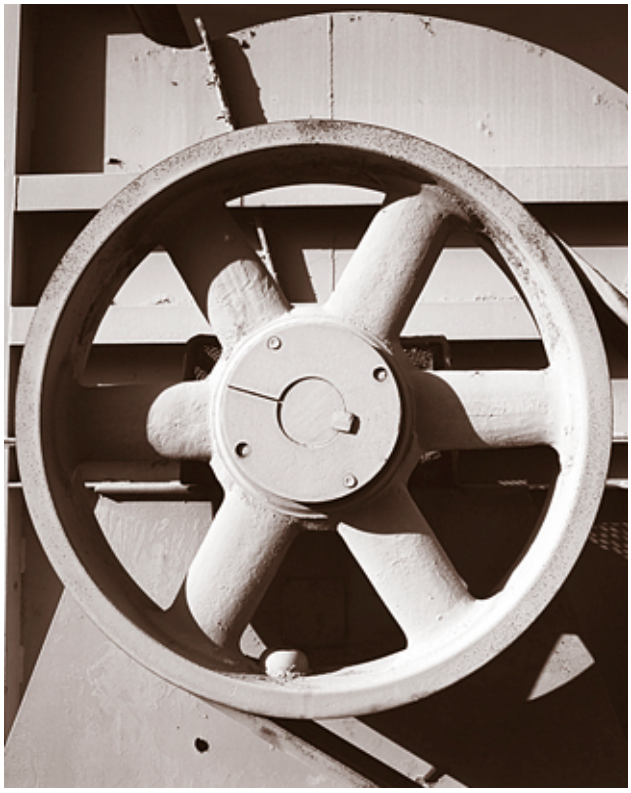
The United States, Canada, the Netherlands, Norway, and the United Kingdom all have at least a decade of experience operating comprehensive pollution registers like the TRI. In response to the success of these registers, other governments have instituted or are in the process of creating their own national pollution registers, which are generically termed "Pollutant Release and Transfer Registers" or "PRTRs." Today, about 60 countries have developed or are in the process of developing such registers (Petkova et al. 2002:54; Irwin 2003). (See Table 6.1.)

Success of Pollution Registers

Pollution registers are clearly providing information that interests and empowers citizens, investors, and reporters. Since the first release of TRI data in 1989, these pollution listings have become the subject of media reports. Journalists were particularly likely to report on a company with pollution concentrated at a few facilities, or on large chemical releases from companies that were not traditionally considered big polluters, such as those in the paper industry (Hamilton 1995:107).

The TRI data has affected the decisions of stock market investors as well. On the day that TRI data first became available in 1989, the companies included in the inventory suf-

Within 2 days of its rollout, some 3 million Internet users visited the Canadian *Pollution Watch* website and sent 1,200 faxes to polluting companies listed there.



fered statistically significant declines in the market value of their stock. For companies whose emissions were the subject of a media story, the loss in stock value was greater–an average of $6.2 million, according to one analysis. The negative investor reaction reflected the change in expectations about a company's likely pollution-related costs (Hamilton 1995:109–110; Konar and Cohen 1997:112). In other words, investors were surprised by the quantity of pollution their companies produced, and worried about negative publicity and potential clean-up costs.

For communities with the capacity to organize themselves, TRI data can provide a useful bargaining chip to pressure companies to reduce emissions from local factories. Companies cite local activism as one significant factor in their management decisions (Hamilton 1999:106–7, 112, 118), and TRI data are clearly a tool that activists have begun to use. Between 1989 and 1994, for example, public interest groups and local activists used TRI data in over 200 reports to give substance to their demands to lower pollutant emissions (Orum 1994:1). Today, citizens in any community in the United States can use the Internet to print a tailored emission report from the TRI database for their county, and can even send a message or question about their findings to the government.

The Canadian National Pollutant Release Inventory (NPRI) has followed a course similar to that of the TRI, providing communities and consumers with information that they have used to pressure Canadian companies to reduce their emissions. Within 2 days of its rollout, some 3 million Internet users visited the *Pollution Watch* website created by Canadian NGOs to give easy access to NPRI data, and sent roughly 1,200 faxes to polluting companies listed there (Antweiler and Harrison 2003:497).

Some Shortcomings

Although countries have adopted pollution registers with unusual speed, governments face numerous obstacles implementing them. For example, companies may not know how to estimate their pollutant releases. They are often unaccustomed to sharing information with the public and fear that the data will be misinterpreted, bring bad publicity, or reveal confidential information about their operations. Governments often find it difficult to align the data that companies report with the information governments collect separately for enforcement purposes. Enforcement-related data may be fragmented among different government departments focused on air emissions, water discharges, and waste, each with its own approach and monitoring criteria. The absence of common or legal definitions–for example, how to define waste–can be a problem as well.

In addition, while pollution registers are clearly a useful and accessible source of information on company behavior, they do not give a complete picture of all pollutant releases. In general, they track only a fraction of the more than 210,000 substances that are regulated or covered by chemical inventories worldwide (CEC 2002:75). For example, the U.S. TRI tracks about 650 chemicals (USEPA 2002:1). Most pollution registers do not apply to small companies or those that manufacture or process less than some threshold amount of listed chemicals, and most do not report toxic releases from use of consumer products such as automobiles.

Nor do the reporting requirements of pollution inventories apply to all economic sectors–a fact which can skew the public's understanding of pollution problems. For example, until 1998 the metals mining sector was not required to report to the U.S. TRI. Only when mining companies were added to the inventory did it become clear that that sector's emissions were higher than that of any other economic sector–accounting for 47 percent of total releases in 2000 (USEPA 2002:2).

Expanded Disclosure

There is momentum at the global and regional levels for wider adoption of pollution registers. In 2001, the environment ministers of the G-8 countries–large industrialized democracies who meet regularly to discuss major economic and political issues–committed to promoting compatible pollution registers. They agreed that these registers should include core chemicals like persistent organic pollutants, heavy metals, and ozone depleting chemicals.

Pollutant registers have garnered international interest since the Rio Earth Summit in 1992. As part of a broader call for public access to information, the Rio Principles–endorsed by all the nations attending the conference–specifically mention access to information on hazardous materials. Agenda 21, also adopted at Rio, urges countries to adopt chemical inventories based on a community's "right to know."

The Organisation for Economic Co-operation and Development (OECD) took up this call in the mid-1990s. Through a series of workshops involving NGOs, businesses, and national governments, OECD prepared guidelines to help governments construct pollution registers, and encouraged its 30 members to establish such registers and share their experiences in implementing them.

At the same time, regional organizations have begun to develop pollution registers as well. In the mid-1990s, the North American Commission for Environmental Cooperation started publishing an annual "Taking Stock" report, which tracks trends in pollutant releases in Canada and the United States (and Mexico, when its new pollutant register starts generating data). The European Union is also pursuing a multinational register, the European Polluting Emissions Register, which will begin reporting data in 2003. This new register will include greenhouse gases, but does not yet track toxic chemicals contained in waste.

A significant and ambitious advance in the adoption of pollution registers came in January 2003, when a broad coalition of countries completed negotiations on a binding "PRTR Protocol" under the Aarhus Convention (see Box 1.7). In May 2003, 36 nations and the European Union signed the PRTR Protocol–the most significant expansion of mandatory disclosure requirements to date (UNECE 2003c; 2003a). Nations ratifying the treaty, which was negotiated under the auspices of the United Nations Economic Com-

Box 6.3 The Polluters Exposed: The Power of Indonesia's Public Ratings Program

In 1995, Indonesian manufacturing was growing at 10 percent a year and the government had only limited ability to enforce its environmental regulations (Wheeler 2000:64). Then, the budget-strapped Environmental Impact Management Agency ("BAPEDAL") took a new approach to regulation. It designed the Program for Pollution Control, Evaluation and Rating, or "PROPER," to rate the water pollution produced by 187 medium and large industrial plants. Performance ratings were based on the government's existing data on compliance with water regulations, responses to a survey about effluent discharges, and rigorous on-site inspections (Afsah et al. 2000:7–8).

In June 1995, when BAPEDAL completed its initial analysis, it rated only 35 percent of the plants as "in compliance"(Afsah 1998:17). Rather than immediately publicize the names of the noncompliant plants, parent companies, and managers, BAPEDAL privately notified the offending facilities that they had six months to cut pollution and improve their rating before public disclosure (Afsah et al. 2000:9). By December 1995, half the bottom-ranked companies had reduced their pollution enough to improve their rating and avoid negative reactions from communities, and tarnished reputations (Wheeler 2000:65–66).

BAPEDAL then released the results to the media. By early 1997, more than 50 percent of the plants tracked were in compliance (Afsah 1998:18). (See Figure.) Eighteen months after the project's inception, total organic water pollution from the monitored plants had declined 40 percent—at a cost of only about $100,000 to the government and only $1 a day to the plants (Wheeler 2000:71). At the same time, BAPEDAL improved its pollutant tracking system and boosted its credibility with industry, NGOs, and the public (Afsah 1998:23; Wheeler 2000:68). Surprisingly, improvements at facilities were motivated as much by the information that senior management gained about their plant's environmental performance as by the external disclosure of ratings. In most cases, plant managers had simply not understood the level of wastes they were releasing and the associated business costs (Afsah et al. 2000:12–13, 17).

The PROPER program does not disclose raw data about factory emissions, just a rating of compliance with environmental standards. But because it provides government-certified performance information in a format that is easy for the media to report and the public to understand, it still helps communities negotiate pollution control agreements with neighboring factories, and points consumers and activists to companies with superior performance.

The PROPER approach is spreading rapidly in Asia as a low-cost and effective method of spurring better industrial performance. In 1997, a Philippines pilot program modeled on PROPER boosted compliance among the 52 factories it monitored from 8 to 58 percent in 18 months (Wheeler 2000:73). China, India, Thailand, and Vietnam are among the countries in the region that are interested in or currently testing systems of corporate ratings and public disclosure (Afsah 1998:22).

mission for Europe, commit to establish compatible registers that report pollution emissions and transfers of a core list of 86 pollutants. The protocol suffers from many of the weaknesses of other pollutant registers, including a relatively small list of pollutants and the public's limited ability to demand expansion of the list. In addition, it includes a provision whereby companies may claim some emissions as "confidential," barring information on these emissions from public release (ECOSOC 2000; European ECO-Forum 2003; UNECE 2003b).

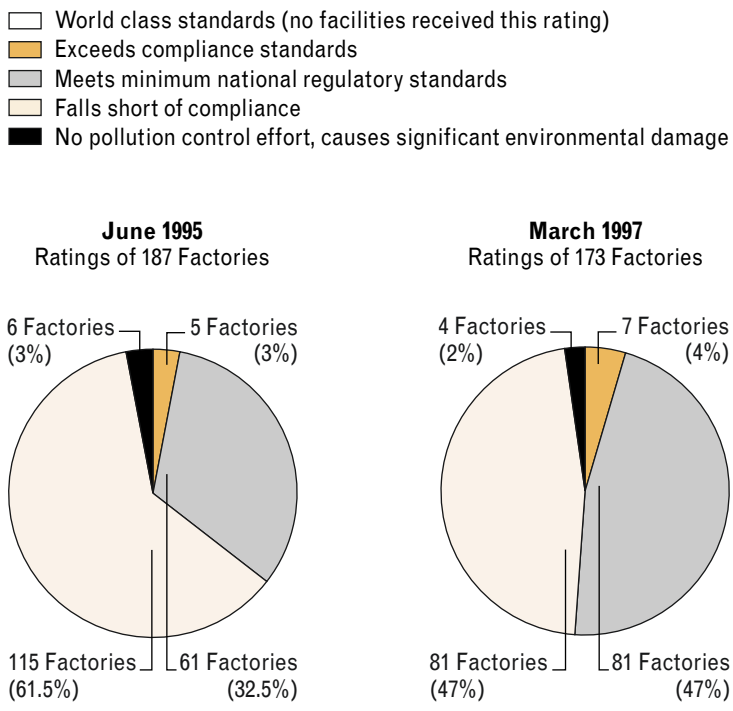
However, the treaty also contains some progressive elements. Its pollutant list includes greenhouse gases, a number of pesticides and toxic metals, and even some chemicals shown to disrupt the human endocrine system. In addition, it demands emissions reporting from companies involved in a wider range of activities than do many current pollution registers. For example, it includes the energy sector (except the nuclear power industry), as well as intensive livestock and fish-farm operations (European ECO-Forum 2003; UNECE 2003b:1–2).

While the primary focus of the PRTR protocol is still large, concentrated point sources of pollution–such as individual factories and power plants–it also provides a framework for reporting on pollution from diffuse sources such as motor vehicles, agriculture, and small- and medium-sized businesses that usually escape reporting requirements (European ECO-Forum 2003; UNECE 2003b:1–2).

Beyond Pollution Registers

Pollution registers are not the only kind of corporate environmental disclosure that governments mandate. Since the mid-1990s, a number of countries have required some companies to report on aspects of their environmental performance. For example, a 1996 Danish law requires over 1,000 companies to submit "green accounts"–reports that detail raw materials used and waste produced. The reports must include specific types and volumes of a variety of pollutant discharges, including toxic chemicals contained in company products, and even noise and odors. In addition, companies are required to state any significant changes in releases from previous years and the underlying reasons for these changes, so that readers can better track trends over time (Danish Environmental Protection Agency 2003). A 2001 French law requires companies listed on the French stock exchange to issue reports detailing their environmental and social performance (KPMG

Scoring Indonesia's Industries: PROPER Ratings



Source: Afsah 1998:17

Meanwhile, in spite of its success, the PROPER program went into "hibernation" in 1998 due to the financial crisis in Indonesia, and is only now re-emerging with a new round of ratings slated for 2003. The restarted program will benefit from several improvements meant to strengthen its value as a measure of corporate responsibility. In addition to its technical review of company compliance with pollution regulations, the new ratings will also use indicators meant to probe a company's relationship with local communities. These indicators may include the number of complaints the company receives, court cases filed against it, negative media reports, or the results of community surveys on company performance. Negative reviews from local communities will make companies ineligible for the highest ratings category even if their regulatory compliance is adequate (Afsah 2003; Wheeler 2003).

The return of the PROPER program after four years of hibernation is a testament to its inherent strength and continued relevance. However, the hiatus stands as an important lesson in the vulnerability of enforcement programs during times of economic contraction—particularly if they are not yet considered part of the core mandate of an agency or do not have a source of dedicated funding.

2002:14, 29; SustainAbility and UNEP 2002:12).

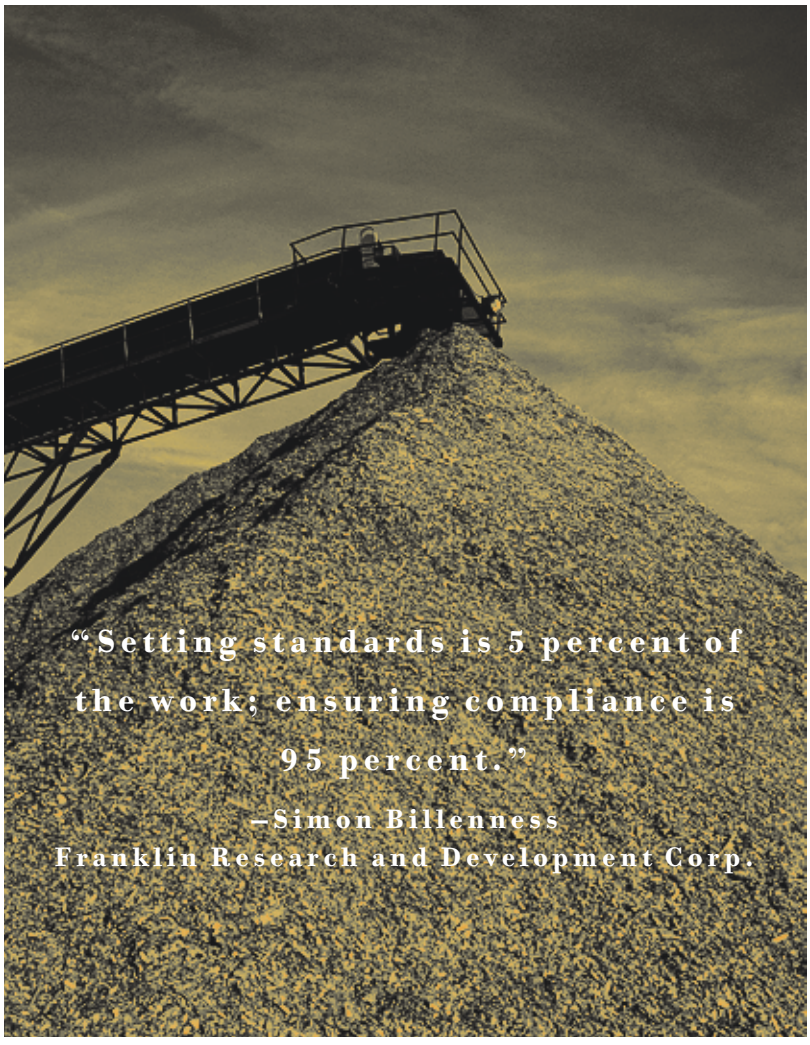
Some governments are experimenting with methods to encourage disclosure that are not as comprehensive or expensive as pollution registers. For example, Indonesia has created a pollution disclosure program that publicly rates the compliance of industrial facilities with national pollution regulations, but does not reveal specific data on company emissions as pollution registers do. Other nations in Asia have expressed interest in adopting this low-cost approach to disclosure (see Box 6.3).

Voluntary Corporate Disclosure

Since the 1980s, thousands of companies have voluntarily issued reports on their environmental performance. Some have commissioned environmental audits that disclose compliance with regulatory requirements and long-term environmental liabilities. Others have committed to environmental "codes of conduct"—sets of general principles and overarching goals meant to guide a company's day-to-day practices. Still others have sought to have their products or the way they run their businesses certified by independent third parties as "environmentally sound."

This growing array of voluntary initiatives provides routes to accountability that businesses themselves find more acceptable. To some extent, adoption of these voluntary practices reflects the acceptance by many companies that they must address public expectations of their behavior forthrightly. On the positive side, evidence shows that some voluntary measures have helped reduce pollution, increase company eco-efficiency, or boost competitiveness. They may also have helped businesses avoid more costly regulation and saved governments some regulatory expense (Schmidheiny et al. 1997:148).

But in practice, voluntary initiatives have several weaknesses that limit their ability to drive better environmental performance on a significant scale. Despite huge growth in voluntary programs of disclosure and environmental certification, the number of corporate sectors and companies involved remains relatively small (Utting 2002:63). Codes of conduct and environmental certification schemes often lack clear targets, measurable outcomes, or deadlines for improvement. Corporate reports issued voluntarily may supply a wealth of data, but not necessarily the information that regulators, investors, consumers, and communities need to assess company performance, or to hold corporations accountable for their commitments to good environmental citizenship.



Corporate Codes of Conduct: Accountability or Public Relations?

In the last two decades, many corporations in the United States and Europe have adopted codes of conduct that publicly spell out general rules of corporate behavior on social and environmental issues (Jenkins 2002:1; SustainAbility and UNEP 2002:5). These codes vary widely, depending on whether the company itself designs the code, or whether it is crafted by an outside entity such as a trade association or a group of NGOs, investors, or other stakeholders.

Company-generated codes are developed primarily by corporate management. They are often broad statements of business ethics and commitments to responsible labor, environmental, and safety practices. An early and influential example is the "Global Sourcing and Operating Guideline" that Levi Strauss & Company adopted in 1991 to manage the labor practices of its global chain of apparel suppliers (Jenkins 2002:12). The code commits Levi Strauss to work only with suppliers who do not use child or prison labor, who maintain reasonable work hours and benefits, who permit union organizing, and who maintain adequate health and

safety standards (Levi Strauss & Co. 2003). Levi Strauss consulted with NGOs and based its code on principles elaborated by the International Labour Organization and United States labor law (Butler 2003).

Another common approach is for a trade association to develop a code, which is then adopted by a group of firms. The idea here is to commit a whole business sector to a certain minimum standard of practice, with peer pressure helping to enforce compliance. For example, the Kenya Flower Council, representing a group of Kenyan growers and exporters of cut flowers, crafted a "Code of Practice" that commits members to minimize pesticide use, dispose of chemicals safely, and be audited on their commitments twice a year (Kenya Flower Council 2003).

Some codes are crafted through negotiations among diverse stakeholders, including non-governmental organizations, and these tend to be more exacting and insistent on accountability measures. One example is the Forest Stewardship Council's (FSC) code for forestry operations–a set of standards for sustainable management of timber-producing lands that harvesters must prove they meet in order to market their wood as "certified" and to use the FSC trademark logo (FSC 2003). Some NGOs also propose model codes of conduct that they'd like to see industries follow. Amnesty International, for instance, offers a set of human rights principles that companies can use in building their own code of conduct (Amnesty International 1998).

Finally, a few codes have been drafted by intergovernmental bodies, such as the Organisation for Economic Co-operation and Development (OECD). The OECD's "Guidelines for Multinational Enterprises" is a set of voluntary principles and standards for good business conduct in a range of areas such as product safety, environment, labor management, and public disclosure. Governments who accept the Guidelines agree to promote these principles to the multinational companies in their countries. However, the code and its principles remain advisory only, with no method for tracking or ensuring compliance (OECD 2000:6, 15, 17–24, 41).

Are Codes Effective?

To the extent that codes of conduct inspire corporations to examine their business practices, expand their disclosure to stakeholders, and offer substantive commitments for self-regulation, they can be valuable tools. For example, the "Responsible Care Program"–a detailed code of conduct followed by many of the world's major chemical manufacturers–has reportedly led to significant changes in how chemical companies conduct business and interact with local communities.

The Responsible Care Program was first adopted by Canadian chemical corporations in 1986 and subsequently by the International Council of Chemical Associations in the 1990s. It has since spread to chemical manufacturers in 47 countries. The code commits companies to responsibly manufacture, store, and ship chemical products, and to actively communicate with the communities in which they work (ICCA 1999; ACC 2002; ACC 2003).

Although some experts question the effectiveness of Responsible Care, industry members cite significant results. The Canadian version of the Responsible Care program, which requires public reporting on emissions of certain pollutants, points to a 50 percent reduction in total discharges from 1992 to 1996 (Harrison 1999:37). The American Chemistry Council says that its members, which must all actively participate in the U.S. program, reduced their toxic chemical releases by 58 percent from 1988 to 1997, while increasing production by 18 percent (ACC 2002). It is not clear, however, how much these reductions stem from adherence to the Responsible Care code, as opposed to stricter government regulations or other factors (Harrison 1999:37).

If crafted properly, industry codes of conduct can provide civil society with a lever for pushing corporations to improve their performance, actively involve citizens and communities in key decisions, and provide more information on their operations and impacts. Comprehensive codes that are monitored and independently verified can give stakeholders a means of influencing corporate behavior in places where government policy or regulatory enforcement are weak. For example, in El Salvador, the Gap clothing company set up an independent monitoring group in cooperation with the Interfaith Centre on Corporate Responsibility, Business for Social Responsibility, and the National Labor Committee to verify the Gap's compliance with its corporate code (Jenkins 2002:44).

Codes of conduct that are the basis for product certification or eco-labeling programs can give consumers greater access to information about the environmental and social impacts of products. Many codes foster the "greening" of the supply chain by asking signatory companies to extend the concept of responsibility to the activities of their suppliers as well as their subsidiaries (Jenkins 2002:49).

A Limited Tool

To be meaningful, codes of conduct must contain clear provisions to implement the broad principles they espouse. To be credible to the outside world, they must also contain requirements for monitoring the performance of the companies that adopt them. Ideally, an independent party, rather than the company itself, should conduct the monitoring. Unfortunately, very few codes of conduct contain such provisions, leaving the public little means of assuring that companies really do what their codes promise (Jenkins 2002:43).

Codes of conduct are often vague, sometimes consisting of little more than broad declarations of business principles, and lacking specific targets or behaviors that can be measured. For example, fewer than 40 of 587 corporate action plans submitted to Canada's Voluntary Challenge and Registry for greenhouse gases contained targets for reduced emissions (Harrison 1999:44).

Codes also tend to be limited in their application. They cover only a limited number of industry sectors and, within those sectors, a limited number of companies. These companies tend to be clustered in industries with high profiles or controversial practices. In a 2000 survey, the OECD found that corporate codes of conduct focusing on the environment are concentrated in the chemical industry, the oil industry, the forestry sector, and the mining sector–industries with significant and visible environmental impacts and hazardous processes (Jenkins 2002:34–35).

Codes are also popular among large retail chains, especially those that do business in Northern markets where expectations about labor and environmental standards are high. These companies all tend to be name-conscious and thus easy targets for NGO and consumer pressure, making them more willing to go on record with their commitments. In those business sectors where public pressure is not as keen, codes of conduct are less popular (Jenkins 2002:34–35, 41–45).

One of the most significant shortcomings of codes as an accountability mechanism is the lack of independent performance monitoring. The OECD found that only 10 percent of the 246 codes it surveyed included provisions for external monitoring. Provisions for monitoring by outside groups are more common in sector-wide codes and codes initiated by NGOs than in those established by individual companies. Monitoring by companies themselves is somewhat more common. A survey by Kolk et al. found that in about 40 percent of cases, companies assigned themselves the task of monitoring code compliance, rather than require an independent monitor (Jenkins 2002:43–44).

Codes of conduct can become little more than public relations ploys when they lack monitoring and enforcement. In some cases, companies have adopted carefully worded codes, only to ignore their application. A *Wall Street Journal* investigation of clothing subcontractors in Guatemala–factories that supplied apparel for retail chains in the United States–found that compliance with code provisions was spotty, inspections rare, and inspectors usually more interested in assuring product quality than code compliance (Ortega 1995:A1; Broad and Cavanagh 1998:24).

Greater standardization and mechanisms for accountability would help codes fulfill their potential. As one researcher noted: "Setting standards is 5 percent of the work; ensuring compliance is 95 percent" (Ortega 1995:A1). Even the Global Compact, a United Nations-sponsored initiative of nine principles of corporate responsibility, leaves much open to debate about what the principles mean in practice. More than 700 companies have signed on so far. The compact may help multinational companies share experiences and set strategic goals, but does not insist that companies make specific commitments or achieve those goals. Monitoring arrangements are informal and the principles are general in nature (United Nations 2003).

Similarly, the OECD's Guidelines for Multinational Enterprises lack specific mandates for "good" company behavior,

legal sanctions for violations of the guidelines, or other formal modes of accountability. However, governments do promise to put in place a "National Contact Point" to investigate noncompliance. To date, 37 nations have signed the guidelines (OECD 2000:6, 11–22, 32; Aaronson 2001; OECD 2003).

Even the strictest code is no substitute for regulation. In fact, the effectiveness of codes of conduct relies in part on the regulatory structure already in place. Many corporate codes, for example, require compliance with local regulations. Even more important to effective codes is the credible threat of additional regulation in the future if corporations do not meet certain standards of expected behavior. A survey by the European Commission in 1997 found that roughly two thirds of the industries polled cited the potential to forego or postpone new regulations as the main reason they committed to voluntary environmental agreements such as corporate codes of conduct (Harrison 1999:45–46; Jenkins 2002:51).

Voluntary Environmental Reporting: Better Disclosure?

The environment has crept into corporate reporting in a big way in the last decade. A corporate report is no longer necessarily just a statement of profits and losses. In conventional annual reports and special "sustainability reports," businesses are also disclosing diverse elements of their environmental and social performance.

Reporting practices vary widely. Ricoh Japan publicly reports on the environmental impact of its key products, such as photocopiers, through their entire life cycle, rather than just after manufacture. Suncor Energy of Canada calculates the greenhouse gas emissions its products generate once in use. Chiquita, a tropical fruit grower, assesses the environmental aspects of its Latin American farms. Australian utility Sydney Water estimates the company's "ecological footprint"–a measure of its impact on the natural environment (SustainAbility and UNEP 2002:36–40).

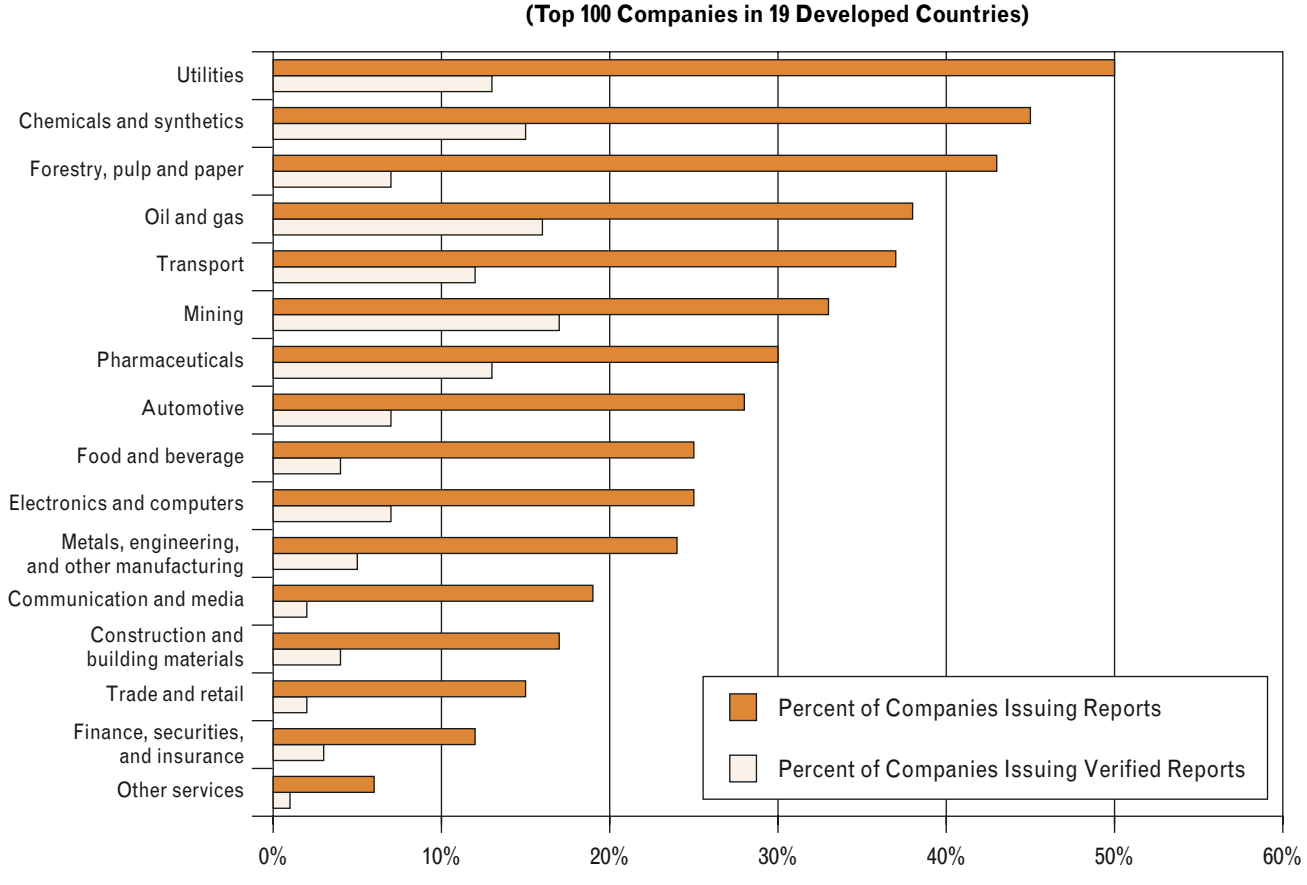
To be sure, some of this new trend toward environmental reporting is driven by compulsory regulation, such as mandatory disclosures for state pollution registers, or France's new law mandating sustainability reports from publicly traded corporations. But thousands of companies are also *voluntarily* sharing information on their environmental impacts and policies. Many–but not all–of these reports demonstrate that companies are capable of meaningful voluntary disclosure.

In the early 1990s, perhaps only a few hundred companies produced environmental reports (Irwin et al. 1995:5). Globally, 7,000–10,000 corporations now publish environmental reports each year (Rikhardsson 1998). Forty-five percent of the 250 largest companies in the world produce such reports (defined as social, sustainability, or health, safety and environment reports) (KPMG 2002:6). In spite of this tremendous growth in reporting, the number of firms issuing environmental reports still represents only a small fraction of all companies.

The willingness to issue a voluntary environmental performance report varies across business sectors. Industrial sectors appear to report more than non-industrial sectors. Larger multinational companies with a high public profile are also more likely to report (Adams et al. 1999:315; KPMG 2002:13).

Figure 6.1 Voluntary Corporate Reporting by Sector; Level of Third-Party Verification, 2002

(Top 100 Companies in 19 Developed Countries)



Source: KPMG 2002:19

(See Figure 6.1.) For small companies, the cost of reporting can be daunting. Preparing environmental or social reports can cost hundreds of thousands of dollars. Arranging for independent auditing of the results to increase a report's credibility adds even more to the cost. The Body Shop, for example, spends $750,000 annually on its sustainability report, and a large transnational corporation like Shell Oil could spend far more to gather, analyze, and disseminate its environmental performance data (Bennett and James 1999:62).

Increased voluntary reporting is a response to pressure from governments, NGOs, the financial community, and consumers. In the United Kingdom, the government uses the tactic of "naming and shaming" prominent companies that have not produced a corporate environmental report (Bennett and James 1999:53). The corporate accounting scandals that surfaced in 2002 in the United States, Europe, and Asia have also focused attention on the need for corporations to more fully account for their actions. In addition, some companies see their environmental reports as ways to distinguish themselves from less responsible or less savvy companies, or to identify cost-cutting opportunities.

Benefits and Problems

In theory, corporate environmental reports should be a key vehicle that companies can use to demonstrate transparency on their own terms, providing stakeholders with select but verifiable information they can use to assess company behavior. Some companies have gone far in achieving this end by measuring and reporting on key areas of performance, such as energy use or waste production, while also giving sufficient context to make the information useful.

Overall, however, environmental reporting by businesses has not come close to its potential as an accountability tool. To reach that potential, the quality of reporting must improve so that the information is more relevant and understandable. At the same time, stakeholders must trust the reliability of this information and be able to use it to compare a company's performance over time and against other standard measures of performance (Bennett and James 1999:63; WRI and USEPA 2000:7).

Currently, the quality and content of corporate environmental reports varies widely. Some reports simply state the corporation's environmental commitment and goals for improvement, without significant data or interpretation. Others offer a wealth of data, but it is often focused on product safety, hazardous waste, or other compliance information taken from mandatory reports to the government, rather than environmental performance variables that would give a fuller picture of the company. Such variables might include energy and raw materials usage; the amount of waste packaging produced per unit of production; or how much material is recycled (Outen 1999:6; White and Zinkl 1999:118).

One notable trend is that company environmental reports are getting longer and more detailed. A 2002 survey of 100 corporate reports by SustainAbility and the United Nations Environment Programme found that the average length of reports grew 45 percent in two years. However, the surveyors concluded that the added girth did not, in general, improve the quality of reporting. In fact, the additional facts were more likely to confuse than illuminate readers (SustainAbility and UNEP 2002:2).

This is because much technical information does not lend itself to easy interpretation. For example, a report might include data on the total amount of materials a company uses in its factories. But unless the company offers statistics for multiple years or comparisons to the amount of materials used by other industry peers, the information may have little meaning to a local watchdog group or the general public.

The problem of comparability is also a concern. Because voluntary reports typically present dissimilar types of infor-

mation in various formats, and use different measurement standards, it is virtually impossible to use these reports to compare firms, facilities, or products (Ranganathan 1998:3; Skillius and Wennberg 1998:39). For example, Monsanto Company does not report data on its energy use, so it cannot be compared in this aspect of environmental performance with Dow Chemical, which does (White and Zinkl 1999:119).

Financial analysts and shareholders–an audience companies identify as one of the targets of their environmental reports–also struggle to find information that is relevant to their interests. These users typically want to see information on the financial risks a company faces from its environmental liabilities, and the potential pay-off from its investments in environmental best practice (WRI and USEPA 2000:10; WBCSD 2002:19). This kind of information is hard to glean from many reports.

Box 6.4 The Global Reporting Initiative

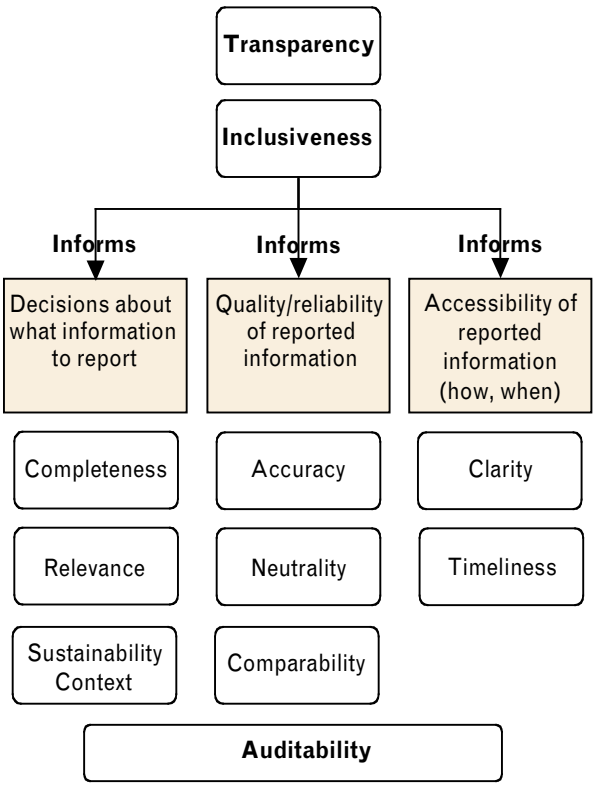
The Global Reporting Initiative (GRI) is an internationally recognized standard for "sustainability reporting"—that is, reporting on the combined environmental, social, and financial performance of a company. The GRI's corporate reporting guidelines, which have been evolving since 1997, incorporate input from nongovernmental organizations (NGOs), corporations, accounting organizations, business associations, academics, and other stakeholders worldwide. The guidelines do not tell companies what they should and should not do, but lay out criteria for what kind of information to provide to investors and other stakeholders.

A set of eleven principles, including transparency, completeness, and comparability, as well as a list of key indicators—performance measures that companies can quantify and track over time—help firms structure their reports. The guidelines also contain special supplements for companies in different business sectors, as well as technical protocols on how to measure and report on the various performance indicators. Part of the GRI goal is to help an enterprise understand the relationship between its financial performance and its environmental and social performance. The GRI is also designed to provide reports that will invite further stakeholder dialogue and inquiry (GRI 2002:1–56).

More than 200 companies have released reports based on the GRI guidelines, with the highest numbers coming from firms in the United States, Japan, the United Kingdom, and Australia (GRI 2003). The initiative clearly is motivating good reporting. A recent review of corporate sustainability reports found that 60 percent of the "best reporting companies" (based on completeness, innovation, and effort to integrate environment reporting into business decision-making) used the GRI guidelines (SustainAbility and UNEP 2002:14).

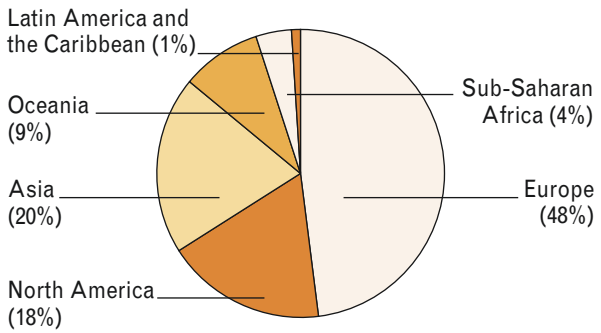
But the GRI has its shortcomings. Like most corporate reporting initiatives, the GRI does not require third-party verification that reports conform to the guidelines or are complete and honest (SustainAbility and UNEP 2002:17).

GRI Reporting Principles



Source: GRI 2002: 23

Regional Distribution of Companies Following GRI Guidelines, 2003



Source: GRI 2003

Audits and Reporting Guidelines

Can the information that companies voluntarily supply in their reports be trusted? The 2002 financial scandals–from Enron to WorldCom–increased public skepticism about the quality and honesty of corporate reporting (SustainAbility and UNEP 2002:2).

To increase confidence in their reporting, some companies, such as Chiquita Brands International, voluntarily have their reports audited or "verified" by a third party. In Chiquita's case this involves using two separate processes to certify performance against specific standards–one set by the Rainforest Alliance's Better Banana Project, and another by an international labor standard. Chiquita's report spells out its compliance, along with areas of concern expressed by the auditors, and the company's response to these concerns (Chiquita Brands International Inc. 2000). But auditing or verification is not common. Recent surveys estimated that just 27–28 percent of corporate environmental reports are independently verified (Elkington et al. 1999:337; KPMG 2002:18). (See Figure 6.1.)

The issue of credibility of company environmental reports is serious enough to discourage some companies from even attempting such a report. These businesses simply aren't convinced that reporting will benefit their reputation with customers or help the company to be more efficient–at least not enough to justify the cost (Bennett and James 1999:55). They believe that some stakeholders won't trust the information even if it is verified. In addition, many business leaders already feel besieged by requests to provide information to regulators, investors, and the public, and can't decide which data will be most useful to provide (Outen 1999:6).

To address these concerns, there is a concerted effort underway to provide companies with guidelines for structur-

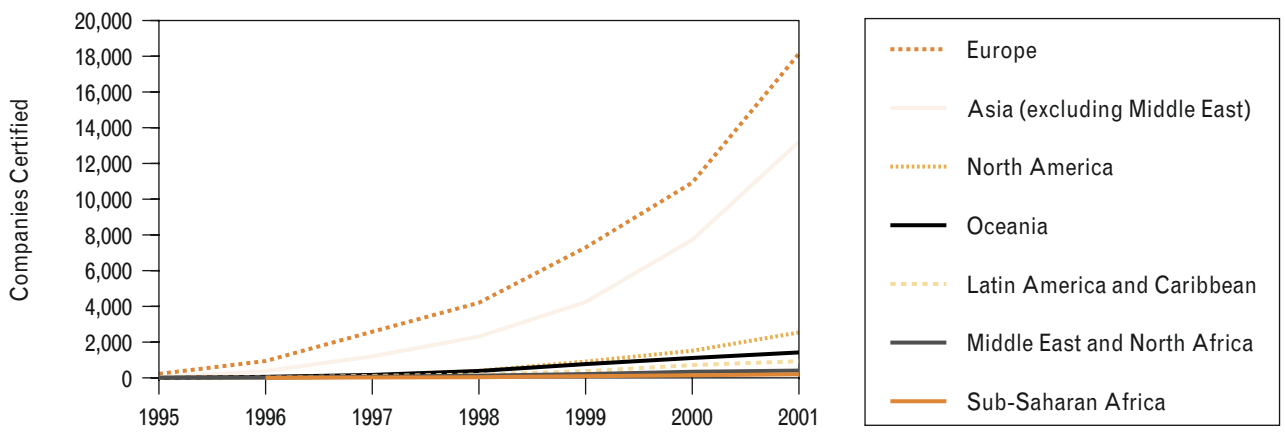
Box 6.5 ISO 14001: A Standard for Environmental Management Systems

Almost 37,000 facilities have adopted the ISO 14001 standard for Environmental Management Systems since it was published in 1995 (ISO 2002:5). At a minimum, organizations that adopt the standard accept the responsibility to (Andrews et al. 2001:32):

- Adopt a written environmental policy;
- Identify all significant impacts of their activities, products, and services;
- Set objectives and targets for continuous improvement in environmental performance;
- Assign clear responsibilities for implementation, training, monitoring, and corrective actions;
- Evaluate and refine the management system over time to achieve continuous improvement.

Just 17 percent of the companies adopting the ISO 14001 standard are in developing countries (ISO 2002:24–28). Nonetheless, this voluntary standard may ultimately prove most useful in rapidly developing countries such as China, India, Thailand, and Indonesia—places where compliance costs may make inflexible regulatory standards a poor choice, and where the capacity to enforce formal regulations is lacking (Panayotou 2001:113).

Growth in ISO 14000 Certifications, 1995–2001



Source: ISO 2002:24–28

ing their environmental reports. The intent is to encourage companies and customers to see environmental reporting as a standard business practice that is both predictable and trustworthy. More than 30 organizations worldwide have developed environmental reporting guidelines. Most offer loose guidelines for what should be reported, but some–perhaps less than one third–put forth specific standards and metrics (Ranganathan 1998:9–11).

One of the best-known and most specific set of guidelines comes from The Global Reporting Initiative (GRI), which offers both general reporting principles and specific guidance to different business sectors so that reports are more standardized, rigorous, and consistent. (See Box 6.4.) However, other guidelines exist as well, such as the World Business Council for Sustainable Development's set of indicators for tracking eco-efficiency, and Australia's Public Environmental Reporting Framework. This raises a concern that businesses may still find it difficult to converge on a reporting framework that is universally accepted (Ranganathan 1999:479, 489).

Environmental Management Systems

Since the mid-1980s, thousands of firms worldwide have developed Environmental Management Systems (EMS). An EMS is an internal set of policies and procedures that define how a company will manage the environmental impacts of its operations. For example, a company might rewrite its standard operating procedures to require employees to monitor not just plant cleanliness, but also compliance with its waste, air, and water permits. Or a firm could establish consistent rules for safer waste disposal at all its facilities. Or an EMS might commit company managers to regularly review the environmental impacts of their products as they are transported, resold, used, or thrown away, and to sever a business relationship with a customer that does not use the firms' products safely (Andrews et al. 2001:32; Coglianese and Nash 2001:12). (See Box 6.5.)

From the business perspective, an EMS can help managers exceed legal requirements for environmental compliance, but at a lower cost than formal regulation, since companies can design their own approaches. As with other voluntary measures, businesses may also adopt an EMS to help distinguish themselves from competitors, appease NGOs, and head off mandatory regulations.

But do Environmental Management Systems actually help promote corporate responsibility and increase their accountability to stakeholders? Some analysis suggests they might. A recent survey of almost 600 manufacturing plants found that factories using an EMS were more likely to have adopted improvements in the areas of recycling, air emissions, solid waste reductions, and electricity use. They were also two to four times as likely to share information about their environmental practices with neighbors and environmental groups, and much more likely to use Citizen Advisory Councils to help them address community concerns (Florida and Davison 2001:91). But other evidence is less positive. A survey of chemical companies found that EMS adoption had generally helped firms improve their relationships with outside groups, but often without significantly changing the companies' internal behavior (Metzenbaum 2001:163).

An obvious factor in the effectiveness of an EMS is whether it meets certain recognized standards. Firms can design their own EMS, but thousands are opting to follow and gain accreditation by either of two international standards: the International Organization for Standardization's ISO 14001 standard, and Europe's Eco-Management and Audit Scheme (EMAS). The EMAS has more stringent requirements on disclosure. It requires companies to issue an independently verified site-specific report on its energy and materials use, waste generation, pollutant releases, and noise, among other impacts.

By comparison, the increasingly popular ISO 14001 standard is much less prescriptive. It simply calls for a company to have a system in place for examining its environmental impacts and to commit to continuously improving that system. It does not specify what environmental goals companies should set or what performance measures they should use, nor does it require facilities to publish a public environmental report. In fact, no reporting of facility inputs or outputs is required for certification under the ISO standard (Ditz and Ranganathan 1997:27; Nash and Ehrenfeld 2001:70–71).

Use of ISO 14001, EMAS, or other standards to set concrete goals and commitments to forthright communication with stakeholders could benefit corporate accountability and performance (Ditz and Ranganathan 1997:27–28). But as long as firms using an EMS don't have to report any environmental information in a standardized format, the impact of an EMS can't be measured from year to year or across companies or industries. In fact, it is quite possible that two companies certified to the same standard can be operating at entirely different levels of environmental performance. Nor does an EMS guarantee that a company is even meeting its legal obligations. Eight out of nine ISO-certified firms in Mexico failed to comply with Mexican environmental laws, according to a 1998 survey (Harrison 1999:40).

Regulation by Civil Society

One of the newest and most progressive approaches to greater corporate environmental accountability is direct intervention of consumers, investors, and civil society groups in business affairs. Two premier examples are socially responsible investing (SRI)–making investments on the basis of a company's environmental and social performance–and eco-labeling or product certification that guides consumers to greener products. Creative use of these tools can sometimes mimic the effect of government regulation, but with much less government intervention. Both tools are entirely dependent on information disclosure for their effectiveness, and are strengthened when businesses increase their transparency.

Box 6.6 Covenants: Voluntary Industry-Government Agreements in Europe

Covenants are voluntary contracts between the government and industrial sectors that address environmental impacts common to a large number of companies, such as the production of packaging waste (EPE 1996). The government typically negotiates with trade associations to meet industry-wide targets, and individual firms then sign on to sectoral covenants via letters of declaration.

The concept of voluntary business-government agreements began in the Netherlands and caught on across Europe in the early 1990s. As of 1996, there were 305 such agreements, with two thirds of them in the Netherlands and Germany (Harrison 1999:24–27). In the Netherlands, covenants have been negotiated with 18 industrial sectors responsible for most of the nation's industrial pollution, but there are dozens of other covenants that address energy efficiency and other environmental issues (Harrison 1999:24). In fact, these contracts have become a key mechanism in the government's environmental strategy.

Although voluntary industry-government agreements may be a valuable complement to traditional government policy and a means of engaging corporations directly in problem solving, they haven't traditionally emphasized transparency or accountability. In most cases, there are no sanctions for corporate failure to achieve commitments. A study of 154 covenants, including 85 in the environmental field, concluded that the majority lacked sufficient safeguards to ensure their success. In most, companies agreed only to "strive to achieve" their obligations rather than to actually achieve them. In half the cases, deadlines for achievement were unclear, and only one in seven required public reporting of results (Harrison 1999:25).

Even where clear provisions for sanctions are incorporated into agreements, the interconnectedness of European and world trade means that negotiating covenants is not simply a national matter. As part of the third Dutch packaging covenant, the Dutch government and the packaging industry agreed that by the end of 2003 businesses would reduce the number of beverage cans and bottles thrown away by two thirds. If the reductions were not met, a compulsory deposit of 0.25 euro (US$0.23) would be placed on cans and bottles on 1 January 2004. However, some European governments and industry groups have challenged the mandatory deposit fees, arguing that they are contrary to European Union law and a possible barrier to free trade (BAE 2003:11).

Another criticism of the covenant approach to regulation is the lack of third-party involvement in their crafting. Corporations and governments frequently agree upon pollution reduction goals with little opportunity for participation by citizens and nongovernmental organizations (Harrison 1999:45). And, unlike laws, informal agreements can be crafted by unelected government officials, with little involvement of democratically elected legislatures—again decreasing their openness to public input (Harrison 1999:17).

Analysis of covenants in Europe in 1997 found that environmental groups participated in the negotiation of only one in five agreements. Just two thirds contained any provision for monitoring, and just over half contained any provisions for verification of this monitoring by government officials (Harrison 1999:24–25). More recent agreements have placed greater emphasis on clarity of commitments, monitoring, and legal formality.

The Dutch Packaging Industry Covenant: Recycling Obligations and Results in 2001

Dutch covenants have met with mixed success as a tool to achieve environmental goals. According to the Dutch packaging industry, manufacturers exceeded the recycling target for wooden packaging, but failed to reach the targets for paper/cardboard, glass, metal, or plastic packaging.

Packaging material	Recycling percentages	
	2001 obligation	2001 actual
Paper/cardboard	85%	66%
Glass	90%	78%
Metals	80%	78%
Plastics	27%	24%
Wood	15%	27%

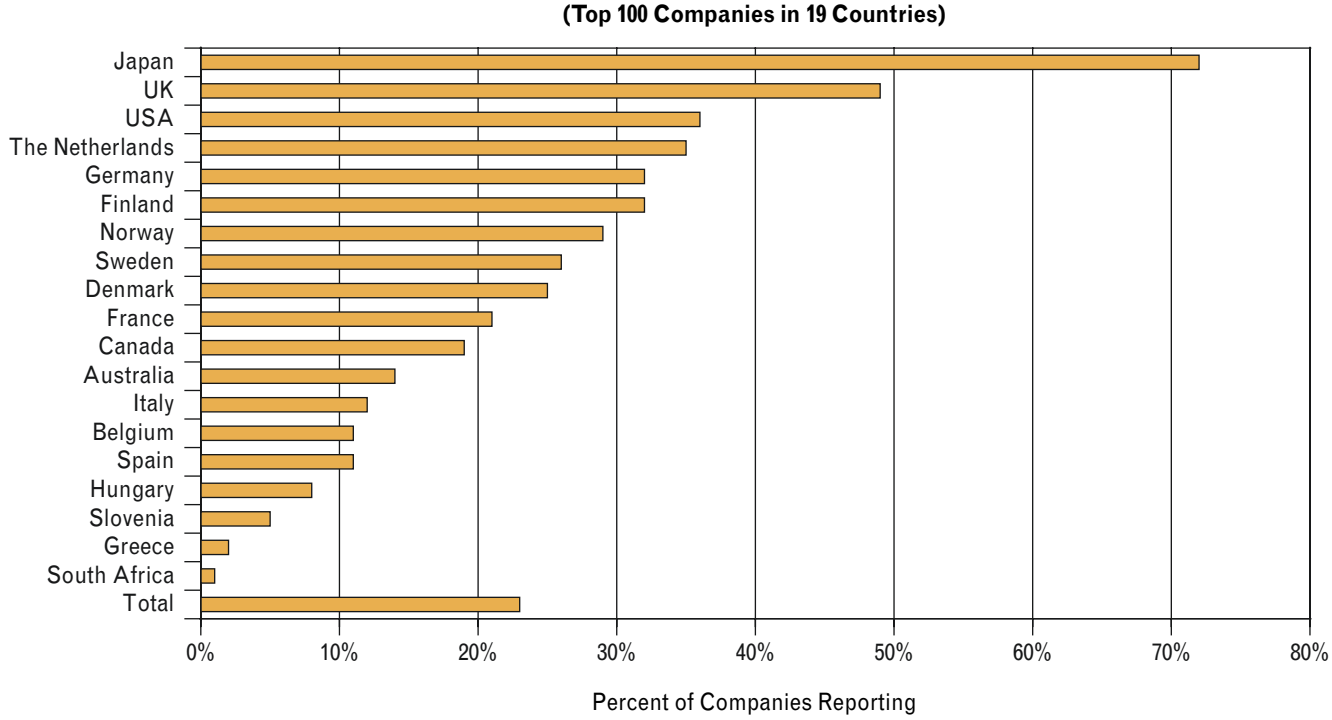
Source: EUROPEN 2002:4

Socially Responsible Investing

Socially responsible investors–who base their investments on companies' social and environmental behavior–are no longer rare. Although socially responsible investing is still a niche market, it is growing rapidly. It is being adopted by mainstream investors–typically stock market investors–as evidence mounts that good social and environmental performance translates into better overall business performance (WBCSD 2002:9). (See Box 6.7.)

Socially responsible investing is a powerful lever for corporate accountability because it offers a direct route to the ear of corporate managers and boards of directors–those with the power to make company practices more responsible. Shareholders have access and economic leverage: they can meet with management, sponsor shareholder resolutions at annual company meetings, and divest their stock if they are not satisfied with management's response.

Figure 6.2 Voluntary Corporate Reporting by Country, 2002



Source: KPMG 2002:14

A common approach to SRI is to positively or negatively "screen" companies. In negative screening, an individual investor or mutual fund manager avoids investing in companies whose practices are perceived to be harmful to people or the environment, such as tobacco or alcohol producers, munitions manufacturers, or businesses that don't provide healthcare for employees. Positive screening involves deliberately seeking out companies that offer solid financial returns and yet are leaders in social and environmental performance.

Another approach is to marshal shareholder power to actively press for change at the highest level of corporate decision-making. Shareholders can provide constructive criticism of corporate practices and suggest alternatives by filing what are known as "proxy resolutions." For example, they can file a resolution asking an oil company to promote renewable energy sources, or a mining company to analyze and report the impacts of its operations on biodiversity. Technically, shareholders "own" the company, so if enough shareholders vote in favor of the resolution, the company must act.

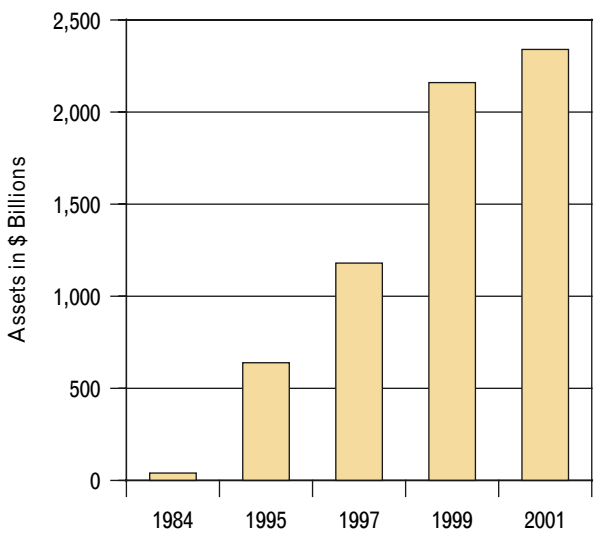
This tactic has become more popular and effective in recent years. In 2001, shareholders filed 261 resolutions on social issues (SIF 2001:16). Although these resolutions rarely receive a majority vote, the pressure they bring from shareholders–often in conjunction with work done by

Box 6.7 The Growth of Socially Responsible Investing

The United States is the world's biggest market for socially responsible investing (SRI), with perhaps $1 in every $8 invested in this manner (SIF 2001:2). Three strategies define socially responsible investing (SIO 2003):

- *Positive or negative screening* applies social or environmental guidelines to the investment process;
- *Community investment* entails support of community development or micro enterprise initiatives;
- *Shareholder advocacy* is the involvement of investors in bringing about positive social and environmental change within corporations.

SRI in the United States



Source: SIF 2001:4

In the United States, assets in funds utilizing one or more of these strategies have jumped from just $40 billion in 1984 to $2.34 trillion in 2001. The number of mutual funds that incorporate social screening grew from 168 in 1999 to 230 in 2001 (SIF 2001:4, 6). The growth in SRI in the United States is significant because U.S. investors invest globally and tend to make their voices heard in the boardroom. The U.S. mutual fund industry, where much of this investing takes place, is the largest in the world (Domini 2001:135).

Socially responsible investing is also growing rapidly in Europe and Australia, and emerging in Asia (ABI 2001:8; ASrIA 2003). In Japan, four "green funds" launched in 1999 grew to an asset base of more than $1 billion in about a year (Domini 2001:134); Hong Kong has a nascent SRI fund market as well and Malaysia offers funds screened for Islamic principles. SRI fund options elsewhere are very limited. In Singapore, only one registered SRI fund exists, which invests in companies that show a commitment to empowering women. Taiwan offers one global "eco-fund." (ASrIA 2003).

Value of Screened Funds Under SRI Management, 2001

USA*	$1,350 billion
Europe	$38 billion
Canada	$33 billion
Japan	$1 billion
Asia (excluding Japan)	$1 billion
Australia*	$.5 billion

*When funds screened for shareholder advocacy and community investment are included, the total value for the United States exceeds $2 trillion; Australia's total SRI fund value increases to $5.4 billion.

Source: Kendall 2001. Based on data published in The Cerulli Edge—Global Edition.

NGOs, citizen activists, and consumers–has convinced some of the biggest companies to change their practices:

- In 2000, socially responsible shareholders convinced several Fortune 500 companies, including Ford Motor Company and Nike, to endorse the CERES Principles–a ten-point code of conduct that commits companies to improvements in environmental performance and reporting (SIF 2001:17).

- Shareholder pressure helped convince General Electric to make its new line of washing machines 20 percent more efficient in water and energy use by 2004, and 35 percent more efficient by 2007. GE's move led to major improvements in energy- and water efficiency across the appliance industry (Domini 2001:87).

- Fifteen institutional investors (investors owning large blocks of shares) joined an environmental coalition in 2000 that convinced Mitsubishi Corporation to abandon plans for a salt factory in the Gulf of California, Mexico that would have destroyed a calving site for grey whales (SIF 2001:15).

- Shareholder pressure in 2000–2001 helped convince the top five pharmacy chains in the United States, as well as other retailers, to phase out distribution or production of mercury-filled thermometers, which can release mercury when disposed of (SRI World Group Inc. 2001b:56).

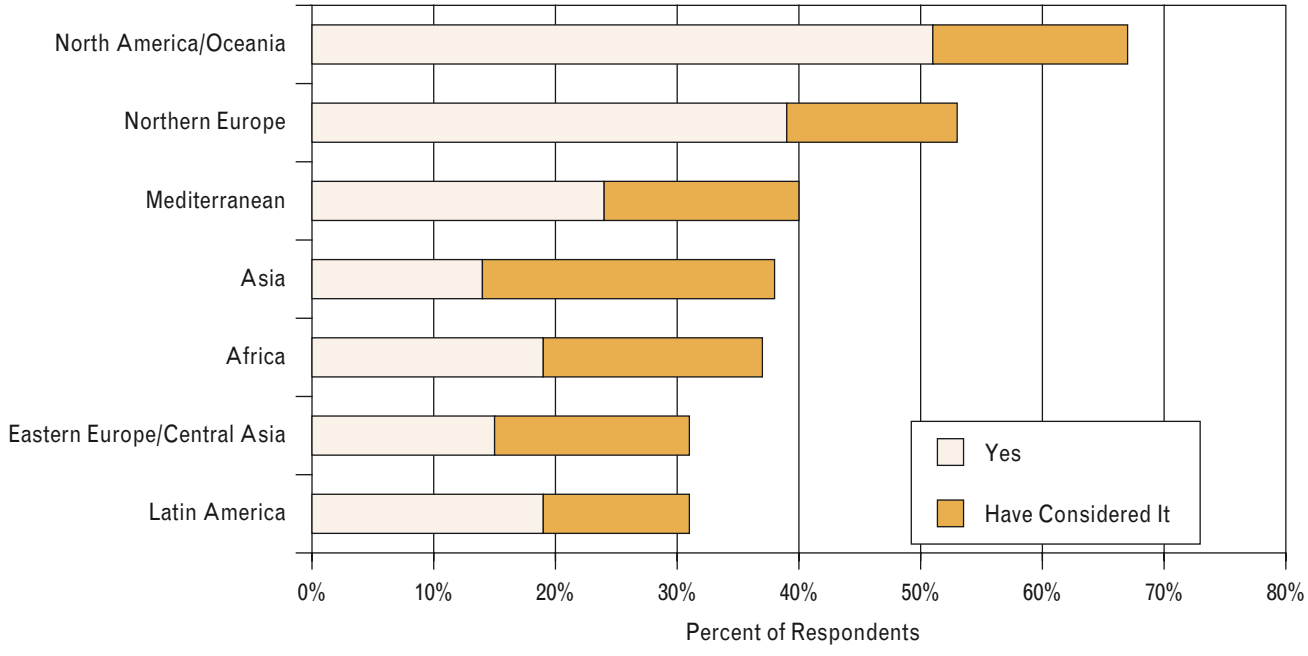
Among the successes enjoyed by socially responsible investors in the 2002 proxy season were a record 19 resolutions filed with major companies on the topic of climate change. Shareholder resolutions to coax companies to address global warming are the fastest-growing category of socially motivated resolution (Innovest 2002:12).

SRI and the Bottom Line

SRI sends companies a message that their environmental behavior, reputation, and even their ethics and transparency policies can impact the price of their stock, and therefore the company's worth. Research shows that news about a firm's environmental performance–whether good or bad–can boost or diminish stock prices in the United States and Canadian markets by 1–2 percent (Wheeler 2000:61–62). Stock markets in developing countries react even more strongly. News about criminal or enforcement actions against corporations for environmental wrongdoings can depress stock prices 4–15 percent in these markets, according to one study. In response to good news–about awards for good environmental performance, for example–stock prices have been shown to increase as much

Figure 6.3 Public Perceptions Affect the Bottom Line

In the past year, have you avoided the products of, publicly criticized, or otherwise punished a corporation you don't consider socially and environmentally responsible?



Source: Environics 1999

as 20 percent in Argentina, Chile, Mexico, and the Philippines (Dasgupta et al. 1998:17).

Socially responsible investing was once seen only as a means of "doing good" with one's money. But today, proponents emphasize its potential as a smart investment, offering competitive financial returns (SRI World Group Inc. 2001b:xiii). In fact, environmental soundness may be a good indicator of a well managed firm, and hence useful as a broader measure of potential financial performance.

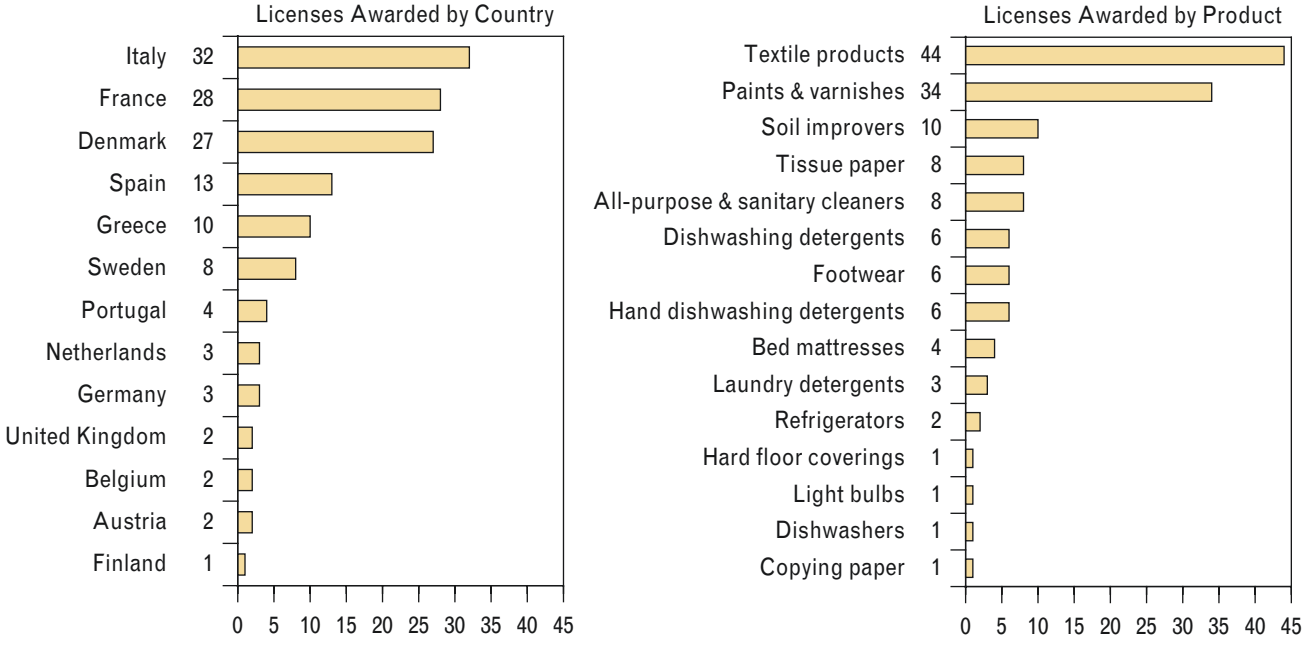
Although analysts still struggle to quantify the specific impact of a company's environmental risks on individual stocks, there is growing evidence that environmental factors can materially impact a company's financial performance. An analysis of 13 pulp and paper companies in 2000 revealed that half could face losses of at least 5–10 percent of shareholder value due to pending environmental issues like stricter logging restrictions and air pollution regulations (Repetto and Austin 2000:19).

Applying the same methodology to 16 oil and gas companies, economists in 2002 found that shareholders could lose 1–6 percent of the value of their investments in these companies because of the effects of new regulations and other efforts to curb climate change (Austin and Sauer 2002:33). Another recent report warned that costs related to climate change could affect companies across a broad range of sectors–from transportation and forestry to manufacturing and agriculture–causing them to lose as much as 15 percent of their total market capitalization (Innovest 2002:10).

Such studies have begun to build a business case for SRI–a necessary step if SRI is to advance beyond its current niche market. Indeed, the strategy of emphasizing the "bottom line" benefits of socially responsible investing and the risks of ignoring exposure to environmental problems has made SRI appealing to a much more mainstream audience. This has even prompted a few large institutional investors to become active on environmental and social issues. The City of New York and the retirement system of the State of Connecticut both filed shareholder resolutions in 2002 aimed at getting companies to address climate change (Innovest 2002:13).

Nor is interest in SRI confined to North America. Major European investment houses such as Henderson Global Investors, and Friends Ivory and Sime PLC have developed sophisticated guidelines for assessing the management responses of companies to the climate change threat. These

Figure 6.4 The EU Flower Eco-Label



What does the Flower Eco-label mean?

The label on footwear tells you...
Risk of allergic reactions from certain chemicals is minimized
Water and air pollution during manufacturing is limited
The product is sold in recycled packaging
The product is at least as hard wearing as conventional shoes

The label on paints and varnishes tells you...
The quantity of white pigment is reduced while still ensuring sufficient coverage
Pigments are produced according to strict ecological criteria
The product releases fewer solvents
The product does not contain heavy metals, carcinogens, or toxic substances

Note: A license is awarded to a company to produce one or more eco-labeled products.
Source: Bouvret 2003; EUEB 2003

Box 6.8 A Binding Convention on Corporate Accountability?

In some quarters, concern over the weakness of corporate codes of conduct and other voluntary measures to ensure good corporate behavior has sparked interest in a mandatory set of rules to which all transnational corporations would be subject—a binding convention on corporate accountability. Indeed, for many years, NGOs have been calling for a such a legally binding treaty to ensure that corporations comply with certain minimum human rights, environmental, and labor standards, and accept legal liability for the impacts of their business practices (Broad and Cavanagh 1998:19–26, 39; Phillips 2002:1–6).

Most recently, the idea for such a treaty gathered momentum at the 2002 World Summit on Sustainable Development in Johannesburg. The argument was backed by many developing nations and the European Union, but failed to result in an agreement. One proposal—put forward by the nongovernmental organization Friends of the Earth International (FOEI)—would have imposed environmental, human rights, and labor standards on transnational corporations and made it possible for anyone to sue or file criminal charges against them for alleged violations of the standards (FOEI 2002; Gardiner 2002:7).

FOEI's proposal contained the following elements (Bruno and Karliner 2002:6; FOEI 2002):

- Corporate reporting requirements on environmental and social impacts. Prior consultation with affected communities, including environmental impact assessments and access to information;

- Extension of liability to corporate directors for corporate breaches of national environmental and social laws; corporate liability for breaches of international laws or agreements;

- Rights of redress for citizens, including the ability for affected people anywhere in the world to pursue litigation against parent corporations in the country where they are based;

- Community rights to resources, including indigenous peoples' rights over common property, such as forests, fisheries, and minerals. Community veto rights over development projects, and compensation for expropriated resources;

- Sanctions against companies in breach of the Convention. These might include fines, suspension of a corporation's stock exchange listing, withholding of state subsidies, and, in extreme cases, withdrawal of a corporation's limited liability status.

Although the FOEI proposal was rejected, participants at WSSD did eventually include language that some see as an endorsement of future discussions on a Corporate Accountability Convention (*Journal of Corporate Citizenship* 2002:4; La Viña et al. 2002:7). The WSSD Plan of Implementation—the set of agreements negotiated and signed by governments attending the Summit—included the following commitment:

"[We will]Actively promote corporate responsibility and accountability, based on the Rio principles, including through the full development and effective implementation of intergovernmental agreements and measures, international initiatives and public-private partnerships and appropriate national regulations, and support continuous improvement in corporate practices in all countries." (United Nations 2002:40)

investment houses have begun to communicate the importance of the issue and their concerns to clients (Cortese 2002:6; Innovest 2002:11). In the United Kingdom, the third largest pension fund, with US$30 billion in assets, is calling for other UK investors to take an active position on the financial risk associated with climate change. And in the Netherlands, ABP Investments–Europe's largest pension fund–recently began to address climate risk systematically in its stock selection process, beginning with a $100 million "experimental" portfolio. It is considering expanding its environmental risk "screen" to a larger proportion of its US$140 billion portfolio (Innovest 2002:33).

Whether SRI matures into a significant force affecting corporate governance depends, ultimately, on the scope and quality of information available to concerned investors (SRI World Group Inc. 2001b:81). Currently, SRI relies heavily on voluntary disclosure by companies and pension fund managers about the relevance of environmental issues for future financial performance (Austin and Sauer 2002:35).

This is beginning to change in some countries, where new government regulation is facilitating SRI. For example, starting in 2001, pension funds in the United Kingdom were required to declare whether and how they integrate social and environmental factors into their investment decisions. Many UK pension funds have since expressed a new resolve to engage corporations in dialogue on these issues. Canada, Norway, Sweden, and Denmark are among the countries considering similar regulations (ABI 2001:8; Domini 2001:144; SIF 2001:25). Beginning in 2003, an Australian law will require all investment firms to disclose the extent to which environmental and social considerations are taken into account (Baue 2003). A new regulation by the Securities and Exchange Commission in the United States requires mutual funds to disclose how they voted on shareholder-originated proxy resolutions–allowing investors to judge the environmental and social awareness of mutual fund managers (SRI World Group Inc. 2003). By bringing the question of social and environmental performance to the fore, these actions are likely to build awareness of and interest in socially responsible investment options.

Eco-labeling: The Power of Informed Consumers

Informed consumers can be a powerful force for better environmental governance. According to a 2001 survey, 79 percent of consumers take corporate citizenship into account when making their purchasing decisions, and 36 percent consider it an "important" factor (Hill and Knowlton 2001:3; SRI World Group Inc. 2001a). In 1999, another survey of 25,000 consumers worldwide found that 1 in 5 had either rewarded or punished companies in the past year based on their perceived social performance. That means they avoided a company's products or actually spoke against the company to others (Environics International Ltd. 1999). (See Figure 6.3.)

Even if consumers exaggerate their activism when polled, other analysis suggests that perhaps 10–15 percent of consumers truly integrate environmentalism into their lives and are regularly willing to pay higher prices for green products (Frankel 1998:140). At least for some companies, in some sectors and countries, an environmentally conscious public is driving change in company behavior.

The worldwide surge in organic food sales is a case in point. Consumers are sending a clear signal to food producers that they are willing to pay a premium for foods that are not contaminated with pesticides and are grown in ways that don't harm ecosystems. In 2000, global organic agriculture sales were worth about $20 billion, and growing 25 percent annually in major markets like the United States, Europe, and Japan (CSD 2000:6). This provides farmers with a real incentive to consider reducing their pesticide use and investing in soil and biodiversity conservation to increase their earnings.

But consumers are only able to use their market power–and, in turn, influence corporate environmental behavior–if they can make an informed choice when they shop. They need to be able to easily identify products that have been produced responsibly–such as organic food or sustainably grown lumber–and to distinguish between valid and spurious claims of producers. To meet this need, some independent organizations and governments have begun to certify and "eco-label" goods produced using sustainable practices (WRI and USEPA 2000:12).

Since West Germany launched the first environmental labeling program–the Blue Angel–in 1978, eco-labeling initiatives have emerged in more than two dozen countries, including Canada, the European Union, Scandinavia, Japan, and the United States (Harrison 1999:10). Eco-labels can cover a surprisingly broad range of items, from lawnmowers to vegetables. Germany's Blue Angel is found on over 3,500 products (The Blue Angel 2003). Europe's "flower label" is used by 135 manufacturers, retailers, and service providers and on several hundred products (Bouvret 2003; EUEB 2003). (See Figure 6.4.)

While governments are behind some eco-labeling programs, other well-known programs are privately sponsored. Typically, an independent organization–often a coalition of stakeholders including environmentalists and industry representatives–crafts an environmental standard that becomes the basis for product certification and labeling. One well-known example is the Rainforest Alliance's SmartWood Program. Using environmental, social, and economic standards established by the Forest Stewardship Council (an NGO), accredited certifiers assess the management of forest lands. This third-party certification helps ensure the SmartWood label's credibility. Forest products coming from areas managed in accordance with the standards can carry the SmartWood logo. That logo helps consumers, architects, manufacturers, woodworkers, builders, and municipal governments locate sustainably grown wood for everything from furniture

to flooring, and musical instruments to picture frames (SmartWood 2003).

Clearly, certification and labeling programs can benefit the environment. The West German government credited the Blue Angel program with reducing the amount of household paint solvents entering the waste stream by 40,000 tons. The program also spurred industrial changes to meet its environmental criteria and capture a larger market share (Salzhauer 1991:11–12). In several developing countries, eco-labeling schemes have reduced the intensity of fertilizer and pesticide use in the production of cut flowers (Grote 2002:289).

But, as a source of information to guide consumer decisions, eco-labels can still improve. Avoiding confusion and broadening consumer confidence in eco-labels are two continuing challenges. For example, there are more than 100 regional or national standards for organic products worldwide, meaning many products labeled as organic will not have met identical standards (CSD 2000:12). Which labels should consumers trust? In this instance, standardization is already beginning to occur among labels. Widely adopted guidelines issued by the International Federation of Organic Agriculture and the 1999 FAO/WHO "Codex Guidelines" for the production, processing, and labeling of organically produced foods have helped reduce the differences between these eco-labels (CSD 2000:14). But bringing clarity and consistency to other product areas will require continued effort.

Assuring equity among producers worldwide is also a significant challenge. Some producers in developing nations complain that labeling and certification programs can be costly, and sometimes require access to technical knowledge and organizational capacity that they lack. That can put them at a disadvantage, and reduce their ability to compete in the burgeoning market for green products. In the case of organic agricultural exports, for example, many developing-country producers lack information about regulatory requirements, prices, quality factors, and logistics (UNCTAD 2001:6, 8). Similarly, small-holder or community-based producers of forest goods find the costs of obtaining certification to be prohibitive, especially in remote areas. Addressing these concerns will help widen the acceptance of and participation in eco-labeling programs.

Supporting the Transition to Accountability

Public access to information on company performance has already become a major factor driving business accountability. The information comes through several channels, some compulsory, such as pollution registers, and some voluntary. Together they comprise a wave of disclosure that is slowly sweeping through company operations and altering business practice.

Some companies have acted aggressively, positioning themselves to take advantage of the disclosure wave. They have become "best reporters," seeing value in building their names as leaders in transparency and corporate citizenship. But many more companies have resisted the disclosure trend, unconvinced that it will benefit them now or in the long run. In fact, those companies who voluntarily and proactively make information on their performance available are still the exceptions.

It does not help that the range of disclosure efforts–from mandated pollution reporting to voluntary sustainability reports to consumer-targeted eco-labels–is fragmented, and does not form a coherent disclosure system. It is still very difficult, if not impossible, to compare the environmental performance of products, facilities, firms, sectors, and countries using the information currently available.

Amplifying the disclosure wave will require effort on at least three fronts. First, businesses themselves must begin to more fully embrace the business rationale for disclosure. Greater attention to quantifying the benefits of transparency to the bottom line is the only way to bring many businesses on board. More dynamic engagement of businesses with their neighbors and other stakeholders–through community advisory panels and other business-public partnerships–is a second area of need, allowing companies to turn the results of disclosure to their benefit. Finally, government regulators and policy-makers must play their part. Government regulation is the vital backdrop against which all disclosure–manda-

(continued on p. 134)

Box 6.9 Banking on Ecosystems: HSBC's Corporate Gamble

What inspires a corporation to become more environmentally responsible? The corporation's philanthropic programs can be one surprising answer. While corporate giving is sometimes criticized as "green washing"—primarily an effort to enhance environmental image or community relations—sometimes corporate philanthropy is a viable route to real internal change and better behavior. In the case of international banking giant HSBC, a philanthropic partnership with three environmental nongovernmental organizations actually led the corporation to examine its environmental practices, and to build the capacity of its employees to make better environmental decisions themselves.

Changing Perspective

With 8,000 offices in 80 countries and almost US$800 billion in assets, HSBC has local interests almost everywhere. Their advertising tagline, "the world's local bank," sums up one aspect of the business. However, the company, which has major subsidiaries in Hong Kong, Europe, the United States, and South America, is also heavily involved in commercial lending and investment banking (HSBC 2002).

Over the last several years, managers began fielding more and tougher questions from shareholders and stakeholders about the environmental impacts of the company's operations and lending policies (Beck 2002). Employees dutifully attended to issues like energy conservation and paper use, but HSBC had not done an environmental audit before 2002 and had made several questionable investments, including lending money for the Three Gorges Dam Project and supporting unsustainable oil palm plantations in Indonesia (Carrell 2002:6). At the same time, the bank began building an even more global institution. It acquired several new subsidiaries and aimed to associate its red hexagon logo with integrity, trust, and customer service (HSBC 2002:9). The group's chairman, Sir John Bond, began pushing to use HSBC's corporate philanthropy as a means to build that reputation (Beck 2002; Neville 2002).

While the company had supported local education and environmental projects for years, its London headquarters now began trolling for ideas with more global reach. The bank solicited proposals for partnerships from environmental organizations and developed a group of projects that could make a difference for the environment on an international scale. While the potential for real environmental improvement was a major criterion in choosing the projects, it wasn't the sole motivation. "We certainly don't mind if our actions make our customers think well of us, or if we're seen as a more attractive employer" says Chairman Bond (Bond 2002). And, while giving alone won't alter the effect of operations or lending policies, HSBC began to establish environmental partnerships that could promote a keener awareness of the company's impacts at many levels.

A Partnership with Global Reach

The new round of HSBC projects includes a company investment of $50 million in partnerships with three nonprofit conservation organizations. A grant of US$11 million to Botanic Gardens Conservation International (BGCI) funds biodiversity education and helps revitalize 16 botanic gardens in Asia and Latin America. A partnership with the World Wildlife Fund (WWF) worth US$18.4 million, focuses on freshwater management and restoration in the Brazilian Amazon, China's Yangtze River, United Kingdom farming communities, and the Rio Grande river basin. The third program, costing US$16 million, engages HSBC employees directly. It funds their participation in educational research expeditions sponsored by Earthwatch, a nonprofit environmental research and education organization. Like other Earthwatch participants, HSBC employees will donate much-needed labor to biological conservation and monitoring projects around the globe, gaining an intimate understanding of threatened ecosystems and a broader awareness of ecological issues in general (HSBC et al. 2003). Earthwatch has similar corporate programs with other companies, including Rio Tinto and Shell Oil (Hillyard 2002).

Adventures Near and Far: The Earthwatch Partnership

Over the next five years, as part of the Earthwatch partnership, HSBC will send 2,000 employees to study threatened frogs in Australia, track jaguars in Brazil's Pantanal, participate in reforestation projects, and help to monitor acid rain in the Czech Republic, among a range of choices. A portion of the bank's financial contribution will also support training for developing-country scientists in current conservation and monitoring techniques (Higgins 2002; HSBC et al. 2003).

As Earthwatch volunteers, participants often camp at remote sites and endure all the discomforts of doing field research while contributing to essential environmental work. After returning to HSBC, each employee plans a community conservation project and receives follow-up guidance from Earthwatch. To each employee's community project HSBC contributes $500 (Combes 2002). Typical projects have included a community composting scheme, a revitalization plan for a village pond, and a monitoring program for a local wildlife trust (Hillyard 2002). Timothy O'Brien, a technical manager for HSBC in Buffalo, NY, tracked mountain lions in Idaho with Earthwatch and is planning a project to improve ruffed grouse habitat in his home state (O'Brien 2002).

By encouraging employees to integrate their new skills and energy into their daily activities and to make a difference in their communities, HSBC hopes to leverage the substantial investment it has already made. Adding a financial contribution creates an extra incentive for employees to take responsibility for the outcome of their efforts.

Challenging Partners

Partnering with three such large and respected environmental organizations offers HSBC many advantages. Working together, the professional public relations departments of these large NGOs have spread the word of their HSBC partnerships far more broadly and effectively than had been possible under the bank's formerly patchwork approach to giving. The size of the projects and the NGOs' experience make it more likely that HSBC will be effective in its goals and that the difference will be noticeable on a global scale. In a typical results-driven approach, HSBC has retained an environmental auditing firm to monitor the projects, and continued contributions will be tied to demonstrable results (Beck 2002).

The grant-making negotiations, which lasted about 18 months, held a few surprises and challenges for the company (Beck 2002). Reputation is just as important to a global brand like WWF as it is to HSBC. And while US$18 million can make a huge difference in WWF's programs, one of the biggest opportunities in a partnership like this is the chance to engage a company in a candid, committed conversation about its practices (Neville 2002). All three environmental partners asked tough questions, not just about the bank's own operations, but also about the indirect impacts of their lending. They insisted on speaking with top management. But while they needed to assure themselves that the company was committed to the process and to change, they weren't looking for a company that had all the answers. "In some ways," says Earthwatch's Dave Hillyard, "working with companies who have a large environmental impact provides a greater opportunity for environmental gains" (Hillyard 2002).

Exposure to their new environmental partners may well inspire a few internal changes at HSBC. For example, until this latest initiative, managers at the bank had not put in place an Environmental Management System—a fairly common approach to monitoring, documenting, and ultimately reducing a company's environmental impacts (Beck 2002). (See Box 6.5.) Managers are generally hired and groomed from within and it is not uncommon for senior managers to have been with the company for 40 years (Beck 2002). The practice encourages a powerful loyalty and depth of experience, but it also means that company policies are rarely articulated or questioned as they would be elsewhere. "We're evolutionary, not revolutionary," says HSBC's head of external relations, Richard Beck (Beck 2002). When their new partners started asking about specific lending policies, managers could produce no documentation, though they maintained they had been more attentive to environmental issues in recent years (Beck 2002).

They may still be reticent about articulating their internal changes publicly, but HSBC embraced the challenges such a partnership presents when they initiated it, and they are apparently moving toward greater awareness and transparency. The UK division produced its first environmental management report in May 2002 and the bank is in the process of expanding systematic environmental reporting to its global operations (HSBC 2003:20).

If HSBC should be tempted to relax its efforts, there is some internal motivation built into the program. With 2,000 freshly educated and inspired employees returning from Earthwatch expeditions in the next five years, the bank is building a corps of knowledgeable, empowered employees eager to sustain that agenda. "That's approximately one percent of their work force," says Dave Hillyard, "I don't think they quite realize what impact that will have" (Hillyard 2002).

tory or voluntary–takes place. In addition, government action can help bring coherence to the diverse disclosure tools that exist.

A Stronger Business Case

In too many cases, businesses simply are not convinced of the strategic advantage of providing information on their environmental performance. This is not for lack of theory. For many years, business theorists, NGOs, and others have advanced the idea that openness adds to a company's reputation–its "branding" as responsible and deserving of the continued right to operate. They have also argued that companies should see performance reporting as an opportunity to improve internal processes and reduce potential liabilities, rather than as a threat.

Many outside of business find this convincing. A 2000 survey of 100 leading European investors, policy-makers, regulators, media, and NGOs found that two thirds of those surveyed believe that a company's reputation for social responsibility is crucial to business success. Nearly half also believe that it will have a direct impact on company share prices (Burson-Marsteller 2000).

But for many business managers, the argument remains theoretical. They may believe in the value of their company's brand name, but see little analytical evidence that the expenses related to disclosure will bring sufficient compensation in terms of better branding. They lack data on how much their efforts toward better environmental performance contribute to the overall value of the company's reputation. Nor is there much movement to rectify this analytical gap. A 2001 study found no corporate efforts or studies that quantify the link between corporate environmental actions and the company's brand value (Reed 2001:15).

Programs like the Global Reporting Initiative are guiding businesses to the indicators they need to understand how good environmental practice can connect to good financial performance. However, only a handful of companies have gathered and organized data that show the impact on earnings of various environmental programs, such as reducing or creating revenue streams from waste. Baxter International, a global medical products and services company, is among those estimating the net financial impacts of its environmental programs. Baxter reports that these programs contributed income, savings, and cost avoidance of about $75 million in 2000 (Baxter International Inc. 2001:45). IBM has released similar data showing that the operating margin from its environmental efforts is 1.1 percent (Reed 2001:10). Even so, neither of these companies attempted to quantify the added brand value that their actions created.

Some Japanese companies, such as Kirin, Matsushita, and Ricoh Japan are also linking sustainability investments to good business practice in their reports, perhaps because government guidelines encourage detailed reports on environmental costs and savings (SustainAbility and UNEP 2002:45–47). There is also evidence that the effort to compile an environmental report can itself result in cost savings as businesses identify ways to refine processes and reduce waste. Some 25 percent of the businesses taking part in the Danish Green Accounts program, which requires corporate environmental reports from more than 1,000 Danish businesses, say their Green Account reports have helped them realize such savings (Danish Environmental Protection Agency 2003). To advance the internal rationale for disclosure, this kind of effort by businesses to quantify the benefits of their environmental investments to the bottom line and the brand name must expand markedly.

Greater Engagement with Communities and Partners

Disclosure by a company should be the beginning of a relationship with the surrounding community and other stakeholders–not an end to it. When companies offer information about their operations, they should also have the chance to put it in context and address the concerns it may raise. But the opportunity to provide that context often only arises in dialogue with stakeholders. That means reaching out to communities, NGOs, investors, and others who will be using the information provided.

Company outreach can take many forms, such as community advisory panels, company ombudsmen, participation in local disaster planning efforts, corporate philanthropy, and partnerships of various types with stakeholder groups.

Community advisory panels are one formalized structure that companies can use to maintain a working relationship with local communities and other stakeholders. Ideally, these independent bodies contain a cross-section of community members, with company management in attendance but not in control. They provide companies with a forum to listen to community concerns, explain company policies on contentious issues such as transportation of hazardous waste, get local reaction to facility expansion plans, and tackle the question of what information the community really needs in order to feel comfortable (ACC 2001:10–14, 29–31, 44–46, 61–72).

The chemical industry's Responsible Care program has met with some success in improving its community relations by stressing the importance of community advisory panels. As part of the U.S. Responsible Care program, more than 300 such local panels have been formed in the last three decades. In 1997, the community advisory panel in Channelview, Texas, successfully engaged two local chemical producers to negotiate a "source reduction project." The genesis of the project came from community concerns about the health effects of plant emissions. By 2000, the project had reduced toxic air emissions and cut back on the flaring of waste gases at the chemical plants (ACC 2001:71).

Partnerships with communities, NGOs, and other stakeholders can help to address the issues that environmental performance disclosure raises. Such collaborations, often

A survey of 100 leading European investors, policy-makers, regulators, media, and NGOs found that two thirds of those polled believe that a company's reputation for social responsibility is crucial to business success.

structured around a specific commitment or performance target by industry, can provide strong incentives for greater corporate responsibility and innovation. A partnership between the Environmental Defense Fund and McDonald's Corporation in 1989 led to a waste reduction program that eliminated 150,000 tons of packaging and recycled 1 million tons of corrugated cardboard between 1989 and 1999 (Environmental Defense Fund 1999).

Similarly, Starbucks Corporation partnered with the Alliance for Environmental Innovation in 1996 to increase use of reusable cups and redesign single-use cups to reduce the environmental impacts of coffee consumption (Frankel 1998:70). Multinational fish retailer Unilever teamed with the World Wide Fund for Nature in 1996 to form the Marine Stewardship Council (MSC), which has since established a certification and eco-labeling program for fish harvested in a sustainable manner. Consumers who select fish with the MSC logo know they have not contributed to over-fishing (Frankel 1998:70–71; OECD 2001:119). In all these cases, companies have acted to counter common perceptions–derived from informal disclosure and heightened awareness–that they were contributing to environmental problems.

Even corporate philanthropy–business donations that support charitable projects–can be an opportunity to engage in genuine dialogue with communities and civil society organizations. Projects that start as simple expressions of corporate good citizenship can evolve into learning tools for businesses. When the transnational bank HSBC entered into a recent partnership with three environmental organizations to fund biodiversity conservation, it also ended up improving its environmental reporting policies. (See Box 6.9.)

The Continuing Need for Government Regulation

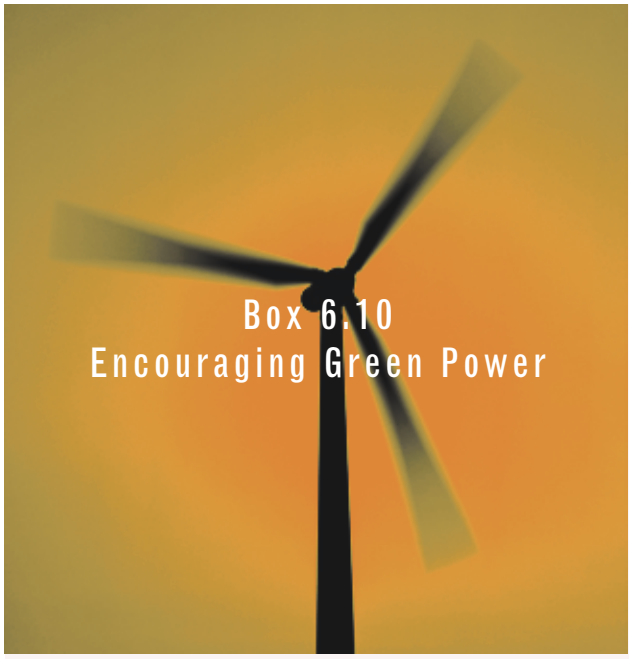
Effective government regulation is behind all effective disclosure–mandatory or voluntary. Pollution registers and other mandatory disclosures by definition require a direct government role. But even companies that voluntarily publish environmental performance reports, commit to codes of conduct, or choose to partner with NGOs are motivated at some level by the potential to avoid regulation, or to gain the reputation of exceeding regulations. In other words, a clear, enforceable environmental regulatory regime provides the context for all disclosure, and the bar against which it is measured. This argues for the continued role of regulators in making information disclosure drive true business accountability (Harrison 1999:45–46; Jenkins 2002:51).

Beyond providing businesses with baseline environmental standards to be met–and the credible threat of additional regulation in the future–regulators also have a more direct role in effective disclosure. For one, governments are the only institutions with the power, through legal enforcement, to demand honesty from businesses in their disclosures. Without this oversight, the power of disclosure wanes dramatically. Third-party oversight from certification agencies and private auditors is an important adjunct to government efforts, but in the end, governments exercise final authority.

Unfortunately, effective oversight is often lacking. In the United States, for example, the Securities and Exchange Commission (SEC) only sporadically enforces its few environmental disclosure rules. A 1998 survey by the U.S. Environmental Protection Agency found that three of every four publicly traded U.S. corporations in the survey had openly violated the SEC's requirement to report their environmental liability exposure to shareholders (ENS 2002). Enron's high-profile reporting fraud further highlighted the importance of accurate public disclosure, and the role of governments in ensuring accuracy and transparency (SRI World Group Inc. 2001b:81).

Governments also have indirect roles to play in supporting disclosure. Government economic policies, for example, set the broad context in which business decisions are made. When they help companies to place economic value on resources like water and clean air, and environmental services like a stable climate and biodiversity conservation, they strengthen the business rationale for best practice. This in turn reduces resistance to environmental performance disclosure and eco-labeling. (See Box 6.10.)

A recent UNEP analysis of progress toward sustainability by 22 industry sectors found that many were reducing emissions and toxic releases and improving water efficiency–areas where tax and regulatory structures ensured a clear return on investment in clean-up and improved efficiency. However, where the value of environmental efforts were difficult to measure–such as protecting biodiversity or reducing the impacts of product use–progress was less obvious (UNEP 2002:5). Government has an essential role in helping industries quantify the economic value of biodiversity and other hard-to-value environmental services, and in crafting economic incentives–through regulation, tax policies, or market mechanisms–to protect such services. Disclosure then becomes a useful tool to encourage business to follow through on these incentives.



Box 6.10
Encouraging Green Power

Green power—generated from renewable sources such as hydroelectric dams and wind turbines—is now an option for many electricity customers. It is usually priced slightly higher than electricity from cheaper fossil fuel sources. The marketing of green power is an example of a voluntary information disclosure strategy: utilities can choose to advertise green power options to consumers, but it's not required by any law.

Consumers seem to be using the information to change their purchasing habits. Green power customers number 775,000 in the Netherlands, 280,000 in Germany, and 62,000 in Australia. Leeds Metropolitan University in the United Kingdom started buying 30 percent of its energy from green sources in October 1999. Edinburgh University signed an agreement in 2002 to purchase 40 percent of its power from green sources.

But the new availability of information about energy sources and the power to choose hasn't come about merely because of consumer demand and the clamor of NGOs. Governments have encouraged greater transparency and product information dissemination from power companies, and have greatly influenced public acceptance of green power through progressive legislation and regulations. The UK government made renewable energy sources exempt from a climate change levy enacted in April 2001, allowing customers to save money by buying green. The Netherlands' rapid growth in green power consumption is driven by a similar tax exemption. Germany, too, exempts green power from energy taxes and even pays private green power producers a premium rate for energy they feed into the electricity grid (Fischlowitz-Roberts 2002).

Governments also have an important educational function. Whether business disclosure in fact encourages good environmental performance depends, in large measure, on an informed public. Governments build the capacity of citizens to use information to hold companies accountable (see Chapter 3). Many governments have made information on company emissions and other performance measures easily available through the Internet and other public information sources. But they must also present objective analysis of what these results mean–including trends by pollutant and by industrial sector–and they must try to provide context for the information.

Needless to say, such information means nothing if the political space to act on it is absent. For disclosure to be an effective tool, basic civil liberties such as freedom of speech, the rights of civil society groups to organize freely, and an independent press need to be in place (Schmidheiny et al. 1997:151). Effective disclosure also requires an efficient and independent judiciary, so that the public can enforce its rights in court and press liability claims in a timely manner if the information warrants.

Finally, governments can play a useful role in streamlining the disclosure tools available today and integrating them into a more coherent system of information. For example, governments who adopt the new PRTR Protocol negotiated under the Aarhus Convention can establish a "Regional Pollutant Register" that integrates the pollutant data from all participating countries. Such a regional register has already proved useful in North America. The ultimate goal should be to provide the broadest set of comparable measures, both by facility and across industrial sectors, across the largest region. Disclosure at this scale would provide a variety of new uses for the data–to both the public and government regulators tracking industry trends.

Governments can also help bring order to the disclosure field by weighing in on the question of which sustainability indicators companies should use in their voluntary reporting, and by encouraging companies to adopt a standardized approach, as recommended by the Global Reporting Initiative. Governments might also play a useful advisory role in reconciling some of the different eco-labeling programs currently in the field.