Corporate Environmental Governance

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Corporate governance has been much in the news in recent months, following the failure of a number of companies because of shoddy management, accounting, reporting and auditing practices. Many shareholders, employees, creditors, local communities and others have suffered losses, financial and otherwise, because of mis-management and poor accountability processes. Such instances of corporate fraud, difficulty, dilemma and disaster occur with regular monotony over time. These instances tend to be reviewed, analysed, commented upon, a few changes made, and then it is back to business as usual.

Changes to corporate governance practices seem unlikely to stop future recurrence of problems, especially where managers do not develop a consciousness about the needs of others in their actions and decisions. Although potential changes to corporate governance mechanisms do not represent the total solution to the problems outlined above, such changes can help to improve awareness of corporate managers and directors about what is considered to be acceptable behaviour by people working through their corporations for themselves, for money and for society.

At present, following the sullying of their image, there is a period of reflection underway for the Accountancy and Auditing professions. Professional reputations have been damaged. Public attention has been drawn to the need for stopping, or at worst checking, unacceptable accounting practices. In this situation an opportunity has arisen, through environmental, triple bottom line and sustainability accounting and reporting, to bring pressure on corporate management to address social and environmental issues, rather than merely focus on the pursuit of short term monetary gains at the expense of the environment and society.

The notion of corporate environmental governance has emerged to provide a connection with (the cement for?) the three pillars of sustainable development - economic, environmental and social. Corporate Environmental Governance has been defined as “…setting out the responsibilities of directors and establishing the accountability of the board to all the company's stakeholders [such that it] includes the systems and tools used to achieve the company's environmental objectives and their effectiveness in meeting desired outcomes (University of Hong Kong 2003b).

Two perspectives on Corporate Environmental Governance illustrate its potential importance in environmental protection: those of an Asian University and those of the European Environment Agency.

In Asia, from The University of Hong Kong’s Master in Social Sciences Corporate Environmental Governance Programme established in 2002, we learn that ‘Companies that respond effectively to the challenges of sustainability can gain a competitive advantage, exploit new market opportunities, boost market share, increase shareholder value, and become more
profitable’. Bold questions are asked such as: “How can companies better position themselves to meet the challenges of sustainability?

Improved Corporate Environmental Governance is one way to respond to these challenges. How can this be done? A number of suggestions are made:
- By developing new policies and practices to reduce exposure to the risks associated with environmental damage and the inefficient use of resources, and
- By demonstrating to stakeholders that the company operates safely and has adopted the principles of environmental sustainability.

It is also suggested that effective Corporate Environmental Governance can help a company to:
- Reduce the risk of causing damage to the environment
- Use resources more efficiently
- Improve its image among stakeholders, and
- Give the public greater confidence that it operates in a responsible way.

Tools of corporate environmental governance can include:
- the introduction corporate environmental accounting and reporting
- adoption of in-house environmental management and auditing systems
- certification under the ISO14000 series of standards
- environmental supply chain management, and
- product stewardship (University of Hong Kong 2003b).

Could it really be that business management and directors can cast off the shackles of short-term financial capitalism, engage with the management of things and people in a way that is empathetic towards social processes and progress and reduced environmental footprints? Proponents of the dictum ‘Can I have markets with that?’ will give up in despair at the suggestion. They argue why should environmental and social considerations be taken into account by companies? Surely the profit motive is the main driver of corporate action?

On the other hand, people seeking fewer market mechanisms and greater involvement of the state in the resolution of critical social and environmental issues, should see a ray of hope in the introduction of these tools, as they at least fulfill an education function for business and may even affect corporate decisions - as well as providing a 'softening-up' of business thereby making state goals for environmental protection easier to achieve.

In practice, following the stock market setback and associated revelations of corporate greed, the acceptability of a middle way, recognising and engaging a balance between private property, markets and state involvement in producing good environmental solutions for society is more of a possibility today than it has been for many decades. Corporate directors, managers, people and governments all have an important role in moving the agenda for effective corporate environmental governance forward. Environmental accounting for managers is one of the tools to be promoted in the corporate governance toolkit.

'Google-eyed' watchers will also notice the UK Environment Agency lending its support to a policy on Corporate Environmental Governance (UKEA 2003). The UKEA policy makes the following reformist comments:
- on company directors
  
  • We think Company Directors should have a legal duty of care for the environment, and their statutory annual report and audited accounts should include details of their environmental training and expertise to enable investors, customers, and the general public to be assured that environmental risks have been properly managed and reduced.
  
  • We think Company Directors should report in the statutory Annual Report and audited Accounts how they have managed their environmental risks and report on their environmental performance, including disclosing verified emissions to air/land and water. They should also explain how they are positively seeking to continually reduce these and their other environmental impacts to improve their overall company performance.
  
  • The Annual Report and audited Accounts should disclose whether the Company or any of its Directors has ever been previously prosecuted for any environmental or wildlife offence that resulted in enforcement action, prosecution, a fine, or other punishments including disqualification or imprisonment.

- on environmental reporting
  
  • Directors of large companies with over 250 employees should be required to report on their environmental performance in their statutory Annual Report and Accounts as outlined below so they are accountable to their shareholders and stakeholders, including their employees, suppliers, and the general public.
  
  • Companies should set targets and report on historic trends for key indicators of environmental performance such as emissions to air, land and water. They should also report on any serious pollution incidents or damage to wildlife, and any enforcement actions, prosecutions and fines against the Company or other types of previous conviction or punishment including imprisonment of its Directors for environmental or wildlife crimes. Companies should also take the opportunity to report on positive actions taken to improve environmental performance.
  
  • Companies in the FTSE All Share Index should also voluntarily produce a more detailed Environmental Report for their stakeholders and shareholders, and operating site reports for local communities for businesses with high environmental impacts. They should be prepared to agreed standards and be audited and verified.

- on environmental accounting
  
  • Companies should account for the environment within their financial systems and produce a simple environmental profit and loss statement, and green balance sheet. They should cover income and value derived from the environment including environmental assets, products, services, and by-products. It should also cover expenditure on natural resources, licences/permits to operate, environmental protection measures and capital investment in anti-pollution equipment, payment of green taxes and court fines, and any provisions made for contingent liabilities eg remediation of contaminated land.

- on external auditing, verification and disclosure
Environmental performance statements should be audited and verified to recognised financial/environmental accounting, reporting and auditing standards.

Companies should consider the merits of having a Health, Safety and Environment Committee to review and improve environmental performance. They should also include an item on environmental performance at their AGM to demonstrate their commitment to sustainable development, and enable shareholders to raise any issues about their environmental performance.

Company Annual Report and Accounts (and Environmental Reports) placed on the Internet and lodged at Companies House. In this way they will be available to shareholders, stakeholders, the Environment Agency, and the general public to assess the company environmental performance alongside its economic and social performance.

The idea of corporate environmental governance is not new, neither is there a shortage of opinion about the notion (see, for example, the range of views expressed in Ledgerwood 1997 and Araya 2003 for a macro view). Perhaps it will become a major consideration and motivator for development of corporate environmental accounting and reporting.

References


Ledgerwood, G (Ed.) (1997) Greening the Boardroom. Corporate Governance and Business Sustainability, Greenleaf, Sheffield, UK.


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ENVIRONMENT EXTRA!

JAPAN STARTS PROJECT FOR CORPORATE SOCIAL RESPONSIBILITY (CSR) STANDARD


The purpose of this initiative is to explore what kinds of CSR standards are the most useful for consumers, employees, suppliers, shareholders, and other stakeholders from the viewpoint of Japanese and Asian perspectives.

Based upon this analysis, the initiative plans...