

# The Role of Environmental Initiatives in Encouraging Companies to Engage in Environmental Reporting

ROBERT DIXON, *Durham Business School*

GEHAN A. MOUSA, *Benha University*

ANNE WOODHEAD, *Durham University*

A number of studies have indicated that the environmental disclosure of corporations is still at a very low level even though they are faced with increasing pressures from diverse stakeholder groups, including governmental agencies, to address environmental concerns. In spite of the substantial contingent financial exposure created by the superfund legislation in the US for chemical and similar firms, disclosures of liabilities are a relatively recent phenomenon (Milne and Patten, 2002). In an attempt to encourage and help corporations to engage in environmental reporting, some international organisations have produced environmental initiatives. This study considers a range of these initiatives, put forward by different organisations as an attempt to aid the development of social and environmental disclosures. The question, which the study attempts to answer, is whether these initiatives help corporations to overcome the obstacles preventing the production of more detailed environmental reports.

© 2005 Elsevier Ltd. All rights reserved.

**Keywords:** Corporate social reporting, Environmental management system, Independent verification, Environmental Auditing, Environmental indicators

## Introduction

Environmental issues present a number of challenges for companies. One particular aspect is the disclosure of the issues to a variety of groups. This is particularly true, in the light of growing pressure from stakeholders (such as, investors, customers and shareholders) on companies to improve their performance in this area. This in turn increases the importance of environmental disclosure, especially elements which report on the financial impacts of environmental matters. The need for consistency has provided a motivation for international organisations to provide frameworks to improve the reporting of environmental issues.

Awareness of environmental issues has been rising during the last 20 years and environmental pressure groups have been growing in most countries. A number of countries have environmental laws and regulations to protect the environment. These laws impose sanctions on offending companies; therefore, environmental issues may have a material effect on companies either directly or indirectly. Consider for example, in the 1960s, the asbestos industry sold products that caused health damage in the 1980s and 1990s. Today, asbestos as a product is mostly phased out and in some cases insurance companies (which have not caused the damage) are having to foot the financial bill. The consequent financial liabilities for pollution, illnesses, and clean up liabilities for asbestos are estimated to be \$2 trillion alone in the U.S. (Schaltegger, *et al.*, 1996).

Among the major disasters in the 1980s were Bhopal (Union Carbide), Schweizerhalle (Sandoz), and Prince William Sound (Exxon), all of which had substantial financial consequences for the companies involved (Patten, 1992). In 1984 a cloud of poisonous methyl iso-cyanate leaked from union Carbide's Pesticide Plant, located on the outskirts of Bhopal, India. Its effect on human life was devastating with approximately 4,000 deaths and 200,000 injuries. The financial impact was also pronounced and virtually immediate. Within five trading days of the chemical leak the market value of Union Carbide's common stock fell approximately 27.9% from US \$ 3,443 million to US \$ 2,483 million (Balconire and Patten 1994). On March 24, 1989 Oil Tanker Exxon Valdez ran aground in Prince William Sound on Alaska's West Coast. Forty million litres of crude oil spilled into the sea, causing enormous damage to the marine flora and fauna \$16.5 billion: (\$3.5 million for clean up, \$1.5 million in compensation and the rest as punitive penalties). (Patten, 1992, Schaltegger *et al.*, 1996). In the USA, a legislative Act of 1980 [referred to as the "Superfund Law"], enables the US Environmental Protection Agency (EPA) to enforce landfill remediation by companies. The EPA can also require any person or company involved to carry the total of all remediation costs, no matter what proportion the respective party has actually caused (Roussey, 1992).

In 1992, Monsanto Company made a provision for liabilities to clean up waste sites, which was almost 83% of its 1991 net income (McMurray, 1992). During 1990, Atlantic Richfield Company (ARCO) added \$220 million to its reserves relating to future environmental clean up costs. On December 31, 1990, such reserves totaled \$737 million (Roussey, 1992, P. 51). Even banks, in the US, which have given mortgages or which manage closed properties can be held liable. The costs of cleaning up superfund sites were expected in 1993 to exceed \$500 billion in the next 40 to 50 years (EIU, 1993).

The US Environmental Protection Agency (EPA) ordered in 1991 a major manufacturer of electronic

parts to pay an estimated \$14.9 million to clean a contamination site in upstate New York (Roussey, 1992, P. 48). In 1993, the E. I. Dupont de Nemours and company spent approximately \$500 million for capital projects related to environmental goals and environmental expenses were about \$1 billion (Shields, and Boer, 1997). Also, the management of Amoco York town refinery estimated that its environmental costs were approximately 3% of operating costs, but the environmental costs were determined to be approximately 22% of operating costs (Shields and Boer, 1997).

It can be argued that environmental risk is one area of risk that has grown in importance and can be summarized as follows:

- ❖ Fines for pollution of land, water, or air.
- ❖ Penalties may be imposed on a company.
- ❖ Clean up costs for land sites.
- ❖ Liability for disposal of hazardous wastes.
- ❖ System breaks down allowing environmental problems to occur.
- ❖ Loss of employee time and / or employee law suits due to safety hazards.
- ❖ Product liability suits or recall costs.
- ❖ Loss of the public confidence (damaged reputation or corporate image).
- ❖ Loss of market share when environmental incidents occur.
- ❖ A company may lose its license or be shut down (Flesher, 1996; Specht, 1992; Natale and Ford, 1995; Gray, *et al.*, 1993).

Companies need to be able to respond to environmental challenges effectively. Where they face increasing pressures from the public to demonstrate social responsibility towards the environment, many companies seek to confirm their social responsibility by using social and environmental reports (Hooghiemstra, 2000; Elkington, 1997; Adams *et al.*, 1998; Patten, 1992; Gray *et al.*, 1995). Moreover, a variety of studies (Epstein and Freedman, 1994; Patten, 1992; Gamble *et al.*, 1995; Neu *et al.*, 1998; Tilt, 1994; Mastrandonas and Strife, 1992; Deegan and Rankin, 1999) argue that a number of groups who use published annual reports actually take environmental performance into account and environmental information is material for them. However, legitimacy theory provides an explanation of why a number of companies may need to engage in environmental disclosure and how these companies use such disclosure.

Dowling and Pfeffer (1975, p. 27) point out that "the organization can attempt, through communication, to alter the definition of social legitimacy so that it conforms to the organization's present practices, output and values or the organization can attempt again through communication, to become identified with symbols, values, or institutions which have a strong base of social legitimacy".

Download English Version:

<https://daneshyari.com/en/article/10491672>

Download Persian Version:

<https://daneshyari.com/article/10491672>

[Daneshyari.com](https://daneshyari.com)