

REFERENCE ONLY

UNIVERSITY OF LONDON THESIS

Degree **PHD**

Year **2005**

Name of Author **PURNIS, B.**

**COPYRIGHT**

This is a thesis accepted for a Higher Degree of the University of London. It is an unpublished typescript and the copyright is held by the author. All persons consulting the thesis must read and abide by the Copyright Declaration below.

**COPYRIGHT DECLARATION**

I recognise that the copyright of the above-described thesis rests with the author and that no quotation from it or information derived from it may be published without the prior written consent of the author.

**LOANS**

Theses may not be lent to individuals, but the Senate House Library may lend a copy to approved libraries within the United Kingdom, for consultation solely on the premises of those libraries. Application should be made to: Inter-Library Loans, Senate House Library, Senate House, Malet Street, London WC1E 7HU.

**REPRODUCTION**

University of London theses may not be reproduced without explicit written permission from the Senate House Library. Enquiries should be addressed to the Theses Section of the Library. Regulations concerning reproduction vary according to the date of acceptance of the thesis and are listed below as guidelines.

- A. Before 1962. Permission granted only upon the prior written consent of the author. (The Senate House Library will provide addresses where possible).
- B. 1962 - 1974. In many cases the author has agreed to permit copying upon completion of a Copyright Declaration.
- C. 1975 - 1988. Most theses may be copied upon completion of a Copyright Declaration.
- D. 1989 onwards. Most theses may be copied.

***This thesis comes within category D.***



This copy has been deposited in the Library of UCL



This copy has been deposited in the Senate House Library, Senate House, Malet Street, London WC1E 7HU.



# **CORPORATE GOVERNANCE OF THE ENVIRONMENT**

**BRONWYN PURVIS  
DEPARTMENT OF GEOGRAPHY  
UNIVERSITY COLLEGE LONDON**

**THIS THESIS IS SUBMITTED IN FULFILMENT  
OF THE REQUIREMENTS OF THE DEGREE OF  
'DOCTOR OF PHILOSOPHY'**

**UNIVERSITY OF LONDON**

UMI Number: U592332

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



UMI U592332

Published by ProQuest LLC 2013. Copyright in the Dissertation held by the Author.  
Microform Edition © ProQuest LLC.

All rights reserved. This work is protected against  
unauthorized copying under Title 17, United States Code.



ProQuest LLC  
789 East Eisenhower Parkway  
P.O. Box 1346  
Ann Arbor, MI 48106-1346

## **ABSTRACT**

---

The global pursuit of a more sustainable future cannot be achieved without the active engagement of the business community. The challenge for business has been to strategically engage with and embed environmental responsibility within their wider corporate governance; to create effective corporate governance of the environment. The assumption would appear to be, that we have already witnessed the construction of such governance, delivered through the attainment of a paradigmatic shift in corporate engagement with environmental issues. This thesis questions the validity of such an assumption, exploring what the reality of current corporate governance of the environment is, and the drivers which have shaped it.

Through a dual strategy of web-based and questionnaire research, analysis is made of the FTSE 100 and 250 Index companies, the nature of their individual and aggregate strategising and attenuating corporate governance of the environment. The findings illustrate that far from having achieved a new paradigm of corporate environmental engagement, embodied through effective corporate governance of the environment, there exists significant levels of non-engagement within UK business. Quantitatively and qualitatively, the nature of current corporate governance of the environment, indicates that stakeholder expectations of a new era of informed corporate environmental responsibility have not yet been met; there exists significant scope for developing current corporate governance in this context. Crucially, the findings also suggest for such companies, that in the absence of mandatory drivers for change, such a shift will not be forthcoming. This has important implications for the current, largely self-regulatory, policy approach prevailing in the UK.

## ACKNOWLEDGEMENTS

---

My thanks to the Economic and Social Research Council for their scholarship, Award No.R00429834633, and the Department of Geography, University College London within which this doctoral research was situated. To the wonderful training ground that was ESRU and to my supervisor, Jacquie, in particular, many thanks.

My sincere gratitude, to the FTSE 100 and FTSE250 Index companies who generously engaged with this research and without whom this thesis could not have been written.

On a personal note: to my wonderful Mum and best friend, thank you for everything; to Gareth and Edell, thanks for all your invaluable support, belief and champagne!; and not least, to Simon, my long-suffering and fantastic husband, you have been a superstar.

To our grad-room community: Rosie, Tamsin, Caz, Jason, Russell, Jamster and Nick, here's to the Cava days!

This thesis is dedicated to my Dad.

## TABLE OF CONTENTS

---

<b>Abstract</b> .....	<b>2</b>
<b>Acknowledgements</b> .....	<b>3</b>
<b>Table of Contents</b> .....	<b>4</b>
<b>List of Figures</b> .....	<b>9</b>
<b>Abbreviations and Acronyms</b> .....	<b>12</b>
<b>Chapter 1: Engaging the Business Community</b> .....	<b>15</b>
Engagement.....	16
Corporate Governance.....	18
Corporate Governance of the Environment (CGE) .....	20
Defining Corporate Governance of the Environment (CGE) .....	22
The Strategic Basis for Corporate Governance of the Environment.....	23
Research Objectives .....	24
Research Approach.....	26
Thesis Structure .....	29
<b>Chapter 2: Conceptualising Corporate Governance of the Environment: Strategic Drivers and Attenuating Expectations</b> .....	<b>33</b>
Introduction .....	33
Section 1: The Greening of Business.....	34
Section 2: The Drivers for Change .....	36
Section 3: Societal Expectation.....	40
The Role of Science.....	40
The Role of Green Politics.....	42
Organisational Influence.....	44
Section 4: Policy, Regulatory Drivers .....	46
The Context.....	46
The Nature of Regulation of Business .....	49
How Efficient is Regulation for CGE? .....	54
Benefits to Business.....	55
Section 5: Business Drivers .....	59
Employees .....	60
Financial Stakeholders: Shareholders and Investors .....	62
Self Regulation by Business: Markets, Competition and Business Drivers .....	64
The Benefits of Self-Regulation .....	70
Qualifications to Self-Regulatory Approach .....	77

Section 6: Conclusion .....	78
<b>Chapter 3: Realising Corporate Governance of the Environment .....</b>	<b>80</b>
Introduction .....	80
Precedence .....	81
Section 1: Strategic Context and Objective .....	83
Perception .....	86
Section 2: Environmental Management Systems .....	88
Management System Types .....	90
Section 3: Corporate Environmental Disclosure and Verification .....	91
Disclosure Elements .....	93
Current Corporate Practice .....	95
External Auditing and Verification .....	98
Section 4: Categorising Corporate Environmental Strategy and Governance .....	100
Categorising Corporate Strategy .....	100
Existing Categorisations .....	106
Benchmarking .....	108
Section 5: Contextual Factors .....	111
Changing Context .....	111
Sectoral Activity .....	112
Section 6: Summary .....	114
<b>Chapter 4: Methodology .....</b>	<b>118</b>
Section 1: Internet Research .....	119
General Internet Use .....	119
The Internet as an Academic Tool .....	121
The Internet as a Business Tool .....	126
Section 2: Internet Research - Methodological Objectives and Strategy .....	129
General Data Aims .....	130
Specific Data Aims .....	131
Research Periods and Strategy .....	131
Qualifications to Internet Research .....	134
Section 4: Questionnaire Surveying .....	136
Survey Mode Selection .....	136
Realising Research Objectives .....	141
Analysis of Questionnaires .....	146
Coding of Respondents .....	147
Statistical Analysis .....	149
Section 5: Engaging with the Empirical Research .....	149

Web-based Research.....	149
Archival data provision .....	152
Questionnaire Responses .....	153
Section 6: Questionnaire Respondents .....	155
<b>Prelude to Chapters 5, 6 and 7: The Empirical Findings .....</b>	<b>158</b>
The Data .....	159
Section 1: Sectoral Breakdown of Company Sample .....	160
FTSE Index composition: Web Sample .....	160
Questionnaire Respondents: Sector Composition .....	161
Section 2: “Positionality” of Environmental Governance within Sample Companies .....	164
Web Based Sample Companies.....	164
Questionnaire Respondents .....	164
<b>Chapter 5: The Reality of Current Corporate Governance of the Environment .....</b>	<b>169</b>
Introduction .....	169
Section 1: Corporate Perception and Recognition.....	171
Perception of the ‘Environment’: Online.....	171
Perception of the ‘Environment’: Respondents .....	172
Timescales for Strategic Priority .....	173
Section 2: Strategic Establishment.....	175
Accountability for CGE .....	177
Section 3: Environmental Management.....	180
Formal and Informal Environmental Management Systems.....	182
Management Strategy .....	186
External Regulation of EMS .....	189
Section 4: Environmental Disclosure.....	190
Introduction .....	190
Corporate Environmental Policy .....	191
Standard of Policy Disclosure.....	192
Drivers for Environmental Policy.....	196
Corporate Environmental Reporting .....	200
Nature of Reporting Initiatives .....	203
Report Composition.....	208
<i>Drivers for Reporting</i> .....	209
Communication of Report.....	212
Section 5: Governance Review .....	214

Consultation and Review .....	214
Stakeholder Status .....	215
Section 6: Overall Findings .....	219
<b>Chapter 6: Corporate Governance of the Environment: Strategic Approaches</b> .....	<b>222</b>
Introduction .....	222
The Terminology .....	223
Section 1: The Classification of Governance Approaches .....	224
The Utility of Classifications .....	228
Section 2: Nominal Governance .....	230
Nothing Discernible .....	231
Community and Social (No Environment Coverage) .....	232
Environmental Impact Statements/Declarations of Acknowledgement .....	233
Section 3: Traditional Governance .....	235
Safety, Health and the Environment .....	235
Environmental Management .....	237
Section 4: Sustainability Governance .....	240
Corporate Citizenship .....	241
Environment & Community .....	244
Sustainability/ Sustainable Development .....	246
Corporate Social Responsibility .....	248
Section 5: Commercial Governance .....	252
Environmental Governance .....	258
Environmental Leadership: 'Environmental Stewardship': Severn Trent PLC ..	261
Section 6: Mixed Approach .....	263
Section 7: Strategic Governance Development? .....	265
Strategic Development .....	265
Section 8: Sector Engagement .....	269
Resources & Utilities .....	269
Basic Industries .....	272
General Industries .....	275
Cyclical Consumer Goods .....	278
Non-Cyclical Goods .....	281
Non-Cyclical Services .....	284
Cyclical Services .....	287
IT .....	290
Financials .....	293

Overall Sector Comparison .....	297
<b>Chapter 7: Conclusions .....</b>	<b>299</b>
Introduction .....	299
Section 1: Reflections on Methodology .....	301
Section 2: The Nature of CGE, 1999-2003/4.....	304
Has There Actually Been a Change?.....	304
The Nature of Change Which Has Occurred .....	305
How Reasonable is the Expectation of Paradigmatic Change? .....	311
Section 3: Research Implications .....	313
Further Research .....	317
<b>Bibliography .....</b>	<b>319</b>
<b>Appendix 1: Company Websites .....</b>	<b>372</b>
<b>Appendix 2 – Governance Tables .....</b>	<b>382</b>
<b>Appendix 3 – Company Reports.....</b>	<b>404</b>
<b>Appendix 4 - Questionnaire .....</b>	<b>419</b>
Company Perception of the Environment.....	421
C. Policy and Reporting .....	423
D. Environmental Management.....	425
<b>Appendix 5 – Questionnaire Respondents.....</b>	<b>431</b>
<b>Appendix 6 – Further Communication .....</b>	<b>434</b>
<b>Appendix 7 - Templates .....</b>	<b>436</b>
General Corporate Governance of the Environment Template.....	436
Climate Change Governance Template .....	437
Corporate Environmental Disclosure: Reporting Template.....	439
Corporate Environmental Regulation Conclusions .....	441
Benefits of Self-Regulatory Strategies .....	441
Qualifications To Self-Regulatory Instrument Use .....	441

## LIST OF FIGURES

---

Table 2.1: Ethical Markets .....	44
Table 2.2: Voluntary Instrument Choices .....	73
Table 4.1: Tabulation of Company Web Representation.....	133
Figure 4.1: Assessment Reports .....	134
Figure 4.2: Confidentiality Assurance within Questionnaire, page 1, (Appendix 4). 141	
Figure 4.3: Excerpt from postal questionnaire, Section B: General Environmental Governance (Appendix 4).....	145
Figure 4.4: Respondent Status .....	148
Figure 4.5: Coding of company operational activity: Re-categorisation of the FTSE listings .....	149
Figure 4.6: Corporate Change .....	151
Figure 4.7: Improved Corporate Websites .....	152
Figure 4.8: Corporate Responses Received Used In Analysis.....	157
Figure 4.9: Corporate Responses Received But Not Used In Analysis .....	157
Figure 4.10: Sectoral Divisions .....	160
Figure 4.11: Respondent Sector Breakdown .....	161
Figure 4.12: Respondent Positionality .....	167
Figure 5.1: Corporate Perception .....	172
Figure 5.2: Timeframes for Governance: Respondent Findings.....	174
Figure 5.3: Perception of Governance Strategy .....	176
Figure 5.4: Company Level Accountability for CGE .....	178
Figure 5.5: FTSE Indexes: EMS .....	180
Figure 5.6: Environmental Management Systems: Respondent Findings .....	183
Figure 5.7: EMS: Online Disclosure Findings .....	184
Figure 5.8: Strategy Composition: Respondents.....	186
Figure 5.9: Regulation of EMS.....	189
Box 5.1: Categories of Policy Disclosure .....	192
Figure 5.10: FTSE Indexes: Policy Provision.....	194
Figure 5.11: Policy Application: Respondents.....	195
Figure 5.12: FTSE Indexes: Reporting .....	202
Figure 5.13: Reporting: Respondent Findings .....	203
Figure 5.14: Reporting Drivers: Respondents.....	210
Figure 5.15: Questionnaire: Report Composition .....	213
Figure 5.16: Review of Corporate Strategy: Respondent Findings.....	217

Figure 5.17: Audit of Strategy: Respondent Findings.....	218
Box 6.1: AWG website: Sustainable Development section .....	223
Figure 6.1: Categories of Governance.....	225
Figure 6.2: Criteria for Assessment .....	227
Figure 6.3: Classifications of Governance Approaches.....	228
Figure 6.4: Overarching Strategic Approaches.....	230
Table 6.1: Examples of Indexed Companies Adopting This Approach.....	232
Box 6.2: St. Ives Environmental Policy, 2002/3, <a href="http://www.stives.com">www.stives.com</a> .....	233
Figure 6.5: Eni, 2002/3, <a href="http://www.lasmo.com">www.lasmo.com</a> .....	235
Table 6.2: Examples of Indexed Companies Who Have Adopted This Approach ..	236
Table 6.3: Examples of Indexed Companies Who Have Adopted This Approach ..	238
Box 6.3: Environmental policy, Environment and Social Report 2002, <a href="http://www.sixcontinents.com">www.sixcontinents.com</a> .....	238
Table 6.4: Examples of Indexed Companies Who Have Adopted This Approach ..	242
Figure 6.6: South African Breweries, Corporate Citizenship Strategy, 2002/3, <a href="http://www.sab.co.za">www.sab.co.za</a> .....	242
Box 6.4: Abbey National Policy Statement. National Corporate Citizenship Report, 2001, <a href="http://www.abbeynational.co.uk">www.abbeynational.co.uk</a> .....	243
Table 6.5: Examples of Indexed Companies Who Have Adopted This Approach ..	244
Figure 6.7: Thames Water Governance Strategy, 2002/3, <a href="http://www.thames-water.com">www.thames-water.com</a> .....	245
Table 6.6: Examples of Indexed Companies Who Have Adopted This Approach ..	246
Figure 6.8: Viridian Group, Sustainable Development Strategy, 2002/3, <a href="http://www.nie.co.uk">www.nie.co.uk</a> .....	247
Table 6.7: Examples of Indexed Companies Who Have Adopted This Approach ..	249
Figure 6.9: CGNU, 2002/3 <a href="http://www.cgnu-group.com">www.cgnu-group.com</a> .....	250
Figure 6.10: Somerfield, 2002/3, <a href="http://www.somerfield.plc.uk">www.somerfield.plc.uk</a> .....	250
Table 6.8: Examples of Indexed Companies Who Have Adopted This Approach ..	253
Figure 6.11: IMI Plc Environmental Policy as posted on website, 2002/3, <a href="http://www.imi.plc.uk">www.imi.plc.uk</a> .....	255
Figure 6.12: Henderson SRI, <a href="http://www.henderson.com">www.henderson.com</a> .....	257
Box 6.5: Scottish Power, Environmental Governance Strategy 2002/3.....	259
<a href="http://www.scottish-power.com">www.scottish-power.com</a> .....	259
Figure 6.13: Scottish Power, 2002/3.....	259
Figure 6.14: Scottish Power, Environmental Governance Strategy, 2003.....	260
<a href="http://www.scottish-power.com">www.scottish-power.com</a> .....	260

Figure 6.15: Severn Trent Environmental Leadership data, [www.severn-trent.com](http://www.severn-trent.com) 2002/3 ..... 262

Figure 6.16: Lonmin, [www.lonmin.com](http://www.lonmin.com) (emphasis added), 2002/3 ..... 264

Figure 6.17: Summary of Online Disclosure Findings ..... 269

Figure 6.18: Summary of Respondent Findings ..... 270

Figure 6.19: Overarching Strategic Governance Approaches ..... 271

Figure 6.20: Summary of Online Disclosure Findings ..... 272

Figure 6.21: Summary of Respondent Findings ..... 273

Figure 6.22: Overarching Strategic Governance Approaches ..... 275

Figure 6.23: Summary of Online Disclosure Findings ..... 276

Figure 6.24: Summary of Respondent Findings ..... 277

Figure 6.25: Overarching Strategic Governance Approaches ..... 278

Figure 6.26: Summary of Online Disclosure Findings ..... 279

Figure 6.27: Summary of Respondent Findings ..... 280

Figure 6.28: Summary of Online Disclosure Findings ..... 281

Figure 6.29: Summary of Respondent Findings ..... 282

Figure 6.30: Overarching Strategic Governance Approaches ..... 283

Figure 6.31: Summary of Online Disclosure Findings ..... 285

Figure 6.32: Summary of Respondent Findings ..... 285

Figure 6.33: Overarching Strategic Governance Approaches ..... 287

Figure 6.34: Summary of Online Disclosure Findings ..... 288

Figure 6.35: Respondent Findings ..... 288

Figure 6.36: Overarching Strategic Governance Approaches ..... 290

Figure 6.37: Summary of Online Disclosure Findings ..... 291

Figure 6.38: Respondent Findings ..... 292

Figure 6.39: Overarching Strategic Governance Approaches ..... 293

Figure 6.40: Summary of Online Disclosure Findings ..... 294

Figure 6.41: Respondent Findings ..... 295

Figure 6.42: Overarching Strategic Governance Approaches ..... 296

## ABBREVIATIONS AND ACRONYMS

---

<b>ACBE</b>	Advisory Committee on Business and the Environment
<b>ACCA</b>	Association of Chartered Certified Accountants
<b>BP</b>	British Petroleum
<b>BRT</b>	Business Round Table
<b>BSR</b>	Business Centre for Social Responsibility
<b>CBI</b>	Confederation of British Industry
<b>CC</b>	Corporate Citizenship
<b>CCA</b>	Climate Change Agreement
<b>CGE</b>	Corporate Governance of the Environment
<b>CEO</b>	Chief Executive Officer
<b>CERES</b>	California Environmental Resources Evaluation System
<b>CFC</b>	Chlorofluorocarbon
<b>CHP</b>	Combined Heat and Power
<b>CO<sub>2</sub></b>	Carbon Dioxide
<b>CSR</b>	Corporate Social Responsibility
<b>DEFRA</b>	Department of Environment, Farming and Rural Affairs
<b>DJSI</b>	Dow Jones Sustainability Index
<b>DRM</b>	Departmental Risk Manager
<b>DTI</b>	Department of Trade and Industry
<b>E&amp;C</b>	Environment and Community
<b>EC</b>	European Commission
<b>ECS</b>	Environmental Communication System
<b>EHS</b>	Environment, Health and Safety
<b>EIS</b>	Environmental Information System
<b>EM</b>	Ecological Modernisation
<b>EMAS</b>	Eco-Management and Audit System
<b>EMS</b>	Environmental Management System
<b>EPA</b>	Environment Protection Agency
<b>ERM</b>	European Resource Management
<b>ERT</b>	European Round Table of Industrialists
<b>ESRU</b>	Environment and Society Research Unit
<b>ET</b>	Emissions Trading
<b>EU</b>	European Union

<b>FORGE</b>	Guidelines on Environmental Management and Reporting for the Financial Service Sector
<b>FTSE</b>	Financial Times Stock Exchange
<b>FTSE4GOOD</b>	Financial Times Stock Exchange for Good
<b>GEMI</b>	Global Environmental Management Initiative
<b>GHG</b>	Greenhouse Gas
<b>GRI</b>	Global Reporting Initiative
<b>HSE</b>	Health, Safety and the Environment
<b>ICC</b>	International Chamber of Commerce
<b>ICT</b>	Information Communication Technologies
<b>ILO</b>	International Labour Organisation
<b>IPC</b>	Industrial Pollution Control
<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>ISO</b>	International Standards Organisation
<b>IT</b>	Information Technology
<b>JI</b>	Joint Implementation
<b>KP</b>	Kyoto Protocol
<b>NEA</b>	Negotiated Environmental Agreement
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OXERA</b>	Oxford Economic Research Associates Ltd
<b>PIRC</b>	Pensions Investment Research Consultants
<b>PWC</b>	Price Waterhouse Coopers
<b>RIIA</b>	Royal Institute for International Affairs
<b>SD</b>	Sustainable Development
<b>SHE</b>	Safety, Health and the Environment
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>UNCTAD</b>	United Nations Conference On Trade and Development
<b>UNDP</b>	United Nations Development Programme
<b>UNEP</b>	United Nations Environmental Programme
<b>UNFCC</b>	United Nations Framework Convention on Climate Change
<b>US</b>	United States
<b>VA</b>	Voluntary Agreement
<b>VI</b>	Voluntary Initiative
<b>WB</b>	World Bank

<b>WBSCD</b>	World Business Council for Sustainable Development
<b>WRI</b>	World Resource Institute
<b>WWF</b>	World Wildlife Fund
<b>WWW</b>	World Wide Web

# 1

## ENGAGING THE BUSINESS COMMUNITY

---

At the commencement of this research in 1998, a combination of awakened environmental consciousness and considerable scientific uncertainty prevailed in the UK and the wider global community. Whilst the long awaited Protocol to the UN Framework Convention on Climate Change was finally agreed at Kyoto<sup>1</sup>, the scope of its ambitions was less than had been anticipated. Societal alarm at the nature of environmental threats, particularly that of climate change, was understandably not sated by the display of fractious political debate which pervaded the Kyoto discussions and debates over environmental governance generally (Ballard, 2002; Brown, 2000; French, 1998). The political disunity and attenuating weakness of specific targets which tainted the Protocol, contrasted with increasing realisation of the potential enormity of addressing the impacts of the environmental challenges ahead (Agrawala, 1999; Grubb and Black, 1999).

As the scope of legislative targets fell short of that which the Intergovernmental Panel of Climate Change (IPCC) declared necessary to abate ensuing climatic change, the need to engage the business community in the pursuit of the objective of sustainable development, became an increasing imperative (Rondinelli and Berry, 2000; White, 1999; Roome, 1998; Hart, 1997). The role of business in a global societal debate over environmental change had been recognised but the lack of political or regulatory leadership from the international community, increased the perceived importance of ensuring private sector engagement. Typifying the opinion of many commentators, White states: *'without the private sector's active commitment and support, there is a danger that universal values (of SD) will remain little more than fine words'* (1999, p1) The business community was, and still is, a critical force in realising governance of global environmental change. As Hart notes: *'like it or not, the responsibility for ensuring a more sustainable world falls largely on the shoulders of the world's enterprises'* (1997, p76).

---

<sup>1</sup> The Kyoto Protocol (1997) to the UN Framework Convention on Climate Change (1992)

Engagement of the business community is perceived as critical to the efficacy of any abatement response, and more broadly, to redefining a more sustainable pathway to development than the current unsustainable economic paradigm (Figge et al., 2002; Griethuysen, 2002; Ekins, 2000). The nature of 'engagement' will be discussed subsequently. The overarching assumption is that the abatement of global environmental change through the pursuit of sustainable development, will not be realised without the participation of the business community who symbolise the pursuit of economic development which has, in large measure, been responsible for accelerating rates of environmental deprivation.

The perceived value of such engagement lies in the goal of a more sustainable economic development paradigm; replacing the conventional economic model of externalising costs, which has allowed unfettered economic development to the detriment of the environment (Ekins, 2000; Demerit and Rothman, 1999; Bonus and Niebaum, 1997; Functowicz and Ravetz, 1994). As the commercial 'engines' of development, it is, therefore, vital that business is involved in the paradigmatic shift required to deliver sustainability of production and consumption. Schmidheiny surmises that *'progress towards sustainable development ...requires far reaching shifts in corporate attitudes and ways of doing business'* (1992, p2). In effect, businesses are being called upon to reconstitute strategic ambitions and the governance systems through which they can orientate themselves to achieve such redefined goals. Romm emphasises the reality that *'Industry alone cannot create the changes needed for a more sustainable future'*, however, industry can achieve change but it *'must act in concert with other actors and institutions in society'* (1998, p8). It is the construction of how companies seek to engage with these 'other' actors, their stakeholders, and their rationale for doing so, that this thesis seeks to examine. Faced with such a mandate, how willing is the business community to engage, what is the context for engagement and what does/will such engagement entail?

## **Engagement**

The strategic challenge for business is to engage with issues of socio-environmental concern and to do so in a more open and accountable manner,

acknowledging their responsibility in creating a more environmentally conscious, sustainable society (European Commission, 2002; Welford, 2002; Hughes, 2002; Elkington, 2001; Roome, 1998; Hoffman and Ehrenfeld, 1998). Premising this analysis of corporate engagement in environmental governance (and the global pursuit of SD), is the acknowledgement that effective engagement has not and may not be compelled: '*sustainable development cannot be imposed upon business*' (Taylor et al., 2003, p90)<sup>2</sup>.

In addressing business response to this challenge, it is necessary to analyse what the nature of this engagement is and has been. 'Engagement', as defined in this research, is the participation of companies in what has become a global scale discussion, not only about how to achieve more sustainable development, but more specifically for respective companies, how they will respond, individually and collectively, to the sustainability challenge. This research, however, addresses the specific context of business engagement with environmental governance and its reflection within their corporate governance frameworks within the UK. The necessity for grounding this research within the UK derives from the practicality of defining an empirical base for the research, in this case, companies listed on the FTSE100 and FTSE250 Indexes. The research provides an important indication of how business is responding within the particular socio-political context of the UK, in which stakeholder pressure is arguably significant and continuing to increase in its importance. How have companies sought to engage with issues of sustainability and more particularly, of environmental concern within the UK? Have companies acknowledged that such issues exist, and if so, has there been a strategic determination of what they, the company, should do in response?

Analysing engagement will illuminate the varying degrees of corporate commitment and participation being undertaken, and the quality of such participation in terms of its aims, objectives and successes thus far. Whilst there have been several attempts to delimit what engagement in this context should or could entail, as outlined in varying international and national corporate guideline initiatives discussed in the next chapter, there remains no

---

<sup>2</sup> Acknowledging the role of certain drivers such as regulation, will be discussed in subsequent chapters and form part of the conclusions to this research.

authoritative codification of corporate environmental engagement. Assessing engagement within this research, therefore, will involve both a description of what has been undertaken over the period 1998-2003 and also a qualitative judgement of current corporate activity in relation to the expectation outlined by key socio-political and regulatory drivers.

To provide a focal point for analysis, the research will address what is perhaps the most publicly defined statement of strategic commitment to such an objective, the companies' corporate governance strategies and frameworks. The objective in analysing corporate governance is to determine how the individual company, and its collective sector representation, strategically perceive the importance of such engagement and the values which it embodies. Key analytical issues are environmental orientation and corporate governance, reflecting the normative values of an environmentally responsible and engaged company. Romm thus defines the process as being one in which: *'engagement between industrial interests and stakeholders should inform change in corporate governance'* (1998, p266).

## **Corporate Governance**

Corporate responsibility to engage with actors or institutions, herein known as stakeholders (however loosely defined), is not a new phenomenon. It is an established and integral element of a company and its operations, in part defined by itself and by the markets, within which it operates, in part by the policy-regulatory expectations which society has obligated. Corporate governance is, in essence, how a company seeks to define its key values and responsibilities, not only to itself but to a growing range of stakeholders with whom it is engaged. As the World Bank determined:

*'Corporate Governance refers to that blend of law, regulation and appropriate private sector practices which enable the corporation to attract financial and human capital, perform efficiently, and thereby perpetuate itself by generating long-term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole'*<sup>3</sup>

---

<sup>3</sup> World Bank 'Corporate Governance: Guidelines', [www.worldbank.org](http://www.worldbank.org).

Corporate governance is the reflection of the expectations of key drivers within the socio-economic and political contexts within which business is situated. Such contexts are however changing and it is this which has provided the expectation that business changes accordingly. The construction of governance is, therefore, the direct response to such contextual expectations and 'needs'; it represents the means by which the public can assess corporate prioritisation, and indeed ambition in relation to addressing the socio-environmental concerns they have. It is, therefore, also the means by which the company can strategically position itself in the face of such public scrutiny. Corporate governance, accordingly, becomes a mechanism for focusing analysis within this research, addressing how it has or has not been reconstructed in light of ongoing environmental change which has premised such changing expectation and 'need'. Has corporate governance reflected this?; has it sought to address and engage with stakeholder 'needs' and perceptions?

Concurrent with such changing needs has been the perception of an increasingly influential business community, seemingly operating beyond democratic control (Clark and Demirag, 2002). A perceived lack of general accountability has been exacerbated by high profile incidents of corporate malpractice, such as the Enron scandal in 2002-2003, which have heightened public concern that not only are societal interests not being strategically prioritised by companies but that more needs to be done to prevent malpractice in the future (Clark and Demirag, 2002). The impact of this combination of factors has been a marked intensification of scrutiny being applied to corporate governance within the UK and beyond, signalling a significantly increasing level of expectation that business will demonstrate greater openness in its dealings with society (Barnett, 2002; Caulkin, 2002; Doward, 2002; Coker, 2002 ; Zadek, 2001; Boele, Fabig and Wheeler, 2001; Buckee, 2001; Hart, 1997; BRT [www.brtable.org](http://www.brtable.org)).

State concern over corporate practice, in part influenced by societal alarm, has resulted in the publication of key reports firmly placing the onus on companies to demonstrate greater transparency in their operations. Of particular

significance to this research, is the broadening remit being placed upon businesses (Patterson Report, 2000/2002; Turnbull Report, 1999; Hampel Report, 1998; Greenbury Report, 1995). Corporate governance is being framed so that the internal management of respective companies address the 'external' issues of societal concern as stated in the World Bank code, though as yet this remains largely unregulated or unprescribed in terms of environmental practice (Government White Paper on Company Law, 2002; Patterson Report 2000/2002, OECD 1999). Global environmental change and the perceived role of business in catalysing such change has increased public demands for such accountability and the construction of corporate governance capable of delivering this.

### **Corporate Governance of the Environment (CGE)**

Whilst the fiduciary responsibilities of companies have traditionally been the primary focus of considerable policy-regulatory instruments, the specificities of corporate environmental responsibility are also being drawn into sharp relief. As the World Bank Corporate Governance Code, noted above, highlights and the OECD comparably notes, companies must be accountable to society and not just their shareholders. The consequences of failing to do so are significant for the company itself: *'environmental and social interests of the communities in which it (business) operates, can also have an impact on the reputation and the long-term success of a company'* (OECD, 1999, p2). Whilst seemingly self-evident now, this statement marks a significant change from traditional corporate perception; socio-environmental issues are not the established domain of corporate governance. In effect what this statement reflects is the still nascent marrying of corporate 'concern' with the broader, arguably more general, interests of the society/societies within which it (the business community) is situated. Such impacts extend, of course, beyond corporate affairs; they have, and will continue to, exert a highly significant impact upon societal socio-environmental welfare.

The expectation that business will respond 'appropriately' to its changing corporate remit (BSR, 2002; Romm, 1999; Roome, 1998; White, 1999; Stone, 1996) has placed business in the somewhat contradictory role of being both the potential solution-provider, as well as a key contributor to the creation of the

problem (Prakash, 2000; Gouldson and Murphy, 1998; Roome, 1998; Welford, 1997; Wallace, 1995). Nonetheless, business, in response, would also appear to have signalled its recognition of such need and highlighted its apparent willingness to respond accordingly (Electricity Associations, 2002; CIEF, 2002; AECB, 2002; CIA, 2002; British Plastics Federation, 2002; Concrete Society, 2002; Water UK, 2002; UKOOA, 2002; Buckee, 2001; Eitrheim, 2001). This research will seek to address what such 'according response' demands or entails, who is defining the nature of corporate response and whether the response which has been materialising, is constitutive of a substantial change in corporate practice. The business response has not been immediate, nor without qualification, as the empirical research will demonstrate. High profile corporate attempts to question both the nature of global environmental change and, more particularly, the responsibility of the business community in addressing such change, have prompted continuing scepticism over the adequacy, if not morality, of corporate response: ESSO arguably being the most globally high profile of such companies (CERES/Mansley, 2002; Browne, 2001).

Nonetheless, despite these high profile dissensions, there would appear a presumption from within and outside the business community that business is generally now responsive to the wider mandate which society is placing upon corporate governance; corporate governance if not now, then in the near future, is being called upon to encompass environmental responsibility (CSR Europe, 2001/2002; Blair, 2000; White, 1999; Clarke and Roome, 1999; Schmidheiny, 1992). As corporate governance reflects the blend of economic, social and regulatory expectations arising from the contexts within which it operates, so CGE is representative of change within such contexts. This research, therefore, labels the corporate governance response to this demand for greater accommodation of environmental accountability as 'corporate governance of the environment' or CGE. CGE, of course, does not exist in isolation to the wider corporate governance constructed by the company. It is, however, labelled as such to give identity and form to that particular element of such governance which seems to define a company's position on environmental issues; and the mechanisms by which this can be delivered.

## **Defining Corporate Governance of the Environment (CGE)**

CGE reflects the construction of governance which addresses the company's acknowledgement of its environmental responsibility, a strategic determination to address the environmental impact of its operations. In labelling such governance measures as CGE this research is attempting to distinguish between strategic level governance of the environment and issues of practical environmental management, amongst others, which would be regarded as constituents of, or elements of, this wider corporate strategy. CGE, therefore, represents the totality of initiatives and most importantly, this research would argue, the issue of corporate strategic perception and prioritisation of the environment, which impacts upon the adoption of such subsequent initiatives. CGE is accordingly used throughout this thesis when seeking to analyse such corporate strategy.

If both academic and business literatures are demonstrative of corporate thinking, corporate governance of the environment, so defined, has unquestionably assumed growing significance within recent times, in both business theory and, it is assumed, attenuating practice (Kantz, 2000; Reinz and Crawford, 2000; Johnson, 1999; Coup, 1999; Weinberg, 1999). What was once the activity of a small minority of enlightened companies (it is argued by many within the business and policy communities), would now appear to have emerged as a priority issue in the national and international corporate agenda (GEMI, 1999/2001; OECD, 2001; WBCSD, 2000; European Commission, 2002; UNEP/Sustainability, 2002; DTI, 2002; Clapham and Jerbi, 2001). The ideal of corporate engagement in the challenge for global sustainability is, many commentators would argue, becoming manifest or at least the expectation is such that it *will* (WBCSD, 2002/2003). This research will, however, seek to examine the validity of such an assertion, conceptualising what such engagement qualitatively entails and the shift in corporate strategy necessary to realise this.

## **The Strategic Basis for Corporate Governance of the Environment**

Whilst it is not possible to explore in depth the literatures pertaining to corporate strategy<sup>4</sup>, it is important to clarify the rationale for addressing corporate governance of the environment as comprising and embodying the strategy of the individual company. Strategy is *'the articulation of where and how a company intends to compete in the future'* (Savill, 2000/2001, p1); CGE is the framing of how the company seeks to deliver the goals articulated by defining the manner within which, and by which, it will be operational. Addressing governance strategy reflects what this research will address as the determined choice of the corporate board of a company to undertake a specific route of action, in this case, in relation to addressing environmental issues. Corporate strategy as Lazzari notes, is *'about setting goals as well as about how to reach them...strategy is a defining part of the company itself rather than something that belongs to the toolkit'* (2001/2002, p1).

The changing nature of business context will dictate that strategy must retain flexibility, indeed it is imperative to effective strategy that it undergoes continual re-evaluation; what Mintzberg (1972) defines as *'continuous redefinition'*. Nonetheless, strategy also establishes the long-term normative framework within which managerial policy can develop, as Buysse surmises: *'strategy is a road map that is constantly updated'* (2001/2002, p1), flexibility being intrinsic to ensuring this roadmap maintains its direction and the company is appropriately defined.

It is this intrinsic emphasis on the defining contribution which distinguishes strategic governance from the 'toolkit' element, such as individual management initiatives, which contributes to the analytical basis for this research. Strategy reflects, therefore, more than the totality of individual management initiatives, it is the overarching and coordinated systemic planning devised by the company to promote, in this context, it's corporate governance of the environment. It is conceptually distinguished from management initiatives because it is the proactive and pre-emptive decision by a company which dictates the range of managerial actions and initiatives which the company commits itself to

---

<sup>4</sup> For an extensive analysis of corporate governance and strategy, see Porter (1985), 'Competitive Advantage' or Porter (1980), 'Competitive Strategy'.

undertake (the toolkit). Strategy is about aligning such initiatives or activity (Porter, 2004) by providing the overarching agenda or 'roadmap' as Buysse (2001/2002) denotes, for the company in question. Individual activities or initiatives are constituent of the governance being examined but not representative of the totality of the strategy itself. As Porter argues '*now is the time to rediscover strategy*' (2001, p1) and to recognise the importance of what it signals in terms of the company's perspective and positioning.

Just as strategy embodies the company's vision or long-term set of objectives for itself, so corporate perception shapes such strategy through its determination of who the company perceives its audiences to be, typically its key stakeholders, and what their expectations from the company are (Savill, 2001/2002). Strategic engagement in the environmental debate is reflected through a corporate governance strategy that comprises key actions which indicate corporate commitment and responsiveness. These address both regulatory and wider stakeholder demands: for example, environmental management system, environmental disclosure initiatives and general corporate positioning in relation to the concept of environmental responsibility. This research will accordingly focus both on what prevalent strategic perception of the environment is and the overall strategic positioning of companies, reflected through their corporate governance of the environment which comprise the mechanisms for delivery of such governance.

### **Research Objectives**

The objective of defining what is occurring within the context of CGE, is broader than an articulation of the status quo; this research seeks to contextualise the reality of CGE, so defined, within the broader question of corporate ambition and strategy. The conceptual assumption implicit with the literatures is that the traditional corporate governance approach to environmental issues was inadequate; inadequate in the sense that, by externalising the environmental 'cost' of operational impact, it failed to acknowledge or mitigate the detrimental environmental impact its (individual and collective) activity had. The global pursuit of economic development that is intrinsically sustainable, i.e. is not unduly detrimental in environmental terms (amongst other aspects), necessitates a change in corporate thinking and practice. This change will be

reflected through a normatively reconfigured or reprioritised corporate governance, which seeks to engage the company in environmental issues and in so doing so, demonstrating a new ethos of corporate environmental responsibility.

The pursuit of such corporate governance of the environment will require a significant change in corporate strategy from the previous, or perhaps still existing, paradigm characterised by lack of environmental engagement, to one commensurate with corporate environmental responsibility/engagement. As Romm surmises *'a revolutionary paradigm shift will be necessary, one that envisions new practices and strategies both inside and outside the firm'* (1998, p56). This thesis, therefore, addresses as its central and overarching research objective, **the question of whether a paradigmatic shift in corporate strategy and governance framework has, or is in the process of occurring, or if not, has it the potential to occur? In addressing this question, the drivers for this change are examined, accompanied by the mechanisms by which it can be delivered, namely, the corporate governance frameworks of the FTSE companies being analysed.**

The argument this thesis offers is, for a paradigmatic shift to occur, several key factors must be present: primarily, there must be both a critical mass of companies engaged in CGE but accompanying such an uptake must be an attenuating understanding of what it is that companies are being asked to undertake to replace the unsustainable development models which have been the dominant paradigm of modern times. To what extent has business accepted that the very criteria by which commercial success has been sought, is incompatible with the sustainable business model which CGE can or should deliver? Has there been an acknowledgement that a paradigmatic shift is necessary to prevent future failure?

This research argues that a fundamental shift in corporate attitude to environmental issues requires that both such a mass is reached and an informed response displayed to the array of drivers (discussed in Chapter 2), compelling such a change to occur: CGE being the strategic governance response to such drivers (explored in Chapter 3). Paradigmatic change cannot be the prerogative of the few. The presumption that we have, or are in the process of entering, a new paradigm of environmentally infused corporate

practice, reflected through its models of corporate governance, requires the participation of the majority, if not all, of the business community. Comparably, it is presumed that a strategic response to environmental issues and the construction of CGE *per se*, will not necessarily evidence significant change. It is in the combination of both quantitative and qualitative aspects that paradigmatic change can be ascertained.<sup>5</sup>

## **Research Approach**

In seeking to define and assess corporate engagement into CGE within this research, varying analytical criteria are applicable; quantitative and qualitative analyses have, however, the potential to offer very different synopses of what is occurring. The research, therefore, adopts a multi-tiered approach to addressing its questions, incorporating both a broad quantitative analysis of who, and how many, companies have sought to engage in CGE and a more qualitative scrutiny of what this engagement actually entails, noting disparity of approach, structure and content. It is in the combination of two analyses, that a better understanding of corporate engagement in environmental governance can be constructed.

Within the 'greening of business' literature, in which this research is contextualised, there is a vast array of disciplinary contributions, emanating from academic, political/institutional and business sectors<sup>6</sup>. It is the interplay of varying, sometimes contradictory, sources which is critical to informing the ongoing debate over the nature of the business-environment nexus and which provides the varying perspectives of how this can and should progress. This research contends that it is critical to ensure that the diversity of literatures is

---

<sup>5</sup> Important to note that the basis for analysis of such a paradigmatic shift is the accepted failure of the existing/previous commercial externalisation of environmental issues and its attenuating need to realise a significant shift in corporate strategy and the governance framework by which such strategy is delivered; paradigmatic shift being realised in a qualitative and quantitative change in corporate governance of the environment. The primary focus is not, therefore, temporal in the sense of a 'compare and contrast' between particular strategies over a given timeframe but is premised on a generic acceptance of previous corporate practice and the reality of current strategy and governance.

<sup>6</sup> Research emanating from many disciplines, such as law, politics, business management, organisational theory, geography and environmental science.

analysed in order to explore the differing conceptualisations between, for example, the academic and 'grey literatures', to ensure that the perspectives of those internal to, and external to, business, are noted. The grey literatures contribute not only to the conceptual framing of this research but also form part of the evidentiary basis for analysis. Business and policy literatures are accordingly used in conjunction with their academic counterparts<sup>7</sup>, to provide the 'inside' perspective of the nature of change which is occurring in strategic thinking. Of interest to this thesis is the approach business itself is constructing, which may, or may not, accord with its conceptual portrayal but which such analysis can both contribute to and benefit. The potential contrast between such introspective business analysis and the more objective academic scrutiny being applied, will contribute to the analysis of the substance and ambition for corporate change. The analytical questions which frame this research, directly arise from these academic, political and corporate sources reviewed.

Concurrent to the evolution of CGE, has been the substantive input of experts and environmental consultants addressing the business-environment nexus. Their reports and findings are significant, not just for what they say but for the fact that business was engaging in the discussion of what the 'challenge' of environmental engagement required/requires and the potential pursuit of new strategic directions. Such analysis, whilst significant, is vested in the nature of those sponsoring it. Therefore, the aim of this research is to establish a more objective interpretation of what has and is occurring in corporate governance of the environment. This has involved standing back from the pre-defined agendas of such work and instead letting the findings themselves indicate the nature of strategic response. The research strategy, therefore, adopted was one of closely scrutinising business itself, addressing what they, collectively and individually, were undertaking and allowing a more reflexive discussion of how conceptual and empirical understandings can inform each other.

Whilst cognisant of the scope of issues upon which CGE can impinge, I have focused on the possible 'cause and effect' relations between environmentally-motivated drivers and the attenuating translation into corporate strategy. Having established the conceptual premise, this research then elaborates upon

---

<sup>7</sup> Noting the primacy of academic data in terms of rigour and objective scrutiny, having undergone peer review.

the composition of such strategic governance in terms of four key areas: (i) corporate perception; (ii) strategic management initiatives; (iii) disclosure and (iv) governance framing. Analysing corporate response within these four inter-related areas, an overarching analysis of the nature of current corporate engagement in environmental issues, their corporate governance of the environment, is constructed.

#### *External and Internal Company Analysis*

This analysis is placed within the specific context of companies operational within the UK, focusing on those companies listed within the FTSE Indexes 100 and 250. Methodologically, to enable the level of both quantitative and qualitative analysis of CGE necessary to address whether paradigmatic change has occurred, required both public and internal/in-company scrutiny of corporate strategy. Web research provides publicly accessible literature on CGE initiatives within individual companies; the public depiction of the company's environmental strategy. This allowed for an immediate quantitative assessment of the level of corporate engagement and adoption of individual governance measures such as policy statements or environmental reports. Such analysis examined the public profile which individual and collective companies are presenting on environmental issues; the publicly accessible display of their corporate governance of the environment.

Whilst a qualitative assessment of such web literatures was also possible, on the basis of the content of such measures, progressing such scrutiny to internal company analysis enabled a greater depth of analysis of the rationale for undertaking such CGE initiatives and the underlying strategic perception which premises such action. A questionnaire survey of FTSE 100 and FTSE 250 Index companies allowed for 'in-company' scrutiny by probing corporate motivation for CGE, directly asking companies to state what their perception of the drivers for such strategic change were, how they prioritised the delivery of their strategies in accordance with such perception and what their ambition for their current CGE strategy was. In-company scrutiny, therefore, allowed for a much greater understanding of how and why corporate governance of the environment has emerged within FTSE companies and where it has the potential to develop, in current and anticipated policy frameworks within the UK.

## **Thesis Structure**

There are, as noted previously, many different conceptual frameworks within which to ground this research. The overarching context is that of 'greening of business', within which there are nonetheless a considerable range of disciplinary foci. This multi-disciplinary perspective is used to inform the conceptual context for the research, discussed within Chapters 2 and 3, which outline the key theoretical concepts which shape this analysis and which are used to assess the empirical evidence.

Chapter 2 explores the definition, context and drivers for corporate governance of the environment, as theoretically constructed, through which paradigmatic change can occur. It seeks to broadly establish the parameters of the 'challenge' which has been constructed for the corporate sector and its governance response(s). In doing so, the chapter outlines what theoretically defines engagement and the governance sought from such engagement, as defined by the nature of expectations both implicit and explicit within key stakeholder drivers. It is not possible within the confines of the thesis to address all potential drivers for business change. Nonetheless, the research focuses on the impact of three primary stakeholder groupings which are widely recognised as impelling change: (i) public/societal expectation; (ii) the nature policy-regulatory frameworks and (iii) business drivers for change and self-regulation. The objective of Chapter 2, is to broadly demonstrate the conceptual premise for the importance of these drivers in shaping corporate governance of the environment.

Chapter 3 seeks to define the elements of what a paradigmatic shift requires in terms of strategic perception and the governance frameworks necessary to deliver such change. Has such expectation entailed a prescription of what governance should entail; what are the elements that constitute environmental governance in this context and what do they entail for companies seeking to engage with them. For the purposes of this research, four key elements of governance have been highlighted for analysis: (i) environmental perception; (ii) environmental management systems; (iii) disclosure and (iv) governance framing and typologies for categorising such systems. These elements have been selected for scrutiny because they are critical to the construction of

environmental governance reflected within the conceptual analysis of Chapter 2. These elements are discussed within the conceptual framework of prescriptive typologies or categorisations which seek to define the systems and approaches undertaken by companies and their suitability, or otherwise, for CGE.

The combined conceptual analysis of Chapters 2 and 3, provides the basis for the key research questions being addressed within this thesis.

- Has business recognised the growing expectation of change that key stakeholders such as the public, have demanded; has it acknowledged the need for a fundamental shift in corporate strategy and governance?
- What has the strategic response of business been to the policy-regulatory frameworks currently in place to address such societal expectation? Has corporate governance adjusted to accommodate the environmental responsibilities which these frameworks and wider expectation demands; is there evidence of corporate governance of the environment?
- What does the composition of these corporate governance of the environment strategies suggest about the capacity and willingness of business to self-regulate or voluntarily address stakeholder expectation? What has actually been undertaken?
- How can we best define current corporate governance of the environment strategies to address the central question of this research, whether a paradigmatic shift in corporate strategy and governance on the environment has occurred; what does this say about current policy-regulatory frameworks to deliver the greening of business?

Chapter 4 details the methodological approach adopted to this research, outlining the two key approaches used in a qualitative and quantitative examination of FTSE100 and FTSE250 Indexed companies. The first methodological approach was that of a web-based analysis of the online environmental disclosure of the FTSE companies, conducted between 2000-2002. In total, just under 350 companies were analysed in respect of what mechanisms of CGE they had disclosed or alluded to, within their websites; this template being outlined within Chapter 2. This was then proceeded by an in-

depth questionnaire survey which was responded to by 111<sup>8</sup> of these FTSE companies, conducted in the last quarter of 2001. The methodological approach allows for an extensive empirical evidence base, with which to address the central questions of the research.

In accordance with the conceptual foci outlined in Chapters 2 and 3, the mechanisms of corporate governance of the environment are addressed within the empirical research based Chapters 5 and 6. What emerges is a detailed picture of the nature of corporate governance of the environment being constructed by these FTSE companies, indicating the nature and extent of change or otherwise which is occurring within corporate strategies for addressing environmental issues.

Chapter 5 outlines the nature of current corporate perception and actual composition of current CGE strategies. In doing so, analysis made of how such findings compare with the conceptual framework outlined in Chapter 3; the template for CGE. Analysis focuses on whether the research into such governance strategies, provide the level of strategic action which was perceived as representative of 'good' governance on the environment; have they been responsive to stakeholders and their expectations as outlined in Chapter 2.

Augmenting the empirical findings outlined in Chapter 5, Chapter 6 examines the overarching strategic framing of CGE, as undertaken by FTSE companies, within which individual governance mechanisms are situated. Within this, the importance ascribed to the environment by companies is analysed to determine what the strategic priority and focus of these companies are and how this currently informs the governance measures they undertake. Analysis turns then to exploring whether commonalities exist within sectors, as to current CGE strategies, and what this says about the nature of change which has, or has not, occurred within the context of corporate engagement with environmental issues.

---

<sup>8</sup> 111 companies responded to the questionnaire, of which 97 were assessed suitable for use, as elaborated upon in Chapter 4, Methodology.

Chapter 7, consequently, draws together the findings of the empirical research within the context of the conceptual framework outlined in Chapters 2 and 3, to address the key questions asked by this research, outlined above. In answering these questions, this research seeks to contribute to the current conceptual understandings of business response to environmental issues and how the greening of business has currently occurred or has the potential to occur. It also suggests key areas in which further research may be necessary to strengthen this conceptual understanding and progress the business–environment debate<sup>9</sup>.

---

<sup>9</sup> It is acknowledged from the outset that explicit attention to corporate governance of the environment does not directly address the social tenet of the sustainability construct. Nonetheless, in examining what motivates the corporate accommodation or internalisation of such previous externality, there are evident implications for the pursuit of wider sustainable strategising in both corporate and policy/regulatory spheres.

# 2

## CONCEPTUALISING CORPORATE GOVERNANCE OF THE ENVIRONMENT: STRATEGIC DRIVERS AND ATTENUATING EXPECTATIONS

---

### Introduction

*'Stakeholder opinion is...critical to the corporate environment agenda. And if company environmental strategy is about whether particular choices are made then there is a case for involving those who have a concern'*

(Robinson, 2000, p98)

The purpose of this Chapter is to address the conceptual framework for the emergence of Corporate Governance of the Environment (CGE) and in particular, the key drivers and rationale for strategic change emerging from this framework. This chapter is therefore structured as follows: Section 1 addresses the primary drivers whilst Section 2 addresses the rationale for why companies believe that the self-regulatory approach is best. This serves as the prelude to Chapters 3's discussion of CGE, which is based on the conceptual discussion of where it is coming from and how it is approached. These drivers have influenced the emergence and sustain the impetus for CGE and potentially the paradigmatic change in business-environmental engagement which it may give rise to. This research will, therefore, focus on three key sets of drivers which inform corporate perception and strategy: societal concern and consumerist pressure; policy/regulatory frameworks; market forces and business practice itself. Addressing each set of drivers, three issues frame the discussion; how this driver has emerged; how it is currently manifest, what is the nature of its potential to inform CGE and the potential for paradigmatic change.

## Section 1: The Greening of Business

---

The objective of this Chapter is to analyse the overarching conceptual framework for corporate strategic response to environmental issues, otherwise known in this research as CGE; the strategic approach which embeds, or has the potential to embed environmental responsibility within corporate governance, as previously discussed within Chapter 1<sup>10</sup>. Robbins surmises this as '*shifting the overall direction of the firm towards the response to environmental challenges*' (2001, p21), the direction of the company being reflected within the strategic framework for corporate governance of the environment which is the analytical focus for this research.

There are many bodies of literature which engage with the issue of strategic change and corporate responses to 'the environment', espousing sometimes contradictory rationales as to why and in what manner the business sector is responding to the challenge of environmental responsibility. It is not possible within the context of this thesis to explore all such literatures nor would this indeed contribute to the conceptual discussions which seek to frame the focus for this research analysis. This analysis is instead contextualised within the '*greening of business*' literatures which provide an insightful, and probing multi-perspective analysis of change within the business-environment nexus, within which this research is situated (Robbins, 2001).

This is an extensive body of literature emanating from both academic and business communities and intrinsically multi-disciplinary in nature. The conceptual focus for this literature is an analysis rooted within '*the perception of a shift in societal and corporate values related to the environmental aspects of business*' (Robbins, 2001, p38). The objective of such literature is to explore both the drivers for such value shifts and the manner within which business responds to the normative and practical changes this necessitates. The literature provides varying perspectives as to the capacity, key motivations and

---

<sup>10</sup> Acknowledgement is made that there are wider issues of social and human rights accountability which can also be encompassed within such approaches (Habbard, 2001; Welford, 2002; WBCSD, 2002/2001; Zadek, 2001 & 1999; Hobbs, 2001; King, 2001; CSR Europe, 2000/2001; Zadek, 2000).

the mechanisms for such change. Within this body of literature are varying perspectives; commentators from within businesses typically providing a more empirically grounded approach to analysing change, characteristically premised within the context of their own company experiences. In contrast, the more conceptual focus has emanated from within academic spheres, characteristically more critical, in their analysis<sup>11</sup>.

This research, therefore, accepts the validity of both perspectives as important, often counterbalancing contributions to the ongoing discussion of how to analyse change within the business-environment nexus. It is, however, accepted that business or so-called 'grey literature' may be contested as potentially lacking objective perspective, context specific or particular to the business/sector from which the commentator emanates. Such criticisms are important considerations when critiquing the literatures which they may apply to. The conceptual analysis of academic literature is, therefore, recognised as providing a more robust and tested form of scrutiny than the grey literature and an important counterbalance in terms of academic scrutiny or objectivity. It is nonetheless considered that both literatures contribute to the wider debate over corporate change and consequently to this research.

Literature stemming directly from business has a role to play in examining conceptual frameworks for change as it reflects the subject from which such change is sought; it is the analytical foci for this research and its perspective is therefore interesting for its juxtaposition with its more academic counterpart. The overarching framework for this research indeed reflects this apparent duality of approach through using such varying conceptual perspectives to construct the framework for corporate governance of the environment and inform the central questions being addressed. The empirical findings will subsequently either validate or challenge such conceptualisation.

---

<sup>11</sup> Acknowledging that business commentators can make use of conceptual frameworks for change and conversely, that conceptual analysis can be grounded with an element of empirical research. As a general categorisation, however, business literature tends to be more company specific and pragmatic in approach whilst the more critical academic focused analysis tends to place greater emphasis on conceptual discussion using empirical work to illustrate the validity of such concepts. There being a significant difference, it is argued, between the priority and emphasis accorded to conceptualisation and empiricism within these two key sources of literature.

The challenge of those researching within the greening of business context, as Stubbs highlights, is 'to confront the complex nature of the relationship between theory and practice' (2000, p14); this relationship informed by both perspectives. Critical to the importance of greening business literature is its capacity to infuse theoretical and empirically driven knowledge in its objective of accurately conceptualising the nature and processes of change in business engagement with environmental issues and sustainability, generally. Such greater conceptual clarity can only benefit the objective of sustainable business and the construction of CGE capable of delivering this. With conceptual clarity, the analysis of whether paradigmatic change has, or will occur, can therefore be more accurately examined. The focus for this conceptual analysis is informed by both the theoretically and normatively grounded frameworks within which greening of business can occur, coupled with the typically pragmatic and empirically-focused analysis of how business perceives or construes its capacity to respond which also contributes to this greening of business literature base.

## **Section 2: The Drivers for Change**

---

The literatures illustrate the variety of perceived drivers for corporate change in relation to environmental governance. Business, whilst being an economic entity, is influenced by the socio-cultural and political contexts within which it is situated. The composition of corporate governance reflects this and the argument for the imperative of CGE comparably acknowledges that change within such governance is required to address the changing socio-political 'needs' or frameworks within which business operates. Within greening of business literature the varying factors or drivers for this change can be categorised as being driven by business stakeholders; those actors who directly or indirectly have an influence on the manner in which business operates.

These groupings of key actors, which a company engages with in the course of its operations, constitute important influences in how such operational activity is undertaken; the strategic governance which frames such the

business/company is run (Belal, 2002). Smith notes the importance of such 'actors' when assessing that: '*a paradigm shift in the culture of business will be difficult to achieve without the wholesale co-operation of managers, shareholders and business educators*' (1993, p5). Whilst the list of those whose participation is perceived as potentially paradigmatic in influence is the topic for subsequent debate, the premise for this assertion is not disputed; stakeholders are of critical importance in determining whether fundamental corporate change will occur.

Corporate responsiveness to their stakeholders is not a recent phenomenon (Banerjee, 2001; Madsen and Ulhøi, 2001; Selin and Chavez, 1995). It is an accepted commercial reality that a company, which is not responsive to the demands of its stakeholders, will not achieve or sustain its commercial success. Expectations have, however, demonstrably increased in relation to what is expected of a company by its stakeholders and the manner in which such expectations are met (Boele, Fabig and Wheeler, 2001; Lejano and Davos, 1999; White, 1999; Milliman and Feyerham, 2000; Larsen, 2000; Margerum, 1999). The range of 'business stakeholders' has also comparably expanded. Once the preserve of its financial investors and shareholders, the list of business stakeholders is now a more broadly encompassing reflection of those within society whom the company encounters/impacts upon. As will be discussed subsequently, stakeholders, as redefined by the more expansive notions/context of governance being sought within business, now address not only the financial component of a business strategy but under the socio-economic and environmental actions/impacts that the operations of a company may have (Lorente et al., 2003; Belal, 2002; Synnestvedt, 2001).

Business itself would also appear, in the main, to accept the validity of such stakeholder position and status to question the governance of the company. (CERES, 2002; WBCSD, 2000; Social Venture Network, 1999). Nonetheless, the increasing pressure being exerted by stakeholders in the context of the demand for corporate environmental engagement is, arguably, stronger than it has ever been. As Robinson concludes: '*growing societal commitment to the ideal of sustainable development pose profound strategic challenges for business*' (2000, intro). Whilst there is, apparently, de-facto acceptance of the validity of stakeholders/expectation, this does not automatically equate to an accommodation or realisation of (all) the attenuating changes/action necessary

to meet such demands. To a sector which vociferously defends its autonomy, some of the demands of those 'wider' stakeholders may not be perceived as sharing the same legitimacy or immediacy of others. In analysing what change has occurred within the context of corporate governance of the environment, it is, therefore, necessarily an exploration of whether business has recognised and sought to address the expectations of particular stakeholders who have sought the realisation of strategic change to reflect this.

The conceptualisation of change as being driven by this broader scope of stakeholder expectation is one that has gained increasing acceptance within both academic and business literatures within the past two/three decades. It is not the objective of this chapter to recount what has been extensively analysed elsewhere (Madsen and Ulhoi, 2001; Annandale, 2001; Clarke and Roome 1999; Fineman and Clarke, 1996). It is important, however, to recap what and who such stakeholders are, and why they have been ascribed such importance in driving corporate change. The notion of a stakeholder, that of an actor who has a stake in how companies can, and should, operate is one that resonates with the expectation of greater corporate accountability. The more traditional economic development model saw business as accountable to itself and its direct shareholders; finance defining the parameters of who/what constituted a stakeholder typically as noted previously. Such boundaries have, and continue to, undergo revision.

As the perception of business being more engaged within wider society has gained hold, so the concept of stakeholder status and influence has widened (Madsen and Ulhoi, 2001; Henriques and Sadorsky, 1996). The importance of such stakeholders in influencing corporate policy is, however, conditional upon the perceived importance ascribed to them by the individual and collective companies (Fineman and Clarke, 1996). Examining who, and what, constitute important stakeholder groupings for motivating corporate governance of the environment, it is acknowledged that the list of such stakeholders can now be extensive, as it can be argued that all those within the socioeconomic and political contexts within which business operates have some degree of 'interest'.

In seeking to delimit such interest, Madsen and Ulhoi define stakeholders as those: *'individuals or groups with a legal, economic, moral and/or self-perceived*

*opportunity to claim ownership, rights or interests in a firm and its past, present or future activities – or parts thereof* (2001, p78). The list of those persons/bodies who fall within such a remit is nonetheless extensive. Examining who amongst these stakeholders would have the potential to drive the nature of substantive change in CGE being sought through engagement with the environment, it is evident that some degree of prioritisation of stakeholders is necessary to focus this conceptual analysis. Madsen and Ulhoi (2001) for example, have sought to categorise stakeholders as being **primary** or **secondary** in their significance. Primary, as opposed to secondary, stakeholders are those whose expectations are prioritised within corporate governance and both strategically and practically accommodated, for these are: *'stakeholders without whose continuing and direct participation or input the firm cannot survive as a going concern'* (p78). The list of primary stakeholders Madsen and Ulhoi outline are thus centred on owners and shareholders; regulatory bodies and institutions are denoted as secondary in importance. Such a categorisation is, however, subject to contention.

Is the classification of stakeholders subjective to the firm, or an objective conceptualisation of those perceived as critical to actual operational activity? The categorisation of regulators, for example, highlights the difficulty of ascribing primary or secondary significance, as Madsen and Ulhoi's own research concluded that the secondary stakeholders, in particular regulators, were the key drivers of change in the context of CGE (2001). Whatever the definition of stakeholders, it is accepted that the list of those stakeholders who influence corporate governance of the environment, is more expansive than that which determined traditional governance. Annandale listed pertinent stakeholders for business as being shareholders, local communities, Boards and employees (2001, p57) whilst Selin and Chavez (1995) and Rossie et al (2000) stress societal forces, such as NGOs or the public more broadly.

It is commonly accepted that the demands on business for greater accountability have emerged from and resulted in a greater role for the public amongst others, within the shaping of corporate strategy on the environment. The expectation of more informed and environmentally responsible strategising, critical to achieving the nature of corporate governance sought, is heavily premised upon addressing such addressing the concerns of such stakeholders who became critical in identifying priorities and values which it is

expected the individual and collective business sector will address (UNEP, 2002; WBCSD, 2001; Blumberg, 2001; Kaufman, Kracey and Zoido-Lobaton, 1999). Addressing the case-study of SysTec, Clarke and Roome highlight that there is a growing recognition amongst companies that they can and should *'gain a better understanding of the expectations of their customers, governments/regulators and special interest groups'* , which the acquisition of such understanding, the authors declare is the potential for *'the revision of...corporate strategy'* (1999, p305).

This conceptual framework, therefore, seeks to address these broad categories of stakeholders whom Roome and Clarke, amongst many other commentators, have highlighted as being influential in the context of corporate strategy of the environment. Four broad groupings of stakeholders are focused upon, representing amongst the most powerful potential drivers for change within companies, with the capacity to change corporate governance and institute strategic environmental governance. Whilst this research has, therefore, sought conceptually to prioritise these stakeholders, the empirical research will seek to identify whom business itself has sought to accommodate, and equally tellingly, those perceived stakeholders whom it has not? Such understanding is juxtaposed against the nature of change which is revealed through the analysis, to address this thesis' question of whether fundamental change has occurred, and by extension why.

### **Section 3: Societal Expectation**

---

#### **The Role of Science**

The greening 'of' business literature has catalogued significant commentary on the role of socio-scientific stakeholders such as the public, NGOs, and scientific research. Scientific research gave prominence, if not created, the international debate over global environmental change; science 'enlightened' the world to the reality that detrimental changes in our environment were occurring as a consequence of anthropogenic activity. The proliferation of research and

attenuating findings over the course of the past three decades have served as a catalyst for growing societal concern over the nature and consequences of such change. It has also served to confirm public suspicion that business must be held accountable for its role in creating such a scenario (CERES, 2002; Pew Center, [www.pewclimate.org](http://www.pewclimate.org); Hughes, 2002; European Commission, 2002; Cramer, 2002; Hussain, 1999; Hutchinson, 1997).

Perhaps unlike previous situations of CFC/Ozone debates, the imperative of climate change and its context within wider global environmental change, has catalysed expectation that business engagement must be comprehensive and institutionalised. Sporadic, issue-specific redress will no longer suffice. The expectation is now of systematic, long-term corporate governance to realise the guaranteed engagement of the private sector. As Howes, Skea and Whelan note, *"persistent public concern coupled with a high level of regulatory activity has helped to create a sense of inevitability in the business community that the environment is a major and enduring issue"* (1997, p6).

The scientific community has not, in the main, chosen to assume a political role, though many would argue the notion of scientific 'objectivity' within the highly contested context of global environmental change, is more an idealistic notion than reality (Agrawala, 1999; Boehmer-Christiansen, 1994). It is the much prized autonomy of the scientific community, which theoretically precludes it from assuming a political stance even on issues such as climate change, where the consequences of certain policy approaches lie in sharp contradistinction to the necessary action/response implied by scientific findings (Boehmer-Christiansen, 1994; Grubb and Patterson, 1992). Nonetheless, within the context of key global environmental change threats, such as climate change, scientific findings have become political tools with which to challenge or reaffirm the wisdom of state policy. When seeking justification for non-engagement with the Kyoto Protocol, President Bush (2001) asked the National Academy to clarify whether climate change was, or was not, a reality and the nature of the threat which it posed; and by extension whether the action implied by the IPCC Reports, was, or was not, justified.

Thereafter, the decision by the Academy to place its considerable reputation and authority behind the significant majority of scientific findings (across the globe and not just within the USA) and declare not just the reality but the

severity of the threat, provided a decisive signal to science sceptics<sup>12</sup>. The scientific community may not choose to make overtly political judgements but the Academy nonetheless signalled that it would not shy away from recognising that science can contribute to policy debates (and arguably has increasingly done so in modern times). Whilst the decision did not prompt any dramatic reversal in the Republican administration's policy, it did force the President to concede that the threat was an issue he would have to address and signalled to many sceptics within the political and corporate community, that the established approach of playing upon scientific dissension, would no longer be so productive a strategy.

By extension, the role of science within the more specific context of corporate engagement has also assumed a quasi political stance. Sceptical business could, as its political counterparts had done, use the existence of dispute within the scientific community as a means for justifying non-engagement. It would appear that the combination of less scientific dissent and greater public awareness (this in itself being impacted upon by scientific research) has caused a rethink in corporate boardrooms. Challenging the legitimacy of science is not the potent corporate tool it once was, or at least not publicly; although former sceptical businesses are now sponsoring their 'own' scientific research, which in itself is a politicised contribution to the 'scientific' debate.

### **The Role of Green Politics**

The imperative for CGE, arguably, initially emerged and is still sustained by this swell of societal consciousness. Whilst mobilised by scientific understanding, societal consciousness has materialised through key 'political' mechanism such as NGOs, consumer power and stakeholder activism (Sustainability, 2002; UNEP/UNDP 2002; Henderson 2001; Brown 2001; Brown 2000). Politics in this sense is not that of formally designated parties and their respective green agendas. This is recognition of the wider 'political' movement or mobilisation of

---

<sup>12</sup> The National Academy of Sciences put together a panel from the National Research Council entitled the Committee on the Science of Climate Change. The report which they produced, was entitled: 'Climate Change Science: An Analysis of Some Key Issues', 2001, [www.books.nap.edu](http://www.books.nap.edu)

society (and groups within) to influence the formation of CGE through the principal roles which they assume/occupy. These roles, consumerism amongst them, have provided members of the public with a means of exerting influence beyond the ballot box.

Whilst the impact of such expectation may not originally have been fully understood or appreciated by many companies, its influence has certainly grown to assume strategic importance within boardrooms across the globe (Rivero-Camino, 2001; Milliman and Feyerham, 1999; Fineman and Clarke, 1996; Selin and Chavez, 1995). As has been noted: *'Public opinion or consumer activism is currently the most visible driving force...companies usually seek to adopt policies that are in tune with the public mood'* (CSR Europe, web document). Other commentators concur, noting that the capacity for the consumer or customer to influence change has increased with the decision to use spending power in pursuit of environmental objectives (Banerjee, 2001; Dobers, Stannegard and Wolff, 2001; Cowe, 2000). Rivera-Camino succinctly notes that *'firms are eager to convince them (consumers) that their manufacturing and commercialization processes meet consumer environmental expectations'* (2001, p135).

The caveat to the potency of consumerism as a driver for corporate change is that there is considerable conditionality in the relationship between consumer principle and aspiration and actual spending behaviour and choice. There remains considerable disagreement over the perceived conceptual efficacy of so called 'ethical consumerism'. It is argued by some that a substantive gap exists between the ethical aspirations of consumers and their actual behavioural choices (Dobers, 2000; McCloskey, Smith and Graves, 1993) whilst the aspiration to 'buy green' exists, consumers, do not automatically make choices in accordance with this. Dobers and Wolff describe the scenario as being one in which *'Consumers seem to express positive environmental attitudes but when it comes to behaviour the challenges for companies are far more ambiguous'* (2000, p145). The disparity between consumer aspirations and actual choices can be at least partially explained by the limiting impact of factors such as the additional cost of green choice, actual choice within the supermarkets and places where we shop and, of course, the provision of adequate information upon which to base such choice (McCloskey, Smith and Graves, 1993). It is the latter, in particular, which the NGOs have sought to act

upon; positioning themselves as key sources of information on corporate practice and strategy.

The power of ethical consumerism, even if not fulfilling its potential, is nonetheless adequate to have created and sustained the emergence of a range of new consumer markets, which would appear to be gaining an increasing foothold (Table 2.1, below). Companies recognise that whilst consumers do not always purchase ethically, they nonetheless expect the choice to do so. The expectation is that business should provide ethical, environmentally conscious choices, whether through their products or the nature of the governance which underpins the company itself. The emerging strength of these markets is presumed to be increasing as the inhibiting factors of information, choice and cost, previously cited, are gradually diminishing; though it is acknowledged there remains considerable scope for further development (McCloskey, Smith and Graves, 1993). Percy highlights that *'corporate strategies to take leadership positions with respect to sustainability issues will pay off long-term only if customers, specifically, and society, generally, demand sustainability in their market decisions and choices'* (2000, p202)

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• <b>Retail/Food: Organic; GM Free; Free-Range; Ethical Farming; Fair Trade; FSC Standards; Sustainable Forestry/Timber Products</b></li><li>• <b>Energy: Renewable Energy/Green Electricity</b></li><li>• <b>Finance: Ethical Banks e.g. Triodos and Co-Operative; Ethical Investment Policies</b></li><li>• <b>Overall 'ethical' or 'sustainable' corporate governance: FTSE4Good and Dow Jones Sustainability Index</b></li></ul> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Table 2.1: Ethical Markets

### Organisational Influence

A plethora of environmental NGOs have subsequently emerged over the course of the past three decades, providing a very public and vocal conduit of public anxiety; an anxiety enhanced by the perception that political and corporate sectors were/are inadequately responsive to such concern. The result as Nadler notes, is that *'corporate environmental programmes have evolved as part of a movement, a collective business response to the broader political and social phenomenon of the environmental movement'* (1998, p14). The emergence and apparent continuing proliferation of the green non-

governmental movement has indeed been a phenomenon. From an issue that was not known to exist, to a mobilising factor for political party creation and politicised societal action, environmentalism has experienced extensive recognition. The size of the green NGO movement is testimony to the strength of societal concern<sup>13</sup>

Whilst the extent of the influence of such collective response is questionable, as this research seeks to examine, the assertion of where the pressure to change derives from, the impetus for this new found environmental consciousness, recognises public concern as critical to inducing such awareness. The power and influence of this environmental movement is not limited to business; political parties have been influenced by the groundswell of such organisations whose high profile activity has embedded them in the forefront of public awareness (Arts, 2002; Edwards and Hulme, 1995). The environment, as a political issue, has unquestionably entered into mainstream political agenda of national (and beyond) politics and would appear to be gaining increasing prominence within this (Fischer and Hajer, 1999; Neale, 1997; Cohen, 1997; Mol, 1996; Hajer, 1996; McGrew, 1993).

Nonetheless, it is business which this research focuses upon and the recognition of such societal mobilisation to quasi-political purposes, within the corporate sphere. Will companies reflect this 'social phenomenon' and the nature of its expectation or has the blurring of corporate and social governance not yet (if ever) allowed for the influence of business by NGOs, in more than superficial means? Conceptually, there would appear a coherent argument for believing NGO influence may not yet be pervasive but is nonetheless, considerable; it has yet to be empirically demonstrated, however, that this is reflected in the reality of corporate action.

Whilst the public are more than simple consumers, their capacity in an environmental role is significant and constitutes a potent driver for business. There are businesses who do not have any direct or indirect interface with the public, and may consequently consider themselves relatively removed from the

---

<sup>13</sup> It is also arguably a sign of societal frustration with the widespread failure of political accommodation of such concern. If political action had been adequate, why would people have felt such an imperative to collectively mobilise and press for action?

influence of public concern but these remain the minority within the FTSE Indexes. It is questioned whether this lack of public interface, as a rationale for non-engagement with CGE, can ever be conceptually justified. Nonetheless, the distinction between conceptual and actual influence, does still exist. As such, it is expected that there will be few within the sample companies for this research who would feel impervious to public opinion, particularly that so vocally demonstrated by the environmental 'movement'.

As such, it would be expected that the empirical research will demonstrate a keen awareness amongst the sample companies, of the nature and strength of public/societal opinion. In their varied forms as member of society, consumer, investor, shareholder (discussed subsequently) and even, where applicable, employees, the influence of the public is pervasive. It would seem highly unlikely that the majority of FTSE companies would outright ignore a groundswell in public opinion that is so vocal in presentation. Whilst it is anticipated that companies will be cognisant of public expectation (White, 1999), it is less assured, however, that they will behave in a manner commensurate with such expectation. It is anticipated that many companies will acknowledge public opinion and will even indicate that they have, or will seek to, strategically accommodate or reflect what such opinion has demanded by way of actions from the companies in question. 'Many' does not necessarily reflect a 'majority' and it is the quantitative element of who has engaged, with the assessment of 'how' they have engaged, which this thesis has established as are its parameters for paradigmatic change.

## **Section 4: Policy, Regulatory Drivers**

---

### **The Context**

The prevailing argument holds that pollution or environmental degradation is a consequence of market failure or imperfection in cost accounting, perpetuated by a corporate rationale of profit maximisation. It is argued that when private and social costs diverge, pollution will result from market incapacity to reflect socio-environmental 'costs'. Irrespective of whether the nature of

commodification and evaluation of environmental resources is either environmentally or economically correct (Prugh et al., 1999; Demeritt and Rothman, 1999; Turner et al., 2000; Sagoff, 1994; Stirling, 1997; Burgess et al., 1997; Wynne, 1997; Wagnagel and Rees, 1997), the basic concerns which premise such an approach, are consensually shared. Commercial operations (though not alone) have traditionally failed to account for the social and environmental consequences of their actions. They have constituted one of many externalities that the commercial sector has omitted from the business equation (Ekins, 2000; Prugh et al., 1999; Howes, Skea and Whelan, 1997).

The history of market failure, having resulted in inefficient use and over-exploitation of environmental resources requires, it is argued, external regulation to create a more normatively/conceptually reconfigured approach, aligned with public expectation (amongst others). The reality, many argue, is that the market cannot adjust in adequate time and to the level necessary to achieve the level of environmental prioritisation sought (Haq et al., 2001; Ekins, 2000; Bodansky, 1999; Bonus and Niebaum, 1997; Henriques and Sadorsky, 1996). As Jacobs notes (1997 p33); *'regulatory intervention is, therefore, required to check industrial progress because of the necessity to ensure that environmental inefficiency is not an adequate option'*; business has been made aware of just how significant an omission such environmental 'costs' have and continue to be (Robbins, 2001; Ekins, 2000; Smith, 1993).

Whilst it is, therefore, presumed that recognition of the environmental 'challenge'<sup>14</sup> is forthcoming, it is questioned whether business itself and the market economics by which it has traditionally operated, is capable of delivering the change necessary. As Ekins (2000) asks, can the private sector make an informed decision as to what is required? Can the overriding commercial rationality of the private sector so fundamentally reconfigure itself to address socio-environmental issues, and in particular, those of such a scale and severity? It is not within the parameters of how business approaches the issue, or arguably indeed how many states might comparably do, to address the nature of what is at stake: *'CVM and other techniques of environmental valuation are not able realistically to assess the costs of displacing millions of*

---

<sup>14</sup> The question being whether this is universal in recognition and the extent to which recognition has prompted actual change.

*people from low-lying coastal area (or) of other processes of large scale environmental degradation'* (Ekins, 2000, p31).

Even more fundamental to the challenge of constructing the 'correct' policy approach to addressing global environmental change, and business' role within it, is the question of whether it is ethically and morally, right for states to delegate responsibility to the private sector to decide crucial issues of societal concern (Cairncross, 1995). This is more than an issue of the adequacy of business to deliver, it is the factoring of where accountability should reside; even if business could self-regulate effectively to construct the nature of paradigmatic change being questioned, what role is the nation state, or the international community, assuming in this?

Government has pointed to its role in international negotiations over various regulatory instruments such as the Kyoto Protocol (1997), to highlight its position as seeking an international consensus to address, in this case, climate change. The question other commentators (Howes, Skea and Whelan, 1997) raise is, however, what is Government doing within the context of the UK itself. Is there a strong regulatory vision from it, to guide business whilst also reassuring society? Is there an adequate framework with which to oversee the nature of paradigmatic change being sought within business?

#### *What Is Required?*

A plethora of academic, business and consultancy literature, testifies to the contentious debate over the nature of remedial action required to redress what is perceived as corporate externalisation of environmental issues; the lack of 'traditional' responsibility for addressing environmental impacts of commercial operations (Harrison and Easton, 2002; Haq et al., 2001; Elkington, 2000; Prakash, 2000; Ekins, 2000; Kearney and Merrill, 1998; Steinzor, 1998).

The ongoing debate surrounding the need for regulatory drivers to enforce strategic change within companies, centres on the increasing socio-scientific pressure for greater responsiveness from the business community and the perceived ineffectiveness of current strategy, primarily self-regulatory, as will be discussed further in the proceeding section. The argument that has long been advocated by many within the business and environment literature, is that

regulation is needed to drive corporate change that is either not forthcoming or currently inadequate in terms of its current approach and timeframe (Steinzor, 1998). Further regulation is needed to address the scenario that corporate self-regulation will never be enough to achieve the scale and nature of change being sought. What this chapter will now go on to do is analyse the conceptual context for regulation as a driver for such change; its efficacy or otherwise in delivering such change and the disparity in how regulation is perceived by business and the wider non-business stakeholders with which it engages.

### **The Nature of Regulation of Business**

Business has long been subject to state (and wider) policy/regulatory frameworks, the imposition of which is recognised as having a significant impact on corporate change (Gouldson and Murphy, 1998; Wallace, 1995). Regulation has occurred on many fronts, perhaps the most applicable within this context being the application of Health, Safety and the Environment legislation which is currently applicable to companies within the UK ([www.dti.gov.uk](http://www.dti.gov.uk), [www.defra.gov.uk](http://www.defra.gov.uk)). An established and growing framework of environmental legislation, national, European and international in origin, has sought to ensure business operations are externally governed to minimise their detrimental environmental impact. To this framework is now added the emerging regulatory pursuit of sustainability objectives which seeks to expand yet further the basis for external governance of business.

The nature of current regulatory efforts in pursuit of environmentally sustainability objectives does differ significantly in nature and ambition from the more established environmental legislation. The regulatory framework, such as it is, is primarily soft or normative in derivation which, whilst not uncommon, lacks the mandatory force 'hard' regulation possesses<sup>15</sup>. Nonetheless, such

---

<sup>15</sup> Current regulatory drivers are mostly normative and aspirational instruments which compel little in corporate change but demonstrate an expectation that change is both beneficial but also, perhaps most importantly, expected (the forthcoming application of the OFR is noted within Chapter 7). There are, however, elements of mandatory prescription such as those detailed within Pension Fund Regulation, discussed below, which indicate an increasing hardening of state expectation of corporate activity. It is also interesting to note that what is in essence mandatory in duty, is nonetheless qualified by the element of voluntarism which allows

---

companies the option to choose whether to construct a corporate environmental policy and therefore negate the application of such pension fund disclosure regulation.

#### *Pension Fund Disclosure*

Under Pension Fund rules, all occupational pension fund management must declare their environmental policies within their Statement of Investment Principles. The issue is one of disclosure of all strategic policies which may impact upon the potential profitability of the funds being managed. This measure is laudable therefore, for both demanding greater accountability and heightening the profile of environmental positioning within the corporate and financial sector in particular. There is, however, one serious limitation within this approach, in that there remains no mandatory requirement to produce or retain an environmental policy. Disclosure is, therefore, predicated on voluntarism that is not universally adopted.

#### *Company Law*

Under the 'Modernising Company Law' White Paper, released July 2002, there was no stated intention of mandating environmental reporting, this realm remaining the prerogative of voluntary action. Nonetheless, the Paper noted the requirement for companies to consider such matters and include, where appropriate, environmental factors which impinge upon the governance of risk management within their strategic planning. It can be implied from this and previous state policy initiatives that despite the retention of voluntarism, there is an escalating pressure on business to engage: fulfilment of such expectation being necessary to avoid future imposition of mandated requirements.

#### *Corporate Governance Guidelines*

Augmenting previous corporate governance guidance, for example, the Hampel Report (1998) and the Combined Code: the Turnbull Report (1999), has sought to support the re-framed corporate governance demarcation of responsibilities. In seeking to instil greater accountability and accessibility within corporate dealing, directors must consider environmental risks within their ambit of risk management, the emphasis being on full consideration and openness of such matters. Such guidelines are in themselves, arguably, evidence of change in corporate strategy, yet the question remains, what is the extent of the change that they have precipitated: have guidelines achieved what they have sought; have companies adhered to such guidelines?

#### *Sectoral Guidelines*

FORGE (DTI/DETR now DEFRA, British Bankers Association, 2002): Financial Organisations' Review and Guidance on the Environment. A new set of guidelines was released in August 2002. Utilised by many of the financials within the FTSE companies, this government led collaboration with business sought to provide guidance for financial reporting and management attempting to instil better governance practice.

#### *Corporate Commitment Initiatives*

regulation is still arguably more forceful or compelling than self-regulation by business as it stipulates a level of expectation which, whilst not binding, is still an indication of state policy.

The aim underlying these regulatory instruments is, importantly, different to established legal instruments such as HSE regulation. Whilst HSE sought to address tangible safety and environmental activities known to have a detrimental impact, current regulatory aims are intrinsically future based, aiming to avoid the possibility of future detrimental impact as opposed to that which is currently in existence. It could be argued, of course, that the detrimental impacts of environmental threats such as climate change have already started to materialise ([www.ipcc.ch](http://www.ipcc.ch)). Regulatory differences also emerge in relation to the scale of the objectives and the issues which they address: HSE targets activities within the company sphere which primarily have measurable impacts within the sphere of the business activity which is being undertaken. The nature of CGE centred regulation is that whilst it encompasses the impacts of activities within this sphere, it also seeks to address the much wider scale of impacts which evolving scientific research into GEC has revealed. Business is now being asked to consider the impact of its activities on the global environment, current and evolving, demonstrating that it is cognisant of its corporate responsibility to current and future generations

Attempting to encompass within regulatory instruments, the scope and intent which environmental sustainability motivated regulation requires, is intrinsically problematic, particularly given the evolving nature of scientific understanding, is intrinsically problematic. Regulation has traditionally addressed issues of relatively clear responsibility and attenuating liability; it establishes boundaries of acceptability and outlines 'punishment' for transgressing such limitations (Ball and Bell, 1991). Its authority derives from the perceived morality of demarcating such boundaries and its capacity to establish liability for behaviour falling short of that moral or normative standard. In delineating between acceptable and unacceptable, between right and wrong, the law relies upon the identification and attribution of liability; this judgement being based upon

---

MACC2; Government led initiative to engage companies in making a corporate commitment, as the title states, to energy management and efficiency, with the emphasis being on the reporting of actions undertaken (Tyteca et al., 2002; CBI, 2000).

notions such as cause and effect; behaviour and consequence (Cotterrell, 1989).

The reconfigured jurisprudential model for addressing environmental law or regulation reflects the reality that both the nature of the 'problem' and the boundaries of acceptability within which behaviour is delimited, coupled with the attribution of liability even where such boundaries can be defined, is not as straightforward as the traditional model of law outlines (Wilson, 1999; Fisk, 1998; Keohane et al., 1998). The root of this conditionality lies in the still developing knowledge which we have over environmental 'harms'; our understanding of detrimental environmental change is subject to constant development as scientific findings seek to further explore the impact of anthropogenic activity upon environmental change.

What has emerged over the past several decades is a model which recognises that normative premises, such as cause and effect, may be subject to conditionality; a company emits hazardous chemicals into a water stream and it is punished for the illegality of the action and potential (if not manifest) impact this may have upon aquatic, if not human, life sustained by such water (Mehta and Hawkins, 1998; Ball and Bell, 1991). The behaviour is deemed morally wrong based upon our understanding of the potential impact of such behaviour and the law seeks to establish boundaries accordingly; the impact may be difficult to definitively prove but this is unnecessary to define the activity as 'wrong'. In so far as this still establishes cause and effect, behaviour and consequence, this much reflects still a quite traditional conceptualisation of the role of law.

This model of regulatory governance for addressing global environmental change presents a further challenge to the traditional concept of regulation, one which seeks to progress the environmental law framework arguably further beyond its current remit. It is not simply that the existence of such change is still contested; the range and responsibility of actors for bringing such change about, is also disputed and brings an additional level of complexity to the issue. Business has argued, persuasively, that in seeking to focus regulatory attention on the private sector alone, the attribution of liability is levelled solely on it. In reality, it argues, it is both public and private sector engagement which is required and that it is being unfairly asked to assume responsibility for

abatement of an issue that is more than of business' making; a global societal problem (Buckee, 2001).

The counter-argument to this resides in the critical reality of commercial rationality which drives business and not society, and the accompanying profits which business has accrued from what is now recognised detrimental activity<sup>16</sup>. Irrespective of the moral implications of having profited from such activity, the business argument (not, it is acknowledged, advocated by all) centres on the degree of responsibility and does actually negate the notion of responsibility per se. The imposition of regulation is, therefore, not intrinsically unfair if it seeks to pursue its reflection of such responsibility, contrary to some analysis; the issue is one of how it seeks to deliver such responsibility (Steinzor, 1998).

The problematic nature of our understanding of such change is exacerbated by the reality that the tangible manifestations of such change may not appear for decades and even where this does occur, establishing direct liability in the traditional conceptualisation of law, may be impossible; how do you pinpoint one 'culprit', for example, for climatic change when responsibility may theoretically be shared amongst all? Arguably what the evolving concept of environmental law is marking, is a shift in the definition of liability, defined less on the basis of establishing evidence of direct liability and more on the basis of the action itself and the imperative to avoid it. It is, therefore, business as a collective entity which is being focused upon; the distribution or allocation of this being subject to further policy/regulatory debate (Bonus and Niebaum, 1997)

Seeking to regulate business in pursuit of addressing GEC is not strictly scientific, therefore, it also assumes moral importance (Fisk, 1998). Normatively, business is being the subject of focus because society perceives business as having the greatest collective capacity to redress such change. It also, crucially, views the fact that business has commercially profited from activity, as imposing a responsibility to 'repay' society. The question, however, is how to use the evolving conceptualisation of environmental law to realise such an imperative. This is why regulation has characteristically been 'soft' and

---

<sup>16</sup> Acknowledging that 'business' is being used as a collective term and that significant disparities exist in terms of action and liability within this.

normative in approach; what is being sought is not mandatory but does outline the principles upon which society is seeking business to govern its own activity. Thus far business has largely been left to self-regulate ; government has been content to allow business to self-strategise in pursuit of a more environmentally focused and sustainably aligned commercial rationality, with the system of internal corporate governance catered to deliver this.

### **How Efficient is Regulation for CGE?**

As noted previously, the importance of regulation as a driver for corporate environmental governance has been extensively noted in much greening of business literature (Banerjee, 2001; Lindell and Karagozoglu, 2001; Dobers and Wolff, 2001; Blum-Kusterer and Hussain, 2001; Lorente et al., 2001; Rivero-Camino, 2001; Prakash, 1999). Madsen and Ulhoi note: '*regulation is still the main instrument influencing companies to introduce less environmentally harmful practices*' (2001, p77), a judgement concurred by Robinson and Clegg (1998, p6) who also declare that '*the principal pressure on UK businesses to demonstrate environmental responsibility is that exerted by government through legislation and regulations*' (Robinson and Clegg, 1998, p6).

The power of regulation as a driver for business change is, however, dependant not only upon both the nature and scope of the regulation itself but also the policy context and state administration which premises it. The following discussion provides a conceptual framework for the perceived efficacy of regulation in the context of corporate strategy and its capacity to accommodate or realise CGE. The proceeding section will outline the conceptual argument for self-regulatory strategy as a basis for driving and achieving change.

Academic debates over the relative benefits of traditional regulation versus a market- based approach, have been characterised by and, and often exaggerated, claim-based approach. In the pursuit of more market-based regulatory instruments, the relative drawbacks of the so called 'command and control' approach and the perceived benefits of economic instruments may have been over stated (Cole and Grossman, 1999; Andrews, 1998; Braadbaart, 1998; Steinzor, 1998). It is argued that there exists many benefits to business

which suggest that the imposition of mandatory regulation or legislation upon business, to deliver CGE, will be beneficial not only to society but also business itself.

### **Benefits to Business**

The significance of regulation as a driver for corporate activity remains pivotal, as Howes, Skea and Whelan amongst others highlight, '*most companies still see regulation and the anticipation or avoidance of future regulation as the main driver for taking environmental measures*' (1997, p151). The influence and potency of mandatory regulation in driving the environmental change sought, must be considered a principle tool in forcing corporate redress of environmental change (Fineman, 2000). It is assumed, however, that corporate hostility exists towards such regulation, since it results in external intervention in commercial activity, encompassing not only prescriptive regulation but also that of state-imposed market based regulation (CBI, 1998/2001/2002; ERT, 2000; Consultative Forum of European Commission, 1999/2001). Self-regulation is advocated by many business commentators to be the preferred policy option.

Does this presumption still hold? Many commentators would argue this universal presumption of hostility does not reflect corporate thinking (Kearney and Merrill, 1998; Howes, Skea and Whelan, 1997). The heterogeneity of business interest inevitably places some companies in the advantageous position of benefiting from regulation and negates the assumption of outright sector-wide hostility. Arguably, the changing nature of stakeholder expectation and the tangible threats to commercial status which failure to acknowledge such expectation brings, may have lessened business hostility towards regulation. The basis for this lies in the potential of mandatory regulation to assist business in this process of change, or at least to assist those striving to strategically change.

A counter-argument to the presumption of corporate hostility towards regulation is the perception that such regulation can check those companies hampering environmentally driven change. A justification for regulation exists on the basis of intra-business monitoring, cognisant of the fact that whilst certain companies

perceive long-term profitability from commitment to environmental strategy and regulatory compliance, other companies are aware of the scale or impossibility of the transformation required for their particular operations.

In such a scenario, the disincentive to act has had, and continues to have, the potential to serve as a disincentive for change. Such reluctance to recognise either the need, or governance measures capable of delivering such change can have a knock-on effect on other companies and either hamper or fatally undermine the regulatory programme in question. As Cairncross notes (1995, p188) '*companies are not individuals with a moral obligation to be good environmental citizens....to rely on companies to set their own environmental standards is not merely naïve: worse it is unfair to companies that genuinely want to pursue their own environmental policies*'. The assumption is therefore that regulation where imposed, however hostile, will ensure an equitable basis for participation and progress of all relevant companies.

Inevitably, as with all processes of change, the transition from current to sustainable patterns of business is not uniform, either in terms of its acceptance or implementation. Certain business concerns face potentially severe implications in the transformative process envisaged. Their existence may be predicated on patterns or products whose demand in the new commercial context will be limited in terms of public or market appeal, or quite simply because of resource exhaustion (for example: the non-renewable energy sector). Confronted with the challenge of wholesale restructuring or preservation for short-term profitability, the latter has been the option of a significant element of industrial concern. The members, for example, of the former Climate Coalition adopted the strategy of consistently undermining the validity of scientific evidence on the potential for climatic change. Whilst their dissolution could be construed as negating the validity of this approach, many of its former members have persisted in the strategy to considerable effect on US public opinion. It is only within recent times that Esso/ExxonMobil has been forced, through a combination of societal and institutional shareholder pressure to acknowledge and address the issue of climate change (Fagan, 2002; Gray, 2002; Esso, 2002). This nonetheless demonstrative of change but the 'change' has not been rapid nor it could be argued, is it as expansive, as for example, BP or Shell (CERES/Mansley, 2002).

### *The Provision of Level Playing Fields*

The existence of a level playing-field or competitive basis for business, is a principal benefit achieved through regulatory intervention. The 'free rider' problem is particularly pertinent, given the nature and extent of change required, both to address and abate climatic change. Current business reticence stems as much from the fear of at least short-term loss of economic competitiveness, as it does from realistic concern that other business entities (whether within their own jurisdiction or not) will not engage in similar behaviour. There are reasonable fears that economically detrimental (at least in the short-term) measures emanate from environmentally driven policy. Regulation offers the potential for the application of common standards which companies will be obligated to achieve, therefore minimising the disadvantage accrued through unilateral action on the part of one or few companies. As Howes, Skea and Whelan surmise: '*some form of legislative framework is required to support such initiatives and to overcome the problem of free-riders*' (1997, p121). It is argued the imposition of such a framework will act to further incentivise business in engaging with CGE, even where wider stakeholder pressure may not have succeeded.

### *Regulation as Reputation Enhancing*

Ironically, given the perception of business reticence, many commentators argue that regulation is paramount in boosting corporate image, providing a critical legitimisation of commercial operations. Given public mistrust over corporate normative posturing, regulation has the potential to reassure societal concern and even to bolster the commercial position of companies within the market – noting the primacy given to stakeholder perception as a driver for business change, as has been discussed (Boele, Fabig and Wheeler, 2001; Burns, 2000; WBCSD, 2000; UNEP/UNDP, 2002; Dobers and Wolff, 2000; Hartman, Hofman and Stafford, 1999). The counter-argument to this, however, is that self-regulatory action by companies, voluntary strategic change, would demonstrate even greater corporate commitment and ultimately, enhance corporate reputation (this will be discussed further in the next section).

### *Stimulating Innovation and Competitiveness*

Many commentators would argue that traditional economic theory has failed to realise the innovative potential of regulation, being overly optimistic in its assumption of the market capacity to adjust (Wallace, 1995). The reality of regulatory experience, it is argued, is that it can provide an economic and competitive incentive for companies to act, inducing innovation or stimulating greater competitiveness, provided it is both stable and orientated with long-term futuristic state planning. As Boyer and Laffont note (1999), regulation, particularly that which is incentive-based, appeals directly to the competitive motivation which drives companies. The rationale is that change, though imposed, will give both economic and comparative advantage to the 'first mover' in such change and will therefore appeal to the competitive nature of companies. Assuming the position of market-leader is not just operationally beneficial but also enhances reputation.

In the short term, the reassurance of policy stability engenders greater participation of companies in the knowledge that they also can plan with some degree of security that there will not be future political manoeuvring which would negate the competitive or financial benefit they will gain from taking such action. In the longer term, stability also encourages market change and a more conducive commercial environment which benefits corporate strategising (Wallace, 1995). Regulating to establish and augment markets for new 'green' technology enables corporate strategy to focus on supplying the demand which such markets create. Such stimulation of business growth and hopefully, innovation, in an environmentally driven manner, also serves in the long-term to remove the threat of future regulatory intervention. Companies, if eligible for incentives, will be progressing in the knowledge that regulatory penalties are being avoided. Such regulation also crucially avoids the normative debate over whether it is the role of business to be concerned with issues other than profitability and competitiveness through the provision of an economically-driven rationale for such action. It is acknowledged, however, that this may not be necessary if business effectively self-regulates, responding to the wider stakeholders which have sought to influence their corporate governance.

Regulation has the potential to provide the conditions for profitable innovation, reducing the potential for diminishing returns through removing barriers which

heighten financial and transactional cost, creating new markets and promoting the advantages of pro-activity (Haq et al., 2001). For companies wary of taking unilateral action in the absence of an over-riding regulatory (and governance) framework, there also exists the possibility that they will be acting unilaterally; that other companies will not follow suit. The danger in this scenario is that there will not be an adequate market for the nature of 'green business' envisaged; that business will not receive the 'reward' it envisages through the implementation of environmentally-motivated change.

Regulation can assist in the creation of new markets for such policies and their consequential products; creating the market for such 'green' commercial activity. As a caveat to this, regulation may redefine the marketplace, through forcing out some companies, decreasing competition in the market and consequently enhancing the competitiveness of those who do meet the environmental regulatory criteria. Regulation may also serve to assist profitability through reducing costs for certain resources or products through the creation of such markets. The absence of such markets or recognition of them, could suggest regulation is required to catalyse such creation, or has business recognised and bolstered what nascent markets there are?

## **Section 5: Business Drivers**

---

The previous discussions have focused upon the perceived roles of consumers and regulation as a driver (and the state as stakeholder) in compelling change within business. Business has itself, also, sought to understand and construct a framework for action which will facilitate change without regulatory intervention by the state. This self-regulatory approach would appear to have achieved substantive change, if one addresses business literatures – but is this the reality? Can self-regulation deliver paradigmatic change and will the governance strategies of the sample companies reflect this?

It is important that drivers for CGE also emanate from within business itself for arguably, such drivers provide the greatest potential for effective change. Conceptually, the last section raised the question whether business should be allowed to self-regulate. The issue is, however, driven less by ethical

conceptions of right than by the practical expediency of what is a workable approach. Addressing three key sets of stakeholder drivers for influencing CGE, this section looks at the internal pressures which may persuade a change in corporate governance:

Firstly, there are employees, who are constitutive of both internal and external drivers for change; actors who are both members of the wider public and the internal operational running of the company. It is important to explore the role employees have assumed or have the potential to assume in focusing governance in a more sustainable manner?

Secondly, a critical role is being assumed by financial stakeholders, who increasingly represent an important driver for change in their capacity as institutional investor, insurer and shareholder. This grouping has traditionally assumed prominence in stakeholder terms yet whether this influence has or is being directed to environmental aims remains an open question.

Thirdly: the markets, competition and the company itself provide internal pressure. The markets provide a key driver for compelling business to change in line with market demands. The failure of a company to address changing markets has obvious competitive and economic drawbacks and ultimately is not sustainable. The issue, however, is whether the markets have created sufficient impetus for change. Competition in the form of a company's key rivals also provides an interesting source of pressure for companies: with the alternative of seeking to respond to what their competitors are doing or continuing to resist changes to embrace CGE. Each stakeholder grouping will now be discussed.

## **Employees**

The role of employees in influencing corporate behaviour is gaining increasing prominence within the greening 'of' business literature (Annandale, 2001; Rossie et al., 2000). Employees have not traditionally been perceived as a 'stakeholder', merely a component of business, and, therefore, not distinct from the entity of the company. In many respects this is true, in that employees are not 'distinct' from the employment environment in which they work. Employees, however, are more than business components; they equally reside within a

non-working environment, as members of wider society. As such, employees occupy what is arguably a critical role in terms of influencing corporate behaviour and governance; they have a stake in ensuring the development of the company that employs them but also a stake in wider societal environmental welfare. The fact that employees have assumed the role of a *'sometimes overlooked group with a stake in a company's environmental performance'* (Tubiolo, 2000, p183) makes them an increasingly appropriate basis for analysis of what exactly this stake and influence is.

Bamberger and Share surmise the importance of employees in influencing change as centring on their 'internal credibility', a credibility which is *'required to build...management to a strategic level'* (2000, p132). Whilst wider stakeholders such as green NGOs are assumed to have an influence derived from their expression of public expectation, employees have arguably greater legitimacy in the eyes of a company because they marry such public concern with experience of the operational activity of the company. In doing so, it is argued, they potentially can best address where environmental change can be delivered, in a manner that does not negate the development of the company; their employer.

Companies are equally aware of the value of their employees and the merits of being seen to address their expectations. For certain sectors, such as the service based industries, creating the right corporate image on issues such as environmental responsibility, can be significant in attracting the right personnel to work within the company. Employees equally, increasingly expect that their company is one which is not perceived as being an environmental 'culprit', there existing added value in having a responsible employer. This in itself mirrors the wider awareness of society and the expectation that companies will reflect such awareness. Of interest, however, is whether the conceptual advocacy of the value of employees is reflected in the perceptions of FTSE companies; do companies share the increasing interest of academia in this stakeholder group?

## **Financial Stakeholders: Shareholders and Investors**

### *Shareholders*

Members of the public also represent another key actor in the role of the shareholder. The power of the shareholder has always been considerable in corporate governance terms; the majority of shareholders in any company have the power to demand change in strategy and main Board membership (Dobers and Wolff, 2000). Growing shareholder activism on environmental issues and corporate responses has manifested itself in direct challenges (normally through AGM or special AGM resolutions) to corporate strategising (Gray, 2002). Both in the specificity of particular incidents and through general corporate approaches, shareholders are voicing their expectations of how their company should be responding. This is borne not just of environmental awareness but more directly, of the growing realisation of the impact of environmental governance on share value, both positively and negatively.

Lack of shareholder confidence, amongst other factors, can impact upon share price and therefore company financial performance. Traditionally, this has been principally gauged in terms of indirect and typically short-term financial impact. The Shell precedent<sup>17</sup> has, however, demonstrated that whilst the impact can be temporary in financial terms, it was nonetheless sufficient to change corporate practice substantively<sup>18</sup>. The link between shareholder value and environmental governance is becoming increasingly direct and influential, as recognised by the importance of this grouping for motivating such disclosure.

### *Investors*

Firms who engage in, fund, invest in, or provide financial support of any nature, to environmentally detrimental practices, are being scrutinised for such profit-making activity. It is not enough to be directly uninvolved in such detrimental operations, there is an expectation that a company will 'place its money' where its stated environmental principles lie. Increasing regulatory pressure, whether through Pension Fund or Company Law requirements, previously discussed,

---

<sup>17</sup> The Brent Spar incident being a particularly strong example of this (1995).

<sup>18</sup> As acknowledged by Shell itself, [www.shell.com](http://www.shell.com).

has also forced companies to disclose their environmental policies, risks and management where they exist.

Such measures can have direct impact upon company reputation, market position and shareholder value (CERES, 2002; European Commission, 2002; Cramer, 2002; Hughes, 2002; Stanwick and Stanwick, 2001; EPA, 2000; Austin and Repetto, 2000; Schaltegger and Figge, 2000; Walley and Whitehead, 1994). This may be both immediate and long-term as ever conscious onlookers may assess the companies value based upon it; *'investors and analysts who understand the connections will be better positioned to identify companies with superior stock appreciation in the newly emerging sustainability-driven marketplace of the 21st Century'* (Sugar and Descano, 1999). Companies must, therefore, be conscious of the fiduciary responsibility they owe to their shareholders in addressing or failing to address environmental governance and the financial implications thereof (CERES, 2002; WWF/C&W, 2001; Hibbit, Kamp and Roelands, 2001; Simerly and Li, 2000; EPA, 2000; Social Venture Network, 1999; GEMI, 1998/1999; Sugar and Descano, 1999; Dixon and Whittaker, 1999).

Fiduciary responsibilities not only rest in those companies seeking to increase their environmental profile but also in the increasing number of financials managing ethical investment funds. The decision of trust managers such as Morley to only consider companies who have environmental policies will have direct implications for the attractiveness or eligibility of companies to be included in such investment portfolios (Morley Trust Fund, 2001/2002; Evolve, 2002). Other initiatives have been quick to establish themselves in this emerging green financial market (Cooper, 2000/2001) with the creation of numerous 'green' orientated financial vehicles and the potential for considerable growth in this ethical market.

Greater corporate financial accountability through measures such as registering of accounts and annual reports are now being replicated within the context of the environment. Transparency in all corporate dealings is required but particularly those which impinge upon operations with environmental impact. Akin to its financial counterpart, the environmental report has become an increasing apparent element of corporate disclosure, as subsequent Chapters will elaborate. Communication of environmental performance is rapidly being

acknowledged as the principle means by which societal scrutiny of Corporate governance of the environment can occur (ENHESA, 2002; WWF/C&W, 2001; WBCSD, 2000). The integration of environmental data within financial accounts enables not only societal but specific shareholder analysis of the Corporate governance of the environment of the firm. Increasingly such shareholders are becoming active in the debate for greater environmental accountability within the firms in which they invest (Monks, 2000). This will be discussed further in the next chapter.

### **Self Regulation by Business: Markets, Competition and Business Drivers**

The greening 'of' business literature reveals strongly divergent positioning on the issue of self-regulatory strategy and its perceived efficacy in delivering corporate change. Commentators from within business are characteristically positive in their assessment of the potential contribution self-regulation can make to corporate governance of the environment. The literature also, however, reveals a sharp contrast in perspective between such strongly pro-self regulatory stances and the more sceptical literature emanating from academia, and environmental NGOs (Haq et al., 2001; [www.cbi.org](http://www.cbi.org); [www.greenpeace.org](http://www.greenpeace.org)). The implications of adopting a self-regulatory framework for catalysing corporate environmental strategy are significant and impinge upon key conceptual issues such as democratic governance (that delivered by a state administration given its mandate by the electorate) and the perceived relinquishment of state control through self-regulation; the notion of accountability and accessibility (or lack thereof) within the corporate sector; and the construction of environmental responsibility and the adequacy of differing responses in accommodating and reflecting this responsibility.

Such issues are pivotal to the scope and nature of delivery of environmental governance and the engagement of the business community<sup>19</sup>. In assessing

---

<sup>19</sup> Greening business literature is premised on the assumption that the requirement for change is strategically accepted by business; the key foci for analysis being how such change can be delivered and how expansive it will be. It is important to note, however, that such a presumption belies the reality that many companies have either publicly refuted the validity of the scientific evidence of the need for change or have assumed what, at best, could be called an ambiguous

the relative merits of such a strategic approach, it is not just the perceived adequacy of self-regulation to deliver the scope of CGE being expected by stakeholders but also what it implies in terms of strategic perspective and commitment to realising such change. The interpretation of these issues can be significantly influenced by an actor's positionality, internal or external to business itself.

Perhaps the strongest conceptual justification for the self-regulatory approach rests in the perception of where the capacity to achieve greatest change exists (Cairncross, 1995). This necessitates drawing upon corporate perception of what is in tune with its own operational norms, coupled with a more conceptually based analysis of whether this aligns with stakeholder expectation and the overall challenge of environmental engagement and construction of attenuating governance (Cairncross, 1995; Bregman and Jacobson, 1994). Analysing such conceptual justification for self-regulation, two distinct but inter-related sets of argument would appear to exist for the use of self-regulation as an effective means of instilling CGE. The first centres on the perceived disadvantages which accompany the use of regulation (noting the relative advantages or merits of self-regulation which have been previously outlined) and the second, that of the actual benefits or drivers for business in engaging with self-governance, irrespective of (relatively speaking) the threat or imposition of mandatory regulation (Reinhardt, 1998; Romm, 1999).

#### *Deficiencies in Mandatory Regulation*

The corporate belief in the capacity of business to best deliver strategic change is heightened by perceived deficiencies in regulator/state understanding business strategy and how regulation impacts upon it. It is accepted that state/regulatory strategy has the potential assist in the creation of new markets or evolution of existing ones, for environmentally responsible companies and their products; this is indeed integral to policy objectives in many instances. The extent to which states have recognised and accommodated or reflected this within their regulatory strategies and objectives is, however, in contention

---

or less than fully committed position. There remains a need to demonstrate that the presumption has been realised, rather than rely on untested assumption that it has.

(Gouldson and Murphy, 1998; Wallace, 1995). It is argued by many that governments have failed to adequately grasp the implications and consequences of their influence, Wallace amongst others, asserts that *'Unfortunately, policymakers either fail to realise this or to recognise its implications for corporate strategy and innovation'* (1995, p15).

Such regulation is strictly negative in its impact, failing to provide the necessary incentive to both initiate and sustain operational activity in line with the environmental consciousness sought (discussed, for example, in Haq et al., 2001; Sharma, 2001; Lahusen, 2000; Esty and Geradin, 1999; McGee, 1998; Steinzor, 1998). The failure to help create new marketplaces for innovation, inevitably hinders the drive and purpose for new 'greener' technological advancement, stifling the very corporate strategic activity needed to meet environmental objectives. The basis for this perceived failure is two-fold: a symptomatic lack of strategic vision with which to underpin policy frameworks and a lack of understanding as to how business itself operates. Such factors, it is argued, constitute a significant drawback to the use of such state regulatory programmes/instruments to achieve corporate change.

Gouldson and Murphy (1998) concur, noting that *'the comparative lack of clear strategic vision at the broadest policy level does not provide a firm foundation for mandatory regulations...both industry and inspectors have identified that well designed legislation like IPC appears to be implemented without an overarching framework to guide it'* (1998, p89). Reacting to what is perceived as the lack of long-term vision, companies may be obligated to undertake the action being prescribed but feel disinclined to subsequently over-comply or undertake further self-regulatory action that could achieve even greater change. The issue then is one of inherent reticence or hostility to future regulatory engagement being built up through previous experience, undermining the objective of legislation to catalyse further change. Clearer state direction would assist business, it is argued, in terms of formalising its own strategic vision for the future. The counter-argument to this, however, is that state visioning or lack thereof within regulatory frameworks would be less of an issue if business was adequately self-regulating.

### *Visioning but Lack of Understanding*

Addressing the second of two factors undermining state strategy, it is asserted that even if the adequacy of state strategic vision was assured, it would be intrinsically undermined by a persistent failure on the part of government to understand how business itself operates and consequently, how to deliver change to this<sup>20</sup>. If, as has been asserted, '*the political climate of environmental policy has a profound effect on the attitudes and behaviours of firms which are subject to environmental pressures*' then equally Wallace's assertion that governments/states must, as a prerequisite to better industrial environmental policy, '*understand the nature of decision-making in industry; how it is conditioned by perceptions of market and risk affecting technological capacities*' (1995, p22) would seem logical. Traditional free market theory argues that such understanding does not, nor has not, existed; that to take the exercise of authority from business is to automatically undermine the capacity of the market to effectively self-regulate and to achieve more widespread change.

### *Reactionary or Over Compliance?*

It is asserted that regulation is inherently reactionary despite the necessity for proactive or precautionary approach when addressing GEC (Tickner and Raffensperger, 1998). Certainly the administrative difficulties involved in legislative formulation, in particular, the protracted nature of regulatory negotiations between concerned parties, can result in prolonged timeframes necessary to formulate regulation. The risk is, therefore, that regulation ends up being reactive rather than proactive. Whilst the process of enacting legislation

---

<sup>20</sup> This also been hampered by the current ambiguous state of administrative capabilities and the rationality which premises it are the 'dynamic and unstable series of structures engaged in a variety of often contradictory and ill-specified tasks' (Gandy, 1999, p60). The reality of a bureaucratic regulatory framework comprising differing departments/agencies often with differing or uncoordinated agendas, has been a subject of longstanding commentary (Fineman, 2000/1998; Gouldson and Murphy, 1998; Howes, Skea and Whelan, 1997). Existing regulatory instruments and targets, and the framework which delivers them, stand accused of overlaps or outright contradictions. It is arguable whether the framework itself is not causing such incoherence. Alternatively, its strategic use by regulators may have given rise to the necessity for greater policy integration and pre-planning.

can involve extensive consultation time, it is not necessarily the case that this makes the instrument, and the policy strategy which premises it, intrinsically reactionary. It can be argued that a response to a perceived environmental issue but in this sense, any strategic response, self-regulatory included, is reactionary.

Regulation is, however, increasingly being used to pre-empt and prevent manifestations and consequences of GEC, if not GEC itself, by recognising the potential or likelihood for such 'harm' in the absence of action. In essence, much of what could be labelled sustainability driven regulation is intrinsically pre-emptive in nature (in so far as this can occur) and it is this which makes it contentious to the business sector (Bregman and Jackson, 1994), in particular. It is not that business has any conceptual difficulty addressing 'future' scenarios of risk management and contingency planning are testimony to this, but that there is/can be a perception that regulatory demands may seek to prevent a scenario(s) that may never be realised.

The basis or need for legislative intervention arises, it is argued, from the necessity of the state to fulfil its paternalistic role of ensuring the common good; in this case, of environmental protection for society. If business assumes the burden of self-regulation in the pursuit of such an objective, then it would argue, this negates the need for such legislation to be enacted. Indeed, for some companies, over compliance, in the form of self-regulation or voluntary initiatives can be a rational response to the anticipation of regulation, or stricter regulation, in the future (Brink and Morere, 2000; Stoughton et al., 2000; Aroroa and Carson, 1996). Companies have, accordingly, the opportunity to (incrementally) develop their own frameworks for change, utilising their respective capabilities to maximise the efficiency and speed with which they do so (ECOTEC, 1999). This represents the ideal of effective self-regulation, even where the perception of the importance of the objectives is not universally shared. Is this, however, the case with current corporate responses to CGE; have companies acted to pre-empt legislation (this presuming that business believes such legislation will be forthcoming)? If, despite current demands, there remains a belief within the business community that legislation will not materialise, will companies recognise the impetus to self-regulate?

### *Timescales for Realising Change*

Nowhere is it presumed that the nature of paradigmatic change being analysed, can be realistically achieved overnight. Business would argue that such change must be accommodated within or subsumed within the natural timespans for change. Without this, undue cost is imposed upon businesses and unrealistic assessments are made, of how strategic change occurs within a company. Comparably, the failure of the state to address the long-term nature of much corporate planning, may lead to regulation that attempts to intervene and redirect strategy when managerial and operational programmes have been introduced to contrary aims. Whilst it is inevitable that disparities in strategy will emerge with the introduction of new regulation, the failure to acknowledge the time-span required to realise such fundamental corporate change and the reality of differing corporate capacities to respond to such restructuring, will minimise the efficacy of the regulation.

Industry has called upon the state to better recognise existing technological and management timescales. The state, it is argued, should address how existing technology life-spans affect both process and product - the introduction of newer 'greener' technologies etc. being possible or more economically feasible when such life-spans are incorporated. The charge is for the state to better accommodate the synergies between company activity and regulatory objective (Howes, Skea and Whelan, 1997). For example, attempting to introduce technology changes when a company has just purchased new but traditional machinery/technology may mean the business cannot make the transition envisaged in regulation within the time-span the regulation stipulates.

### *The 'Bluntness' of Mandatory Regulation*

An oft-cited criticism of mandatory legislation, in particular the so-called 'command and control' approach, is that it is a blunt tool with which to achieve policy objectives. The criticism of 'bluntness' centres on the perception that regulatory instruments tend to over-reach in their objective; i.e. in seeking to attain the environmental objective in question, it demands more than is necessary, over-reaching the necessary scope or range of those regulated. The proverbial '*using a sledge-hammer to crack a nut*' approach typifies the perception amongst many companies that such regulation is heavy-handed and inadequately targeted. The perceived inadequacies of such an approach are

multiple: firstly it is argued that they impose an unjust 'burden' on those already striving towards a comparable objective or that they are imposed upon a wider range of subjects than necessary. Secondly, they are perceived as over-striving, leading to the imposition of excessive costs, heightening the risk of outweighing potential benefits sought. Thirdly, the reality of such instruments is that both the nature and approach of the regulation may not achieve the environmental objective envisaged (Howes, Skea and Whelan, 1997). Corporate experience of inadequately constructed and implemented regulatory drives, counter-productive to their aim, seems to have created a legacy of mistrust and hostility, which requires redress in the pursuit of effective corporate governance of the environment.

#### *Technological Components of Regulatory Strategy*

Aside from the practicality of the legislative tool, Cairncross amongst others also perceives ideological difficulty with the technological component of industrial regulation. Her declaration that '*regulators second guess companies about what is the best technology*' (1995, p60), encapsulates what is seen to be long established corporate frustration with the inability of regulation to accommodate the technological components of their operational activity when prescribing change. The technological component is of increasing significance given the pursuit of technological advancement implicit within both Kyoto Protocol and national strategies to realise 'greener' operational activity.

### **The Benefits of Self-Regulation**

#### *Benefits to Business*

Retaining the choice of self-regulation acts as an important driver for business; perhaps even more than the environmental objectives which require the regulatory response itself. The 'right' to maintain control over their own operational activities, relatively free from state intervention, is a much valued tenet of *laissez faire* economics, generously espoused by previous governments within the UK. It is as Buckee notes '*fundamental to market economies that corporations retain their status as distinct entities with the responsibility for their own decisions*' (2001, speech transcript).

As has been discussed, such a status dominated much of state-business interactions in the past few decades. Self-regulation appeals to corporate rationality because it persists in the approach that companies know best how to address their operational strategy and re-orientate in accordance with the prominence of socio-environmental public expectation (DTI, 2002). Equally, of course, it allows business to prescribe the extent of their own action. Self-regulation is convenient to the state, in pursuance of harmonious links with the private sector, that they allow business to self-regulate in pursuit of sustainability, and more particularly, in pursuit of effective CGE (European Commission, 2002; DTI, 2002; ERT, 2002; Gibson, 2000; GEMI, 1999; ACBE, 1998). The rationale from the perspective of the state, is that in minimising regulatory imposition, business may potentially engage to a greater degree than might otherwise have been achieved through obligation.

The argument of the right to retain the exercise of control over governance is not, however, one that would appeal to many within the stakeholder sphere, particularly those within the broad scope of society. Addressing the counter rationale for self-governance, it is somewhat paradoxical that another key driver for business is the need to reassure stakeholders of their wider accountability and responsiveness to societal concern; effectively that corporate governance is open, accountable and addresses social-environmental needs (Belal, 2002; Milliman and Feyerherm, 1999; White, 1999). In such a scenario, it is argued, corporate governance is arguably not autonomous, but actually within the influence of broad sets of stakeholders, amongst whom is the state and society. The adoption of self-regulatory strategies in pursuit of CGE by companies, is a signal to all stakeholders of the corporate intention to accommodate or institute environmental responsibility (Stoughton et al., 2000; Case, 2000; Arora and Carson, 1996).

The rationale for such acceptance is commonly perceived as residing mainly in the need to reposition the company in a favourable public light. Such 'favourable' perception derives from the belief that companies are actively addressing stakeholder expectations; self-regulatory adoption of CGE initiatives are demonstrative of a company striving to achieve change (Bowen, 2000). Such corporate intention, it is argued, is strongly rooted in the desire to establish or enhance reputation benefits from being '*visibly green*' (European

Commission Communication 347 Final, 2002; Bowen 2000; ACCA, 2001; Bamberger and Share, 2000; ERM, 2000).

It is the perception that such a green image is either necessary or beneficial which premises this corporate intention and which the thesis will assess as a change towards CGE. It is not anticipated, however, that all companies recognise this requirement or the benefit which can accrue from 'green corporate reputation'. Many commentators within the greening of business literature highlight the central importance of reputation as a driver for CGE (Percy, 2000), as Kantz declares: '*companies strive to be seen as the leading environmental champions for the 21st century*' (2000, p161). Whilst unquestionably there is increasing awareness of the importance of being 'seen to be green' and the status which this can provide within the sections of the business community that are striving to advocate their green credentials. In many respects, this is not solely a reflection of stakeholder pressure but a desire to establish corporate strategic prowess: as with any aspect of business operations, an ambitious company wants to perceive itself as having constructed effective business management.

#### *Variety of Instrument Choice*

The variety of instrument choice which can be employed in self-regulatory strategy is a key asset in the delivery of self-regulated CGE. Whilst having varying degrees of success, many commentators (OECD, 2000/2001/2002; Hansen et al., 2002; Laffont and Boyer, 1999), are positive in their requirement for business to engage with environmental (and wider) issues (see Table 2.2 below). This diversity of instrument choice, it is argued, enhances the attractiveness of such an approach, particularly to business: greater choice and flexibility being perceived to derive from the range of options available.

<p><b><i>Information based Strategies</i></b> <b><i>Awards/recognitions</i></b> <b><i>Public information/education</i></b> <b><i>Life-cycle analysis</i></b> <b><i>Environmental accounting/reporting and disclosure</i></b> <b><i>Eco-audit/management such as EMAS/ISO14001</i></b> <b><i>Product labelling</i></b> <b><i>Negotiated Environmental Agreements (NEAs)</i></b> <b><i>Incentive Based Instruments</i></b> <b><i>Regulatory reforms</i></b> <b><i>Liability rules</i></b></p>
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

**Marketable permits/emissions trading?  
Green taxes – or are they directive-based regulation?**

**Responsible care programs  
Codes of conduct  
Guidelines**

**Self-declarations and commitments  
NEAs or covenants between government and business, e.g. Climate Change Agreements**

**Table 2.2: Voluntary Instrument Choices**

The value of such initiatives exists at both the level of the instrument itself and within the broader context of '*shared responsibility... towards a new business paradigm of pro-active environmental responsibility and government paradigm of pro-active environmental stewardship*' (ECOTEC, 1999, p41). Whilst self-regulatory instruments are useful contributions to the corporate governance of the environment debate, it is argued there should not be an automatic assumption of their benefit (Volpi and Singer, 2000; Wallace, 1995). The utility of such instruments, as was previously highlighted, derives from their integration into wider regulatory frameworks. There is a pressing need for such instruments to be carefully monitored and assessed for their utility. In particular, there is a need for greater consistency in standard and scope for the objectives they seek, and the means by which they are to be achieved (OECD, 2000; Lahusen, 2000). This thesis will establish whether there is any form of corporate acknowledgement or response to such calls for self-regulatory uniformity?

The question is whether the particular regulatory mix or predominant use of self-regulatory or voluntary initiatives can be universally beneficial for the pursuit of CGE. Contradictory claims have been made between the efficacy of pursuing harmonisation of business response/standards through legislative frameworks, and the necessity to accommodate the specificities of the socio-cultural, political-institutional, operational and legal circumstances of the individual companies involved (Brink and Morere, 2000; OECD, 2000; Stoughton et al., 2000; ECOTEC, 1999; Keohane et al., 1998). This highlights the issue of contextual factors, one which the nature of self-regulation should, conceptually be most effective in addressing. The specificity of a company's own circumstances (or sector-wide conditions) should be accommodated by the individual company. The choice of self-regulatory strategy should, therefore, negate the concerns business may have in the potential for mandatory regulation to inaccurately and inadequately address the specificity

of business context<sup>21</sup>; allowing companies to engage through constructing strategic approaches which are mutually beneficial to themselves and societal environmental welfare.

For the state, anti-regulatory commentators argue that such voluntary based participation negates or reduces the need for further engagement of often already overwhelmed regulatory bodies and the resource-intensive process of implementation and enforcement of legislative efforts (Prakash, 2000; Wallace, 1995; Bregman and Jacobson, 1994). This, therefore, avoids the deficiencies that characterise, or are perceived to characterise, the regulatory system and its administration (Stoughton et al., 2000). The added benefit for both state and business, is that companies can maximise the productivity and profitability of their operations in the pursuit of respective environmental objectives, free from the constraints of regulatory control; CGE emerging consensually and with the greater likelihood of being realised. Whether this is an accurate portrayal of the reality of current corporate practice is a question to be pursued further in the thesis.

### *The Commercial Imperative and Futuristic Planning*

Perhaps the most critical imperative and one that has only recently emerged within the development of the business-environment nexus is that which appeals most strongly to business commercial rationality. A key imperative for

---

<sup>21</sup> The criticism levelled by many within business is that there has been an inherent lack of flexibility in legislation with which to recognise the considerable disparity existed between sectors and their responsibility for, or capacity to effect, change. Individual companies also claimed they would be unduly penalised if for example a blanket environmental tax or regulatory penalty system were to be imposed. This would occur, they argued, either because they were large entities and would be penalised across the board for the scale of their operations or because conversely, they were small to medium sized firms who could not easily accommodate taxes etc. in the manner that the more financially stable entities such as MNCs do.

There is nothing inherent in the conceptualisation of mandatory regulation, whether command and control or market based, that precludes the formulation of sector-specific targets. As Howes, Skea and Whelan note, 'Regulatory regimes could usefully take account of different approaches for different types of industry' (1996, p154). Sector specific regulation, can and is, being effected within the UK, particularly within the context of the Climate Change Agreements as they impinge upon Climate Change Levy exemptions (though it is acknowledged these are partially self-regulatory in orientation).

companies to engage in corporate governance of the environment is the growing recognition of the fact that it is quite simply *'good for business'* (Cramer, 2002; CERES, 2002; Schaltegger and Figge, 2000; GEMI, 2001; EPA, 2000; DiFlorio, 2000; WBCSD, 2000; Sugar and Descano, 1999; Vogiatzis, 1996). Sugar and Descano describe the process as being one in which *'businesses can integrate their environmental planning into their strategic business planning'*, the result being one in which *'business planning can improve their corporate performance and gain a competitive edge'* (1999, Introduction). Conceptualising the environment as commercially profitable reflects perhaps the greatest driver for corporate change as it appeals directly to the overriding objective for a company, profit maximisation. Commentators such as Kantz would argue, that it also provides a greater driver for change than that of regulation: *'whilst legislation impacts decision-making, competition continues as the primary driver in industry'* (2000, p161). The greening 'of business literature, broadly testifies to the commercial potential that exists, or has the potential to exist, through embracing environmental engagement; the creation of *'strategic business opportunities for companies'* (Banjeree, 2001, p39)

There are a variety of economic and competitive advantages to be accrued through such engagement. Primarily it is perceived that competitive advantage accrues (Sharma, 2001; ECOTEC, 1999) through improved image and reputation, credibility enhancement, improved efficiency, lower costs, increased market access and sales. Innovation is consequently encouraged because the economic incentive, is facilitated and tangible benefits can be demonstrated. This, it is argued, instils a workable driver for competitive growth which regulation cannot deliver<sup>22</sup>. There is also the imperative of attaining 'first mover'

---

<sup>22</sup> Ideological difficulty exists, it is advocated, in adhering to the notion 'that environmental regulations improve corporate competitiveness. For this to be so, *'it is necessary to believe that the average company routinely misses profitable opportunities to develop environmental products'*, as Cairncross (1995, p197) advocates. Certainly many companies would testify to inconsistency in regulatory accommodation of their sectoral or specific operational needs (Wallace 1995). It is also suggested that whilst regulation can increase innovative responses to abatement technology, it may have a counter effect on net productivity investment and profit, thereby hindering overall competitiveness (Fiorino, 1999; Gray and Shadbegian, 1998; Steinzor, 1998). The counter argument to the charge that environmental regulations cannot improve corporate competitiveness is to negate the potential for the creation of new and promotion or expansion of existing markets. The issue of regulatory competitive impact for others (e.g.

advantage which can be achieved not only through continuous improvement in environmental governance and its attenuating establishment of market leadership but also through such innovative progression and the potential breakthroughs this may provide (Arora and Carson, 1996). Advantage is also perceived to accrue through the enhanced capacity of voluntary or self-regulatory initiatives to respond to changing circumstances and conditions in a manner and timeframe which regulation cannot (OECD, 2000). The dynamism which is assumed to be integral to such initiatives, permits companies, in agreement with the state overseer, to instigate changing policy or approach in line with market, state or social demand.

In particular, the creation and subsequent success of ethical adjoints to the established financial stock markets has resulted in the FTSE4GOOD and DJSI, the Dow Jones Sustainability Index, both of which have witnessed companies clamouring to join (FTSE4GOOD, [www.ftse4good.com](http://www.ftse4good.com); ENDS 2002; Hine, 2001; Cerin and Dobers, 2001). Companies and the markets acknowledge the credibility and enhanced reputation which constituency of such Indexes brings. Environmental leadership, it is advocated, has become not only a commercial imperative but a primary strategic goal for enhancing the company's standing generally (Nicholls, 2001/2000; Johansen, 1998; Robinson and Clegg, 1998). This is CGE in operation: it is the realisation of environmental strategy implicit within business operations, not simply because it is expected, but because it makes good business sense.

Access to emerging markets dependent upon green reputation, services or products (Rondinelli and Berry, 2000) can enhance market position and new market creation with the compelling potential for competitive advantage to accrue (GEMI, 2001; WWF/C&W, 2001; Blair, 2000; CSR Europe; Sugar and Descano, 1999; Robinson and Clegg, 1998). As Forsyth notes '*companies...use environmentally responsible practices to increase competitive advantage*' (Forsyth, 1997, p270). Prior emphasis on merely formulating alternative responses to legislation, could, or should, now be replaced with a more strategic approach to contribute to both environmental and commercial

---

Gouldson and Murphy, 2000; Esty and Geradin, 1999) is more context-specific and contingent upon the contextual factors within which such mandatory regulation will be enforced.

objectives (Hansen et al., 2002; Andrews, 1998; Environmental Perspectives, 1998).

The relative advantages, which it is believed can accrue to participant self-regulatory companies, provide a potential which regulators can exploit (Harrison and Easton, 2002; Arora and Carson, 1996). Not only is it in the interests of business to formulate strategies which best accommodate their interests but it also provides competitors with the opportunity to capitalise upon potentially innovative solutions. The objective of such strategising is to provide the mechanisms for over-compliance, intrinsic to the pursuit of good environmental governance (OECD, 2001; Sharma, 2001; ECOTEC, 1999; GEMI, 1999).

### **Qualifications to Self-Regulatory Approach**

A primary benefit of any self-regulatory strategy, it is assumed, is the relative ease of consensus building and ensuring participation from within or across sectors. The pursuit of a collective goal which may be the environmental issue at stake, the means by which to best achieve it or simply the avoidance of legislation, constitute unifying factors for the mobilisation of corporate interests (Harrison and Easton, 2002; Arts, 2002). Business self-mobilisation also avoids the politicisation of regulatory strategy, which has been evident over the choice of preferable policy approach, particularly, within the context of climate change, at both national and international levels.

There are serious qualifications to the use of self-regulation raised by the previous section; these reside in the potential for self-regulation to not respond adequately to stakeholder expectation but also in the potential for mandatory regulation to enforce greater change. Reservations to self-regulatory strategy are many but, in essence, there are several key questions to be pursued in the empirical research for this thesis. Firstly, there is a realistic likelihood that by its very nature, self-regulation may only encompass subject matter which is of consensual interest to business (Gibson, 2000; UNEP, 2000; OECD, 2001). What of issues that business would rather not address or can achieve little

collective basis for action<sup>23</sup>? Will research sample companies evidence a willingness for collective action or whether companies can, of their own volition, encompass the entirety of what stakeholder expectation is calling for? Whilst self-regulatory initiatives are laudable for their pro-activity, they do not necessarily entail adequate, or indeed any, timeframes for business activity and engagement. To displace legislative intervention, it is imperative that the urgency of corporate action is formalised within timetabled frameworks which can be assessed for the efficacy and scope of compliance (UNEP, 2000; Steinzor, 1998). Is this imperative recognised and accommodated by corporate strategies?

It has yet to be proven, despite the presumption implicit within relevant literature, that self-regulation can effect the nature of change required to redress specific environmental objectives (ECOTEC, 1999). This is where, the empirical research of this thesis seeks to contribute in terms of its findings as to whether current corporate practice answers this outstanding question in the affirmative, or otherwise.

## **Section 6: Conclusion**

---

There are many drivers for corporate change, from which, three pivotal sets of stakeholder drivers have been focused upon in this chapter. The consensual expectations which inform societal expectation, regulatory pressure and corporate strategic change or self-regulation, is the recognition of the demand for corporate engagement and greater environmental reputation

---

<sup>23</sup> There remains considerable debate as to whether there remains inadequate pressure from the markets to change, to institute CGE, as Friedman and Miles highlight in relation to one element of such governance disclosure: 'the reason why companies are not addressing this information to the City is because the City has not demanded this information' (2001, p532). If disclosure is not required, is the governance which it seeks to convey or reveal, equally not demanded and the lack of regulatory pressure to address this void, may only perpetuate this void.

This research aims specifically to examine those measures, environmental in derivation, which have or have not been strategically accommodated within systems of corporate governance. In placing reliance upon self-regulatory strategy, there must be a safeguard that self-regulation is actually achieving what it states it is, Nash and Ehrenfeld noting that there is a danger of '*creating the appearance of change without re-examining underlying cultural structures*' (1997, p525). The conceptual discussion of what self-regulation should be achieving, is juxtaposed against the subsequent empirical findings of what has been undertaken, as a means of examining what the appearance of change; has actually delivered.

Referring back to the key criteria by which this research seeks to judge the existence of paradigmatic change within business, two questions frame this analysis: firstly, have self-regulatory measures being adopted by an adequate number of companies to demonstrate a community wide commitment to the pursuit of environmental governance?; secondly, what is the qualitative nature of such self-regulatory CGE strategies. Are the self-regulatory actions adequate in nature to deliver effective CGE, such as that expected by both society and that which would be prescribed by the state in legislation?

The following Chapter, therefore, examines the concept of CGE in more detail. Critical to addressing paradigmatic change and the mechanism for delivery, CGE, is the qualitative assessment of the nature of such corporate commitment, contextualised within the broader strategies for action which companies outline. The conceptual argument for self-regulation has been outlined and arguably has the potential to deliver the expectation of change which stakeholders such as consumers, employees and the state have sought. The utility of regulation as a driver for change has also been outlined; its benefits will not, however, be tested unless the adequacy of self-regulation is questioned. Chapter 3, therefore, provides the template by which these differing sets of drivers and expectations are addressed. The empirical analysis utilises these conceptual arguments to test the legitimacy of the current self-regulatory approach, and by extension, to address whether a mandatory regulatory strategy is required, or whether business really has delivered the scale of change which is being sought.

# 3

## REALISING CORPORATE GOVERNANCE OF THE ENVIRONMENT

---

*'The green challenge will be one of the key strategic issues facing businesses  
in the coming decades'*

(Lindell and Karagozolu, 2001, p38)

### Introduction

Chapter 2 outlined a range of principal drivers which influence corporate environmental engagement and the development of corporate governance of the environment. This Chapter seeks to build upon this analysis to address what these key drivers demand in terms of the conceptual framework and composition of such governance<sup>24</sup>. Two key issues are being analysed within this Chapter: firstly, what CGE, as defined within previous chapters, should entail. This broadly establishes the parameters of a general template for CGE, as normatively defined by stakeholder expectation; secondly, how companies seek to frame the governance strategy they have constructed, or intend to construct. The nature of strategic approach is important not only as a reflection of corporate thinking but also contributes to analysis of the central research question; whether such strategy represents a paradigmatic shift in corporate governance of environmental issues.

Addressing the basis for strategic engagement and the development of CGE, it is important to note that there remains no mandatory prescription of what CGE should entail, the format within which it should be constructed and indeed, the strategic decision to construct it or not, as discussed in Chapter 2. Whilst the imperative to engage and the expectation/demand of stakeholders may be

---

<sup>24</sup> The discussion is generic in the sense that it is an expectation of a governance template (effectively) but acknowledges that there are contextual factors which distinguish business and which will influence corporate strategy.

considerable, it is important to note that the strategic decision to engage with environmental issues and to construct CGE, remains a voluntary action. The one caveat to this largely self-regulatory policy context is the requirement to disclose environmental policy within company pension legislation, as has been discussed in Chapter 2. This lack of prescriptive obligation is not uncommon. Few countries demand engagement from their private sector though the expectation of 'voluntary' engagement, as was noted in Chapter 2, is reaching semi-regulatory status.<sup>25</sup>

The CGE template which this Chapter discusses, is, therefore, predicated on the assumption that companies will strive to address their stakeholder expectations and that in doing so, the governance measures discussed, should ideally be included. The conceptual discussion is, however, qualified by the acknowledgement that the empirical findings may demonstrate variable commitment to CGE and/or the measures constituent of it.

Nonetheless, business has felt the pressure of expectation being directed at it from within the UK, European and wider international contexts (UNEP/UNDP, 2002; Rivera-Camino, 2001; European Commission, 2002; OECD, 2001; DTI/DEFRA, 2002). The approach largely favoured by business and states has been one of collaborative or co-operative action (Roome, 2001; Hobbs, 2001; OECD, 2000; Roberts and Gouldson, 2000; Prakash, 2000; Hartman, Hofman and Stafford, 1999; Gouldson and Murphy, 1998; Howes, Skea and Whelan, 1997). What, therefore, has, or has not, arisen in consequence of such primarily unregulated engagement?

## **Precedence**

When seeking to establish the template for CGE which would both address the challenge of corporate environmental engagement and potentially deliver the nature of change which frames this central research hypothesis, precedent exists within the business community, for the criteria by which this assessment

---

<sup>25</sup> Where mandatory governance does occur, in countries such as Norway and the Netherlands, the primary duty centres on disclosure; reporting requirements.

should be made. The criteria established by FTSE4Good to assess the relative corporate strategies and governance frameworks of companies within this sustainability driven Index, provide a framework of expectation in terms of what is being sought of companies in this context. Under the heading of 'Best Governance Practice Framework' ([www.ftse4good.com](http://www.ftse4good.com)) five key areas area addressed:

- Understanding (denoted as 'perception' within this research);
- policy;
- management systems;
- performance/monitoring/report;
- consultation

Using these defining elements of governance, and CGE in particular, this Chapter seeks to explore the conceptual template for what constitutes good corporate governance (of the environment), as a mechanism by which to assess current FTSE corporate practice. This template for CGE, comparably assesses these five key elements of governance, identifying key conceptual arguments for their necessary inclusion in CGE and thereby establishing the foci for analysis which will shape Chapters 5 and 6<sup>26</sup>.

It should be noted that whilst a template may exist in respect of the central analytical components of governance, this does not necessarily denote uniformity of approach in interpreting or applying such a template. On the contrary, it is anticipated that, given the policy context of self-regulation, there will be considerable disparity in terms of how companies have or have not constructed the specificities of their own CGE, if indeed, they have sought to do this at all.

This chapter is structured as follows: Sections 1, 2 and 3 will analyse three key foci within the strategic composition of CGE, whilst Section 4 will address how such CGE strategies are framed and accordingly categorised. Sector 5 outlines

---

<sup>26</sup> It is acknowledged that this framework for governance is generic and not exhaustive. Nonetheless, for the purposes of analysis and within the confines of this research, this conceptual framework provides an analytical framework capable of examining the entirety of the FTSE 350.

the key conceptual factors which may influence CGE strategy and governance, whilst Section 6 provides an overarching summary of the conceptual debate over CGE composition as a mechanism for analysing whether paradigmatic change is, or has, the potential to occur within UK business.

It is important to note that in itself, the construction of CGE does represent a shift in corporate response to environmental issues; accepting that the environment has not traditionally been an issue requiring corporate governance. Equally, however, it is not the existence of governance measures alone that will provide evidence of paradigmatic shift, but also the quality of what it is that has been constructed.

### **Section 1: Strategic Context and Objective**

---

As has been discussed previously, corporate governance has traditionally been the domain of private commercial entities seeking to institute a system of governance which will sustain, if not develop, their financial profitability and commercial growth. Corporate governance of the environment is not simply the re-adjustment of such management to the pursuit of wider public interest; it is the fundamental re-orientation of business to reflect a more sustainable pathway for development, to address socio-environmental issues previously deemed extraneous to their concern. Acknowledgement of such will in itself not suffice to constitute CGE; the aspiration is that principles will become practice and rhetoric will be manifest in the actions and objectives of commercial operations. The challenge, however, is, as the European Commission highlights, that companies becoming aware that CGE may not simply be an issue of reformulation of existing governance but a fundamental rethinking of what how the company operates in light of such concerns: '*Traditional models of organisational behaviour, strategic management and even business ethics do not always give sufficient preparation for managing companies in this new environment*' (2001/2000, web document).

The normative restructuring of corporate strategy has posed a critical challenge to the management frameworks within which such environmental objectives can be operationalised. As noted previously, companies have been faced with

the need to appraise their existing strategic management in light of expectations for accountability, transparency, stakeholder consultation and disclosure. The challenge of environmental engagement and the governance to achieve it, cannot be achieved without institutionalising the policies and practices which will translate into responsible behaviour both within and external to the company's operations. This will necessitate all aspects of strategic policy to contribute to a governance framework capable of delivering such a corporate environmental strategy (ENDS, 2002; Robbins, 2001; Plaut, 2000; Reinhardt, 1999; Burns, 1999; Zito and Egan, 1998; Mason, 1997; Hart, 1997). Creating and implementing new strategic tools is, therefore, vital to the adjustment traditional corporate governance must make, to accommodate the expectations of their stakeholders.

Whilst a holistic approach to management is sought, many question whether it has actually been or will be achieved (Jorgensen and Simonsen, 2002; Rivera-Camino, 2001; Belsom, 2001; Kantz, 2000). Tickner and Raffensperger note that '*when it comes to applying metrics and goals of sustainability to strategic business planning, a gap persists*' (1998, p75). This perceived disparity between conceptualisation of what CGE should entail and what actual governance is currently perceived as delivering, is based on two central arguments: firstly, that business has not grasped the level of change which stakeholder demand, its key drivers, are expecting; secondly, that even where strategic recognition of such demand exists, business is struggling to construct governance capable of addressing such expectation.

Addressing the first of these issues, it is acknowledged that business, individually and collectively through, for example, trade associations, would argue its response has been both appropriate and adequate, particularly given the lack of regulatory obligation to act (for example, WBCSD, CBI). Certainly there would appear evidence of positive corporate rhetoric on the environment and a laudable demonstration of strategic change from certain companies, as will be discussed subsequently in Chapters 5 and 6. Within the greening of business literature, academic commentators are, however, less assured in their appraisal of the adequacy of corporate response, as a reflection of how rhetoric is manifested in terms of governance, the scale of corporate ambition and in the universality of corporate commitment.

This literature reflects what Rossie et al define as the '*dichotomy between corporate and public visions of sustainability*' (2000, p273). Public expectation is of comprehensive corporate engagement, realised through progressive CGE, as will subsequently be discussed. At issue is whether the business community acknowledge such expectation and act in a manner commensurate with it? Whilst there is a recognition that some degree of change within business strategy has occurred, it is the nature of such change which becomes the basis for disparate analysis, both in terms of the scale of corporate engagement and the qualitative nature of the actual strategies for delivering such change.

The second issue is one which commentators, such as Piasecki, define as the corporate struggle to address such expectation, companies now: '*asking how to put sustainability into corporate practice*' (1999, p1). It must be recalled that sustainability is a comparatively new challenge for business, one that it has not traditionally been asked to address and, therefore, one that requires considered strategic response to achieve effective realisation. The outcome of such corporate efforts has been variable, many commentators would argue and this is reflected in much of the literature seeking to examine it. Whilst Hunt and Auster (1990) assert that companies have been progressing towards more strategic responses to environmental issues<sup>27</sup>, Lewis and Harvey contradictorily declare that '*recent evidence suggests that business corporations are not integrating the natural environment into their strategic thinking*' (2001, p201). The timelag between the two research periods may have contributed to the differing analyses but, arguably, it is the latter research which should evidence strategic progression and not the former.

Such disparate interpretations of the nature of corporate change exist within the greening of business literature, typifying the uncertainty which exists over the nature of current corporate strategy and governance, and its adequacy in delivering the fundamental shift towards sustainability. It is in contribution to this ongoing debate that this research seeks to examine what the nature of current corporate environmental strategy and governance is, and whether by comparison to the template for CGE which this Chapter provides, current corporate strategising is constitutive of such a paradigmatic shift.

---

<sup>27</sup> Taking as their comparative basis, the 1980s, which arguably witnessed the beginning of corporate engagement with environmental issues.

## **Perception**

The role of perception in influencing such corporate strategy must be addressed when seeking to explore the nature of change, corporate or otherwise. Corporate perception is a reflection of the attitude and attenuating response which a company may adopt towards the issue of environmental governance.

Given the contested emergence of the need for corporate environmental engagement, any conceptualisation of corporate perception is premised by the recognition that there has, and will continue to be, a degree of disparity in terms of corporate attitude; though the empirical findings may demonstrate to the contrary. The reasons for such disparity reflect the wider factors which, it is argued, determine corporate environmental engagement generally.

The conceptual debate over the role of perception is still developing and the factors which impinge upon this would appear to be subject to contention. It is not possible, within the confines of this research, to make an exhaustive examination of current academic writing on this area, noting the reality that many commentators acknowledge that their findings remain at the speculative level with limited empirical evidence to substantiate the validity of what has been tentatively suggested. The following, therefore, represent what are arguably chief amongst such factors; these issues being further explored within Section 6 and subsequently through the findings of the empirical analysis.

### *Operational Activity*

Divergence may be anticipated on the basis of operational activity and sector; those companies whose business has been subject to environmental legislation and/or who assume a high profile in terms of public environmental concern may be expected to be leading the field. Sectors such as the utilities, energy producers and manufacturing, are perceived by the public as being demonstrative of 'guilty business', whether justified or not; there exists, as a result, an expectation that such business should be engaged in pursuing environmentally responsible behaviour. From the perspective of the company, however, whether a company sees itself to have a significant environmental

impact, or not, may be influenced by how the company perceives itself in relation to its competitors and what the potential for change (and its cost) may be. It also, crucially, can be determined by the concern amongst its shareholders as to the capability and demand for such change.

### *Size and Location*

The size of operations and geographical location not only relate to perceived environmental impact, but also raise the question of whether a company/sector is already subject to legislative requirements within the environmental context.

### *Status*

The status of the company, in this context, FTSE Index positioning, may also have some influence, even where sector importance may potentially not. Given the importance of reputation and status to corporate standing, it is not unreasonable to assume that those companies within the FTSE100 Index, if not also the FTSE250, may consider that the prominence of their position to warrant addressing what has become such a societal-wide concern. Status, also, refers to the relative priority which the company accords to its position in relation to competitors. Whilst a company strives to be foremost amongst its peers in terms of economic competitiveness and development, does this apply to the specific context of environmental behaviour or does there exist the potential for environmental governance to assume as important a competitive driver as wider governance?

### *Engagement and Consultation*

The nature of a company's engagement with its stakeholders, and the breadth of such engagement, on environmental issues, is theorised as having a potentially significant impact upon how a company perceives its environmental responsibilities. This argument is of course, conditional upon what priority a company accords to such consultation but in itself, the exercise of such engagement reflects some concern on the part of the company, to be seen to be addressing such issues. Key amongst the factors which may impact upon how a company responds to such consultation, is that with whom the company engages with, and the extent of such engagement. (Integral to the corporate questionnaire to be used in the empirical research, is a section probing the nature of corporate engagement and consultation with stakeholders, as a

means of identifying the extent to which such consultation may or may not have influenced corporate perception).

The confluence of these factors, it is assumed, can have a demonstrable effect on how a company perceives the importance of publicly engaging with environmental governance. This analysis is based, however, upon an objective interpretation of the conceptual argument for engagement. It is recognised, however, that individual companies may either accept or reflect this perspective and it is this which the research will hope to tease out from the corporate questionnaires and wider online research. The importance of perception cannot be overstated when addressing the following elements of governance; if a company perceives little priority or importance in engaging with environmental issues, then the logical assumption is that it may choose not to undertake any of the subsequent elements of good governance which the template outlines. It is, therefore, in perception that the motivation for CGE may centre and by which the potential for paradigmatic change is determined.

## **Section 2: Environmental Management Systems**

---

Addressing a key element of the governance construct, focus turns to the nature of environmental management being undertaken to help operationalise such strategic change. The purpose of this section is not to provide an examination of the minutiae of management measures that a company can undertake to 'green' itself. There has been extensive analysis of this elsewhere (Malmborg, 2002; Rivero Camino, 2001; Ammenberg, Wik and Hjelm, 2001; Orecchini et al, 2001; Plaut, 2000; Burns, 2000; Gouldson and Murphy, 1998). It is important to note, however, what the contribution of environmental management and its systemic delivery is, in the context of changing corporate environmental engagement and strategy.

The decision to institute environmentally driven management (Figge, Hanhn, Schalteger and Wagner, 2002; Banjerjee, 2001; Vickers, 2000; Rondinelli and Berry, 2000; Weinberg, 2000) is a strategic one which demonstrates commitment to environmental governance, particularly systems that are

formally certified. It is as Atkinson notes, a strategic signal by the company 'to adopt a high level of environmental engagement' (2000, p112).

The benefits of choosing to undertake or construct such EMSs, are as many commentators have identified, multi-fold (Sugar and Descano, 1999; Prakash, 1999; Robinson and Clegg, 1998; Roome, 1998; Ramus, 1998; Nash and Ehrenfeld, 1997). As Melynk et al., summarise: '*firms in possession of a formal EMS perceive impacts well beyond pollution abatement*' (2003, p329); environmental management contributes to the delivery of environmentally motivated objectives but also assists with the structuring of the firm on a more sustainable basis. The operational benefits of such management centre on improved performance through reduced costs, improved quality, reduction in waste and lead-in times (Melynk et al., 2003; Burns, 1999). In doing so, EMS, therefore, has the potential to satisfy many stakeholders and not simply in terms of their environmental expectations, both within and outside the company. Lorente et al., highlighting the influence of such drivers, declare that what has arisen is '*explicit and tacit environmental management accountability for a variety of organisational responses to the environmental demands of stakeholders*' (2003, p333).

In terms of specific stakeholder expectation, there are recognised benefits to be gained through enhanced awareness and agency amongst employees, increasing the potential for thorough implementation throughout the company hierarchy (Malmborg, 2002; Rivera-Camino, 2001; Tubiolo, 2000; Weinberg, 2000). This can directly impact upon the potential for recognition of 'on the ground' realities and thorough dissemination of potential changes, often pragmatic, of which management may not be aware. Such awareness also contributes to greater satisfaction amongst employees, noted by commentators as being an increasing driver for environmental engagement (Tubiolo, 2000, p183).

In terms of societal expectation, engaging in environmental management serves to assuage public hostility or mistrust towards the nature of a particular company's environmental behaviour or profile. Having made the strategic decision to commit or undertake such governance, companies can then highlight the progress they are making and wider sustainable achievements

therein (Reinzi and Crawford, 2000; Vickers, 2000; Jung and Guha, 1999; Johnson, 1998; Coup, 2000; Weinberg, 2000).

### **Management System Types**

Addressing the nature of the management being undertaken by companies, it is, therefore, important to note whether companies have signalled their corporate intent to address environmental issues through EMS. Many commentators such as Rivero-Camino, advocate that the assumption of widespread environmental management is not supported by the reality of corporate practice, noting '*they (companies) are still hesitant to incorporate EMS into their organizations*' (2001, p134). Conceptually this cannot be representative of a fundamental shift in corporate approach as it represents the original paradigm from which a shift is required; it will, therefore, be significant to determine what the empirical findings reveal.

Whilst the existence of environmental management is in itself a positive strategic measure, of interest is the systemic nature of what has been constructed: in particular, whether corporate ambition extends to formalising such management and undergoing the process of certification. The decision to opt for an officially accredited system such as EMAS or ISO14001 is a strategic one based on factors both common to the operational nature of the company and the specifics of its particular circumstances and context (Atchinson et al., 2000). It is not the purpose of this research to examine the relative merits and demerits of such different formalised environmental management systems such as ISO14001 or EMAS, which has been extensively undertaken elsewhere (Ammenberg and Kjelm, 2002; Karapetrovic, 2002; Kaar, 2001; Atchinson et al., 2000; Prakash, 1999; Robinson and Clegg, 1998; Cochin, 1998). It is important to note that the adoption of formal systems of management does generally signal the seriousness of corporate intent to address their environmental performance (Melynk et al., 2001)<sup>28</sup>.

---

<sup>28</sup> Noting that there exists a growing literature on the perceived efficacy of EMSs such as ISO14001, amongst others, as Ammenberg and Hjelm (2002) note: '*EMS does not distinguish*

Augmenting the question of whether companies have opted to construct an EMS, is the question of certification, as a reflection of the importance they ascribe to effective operational management of environmental impacts which arise from their business activity and the general strategic importance of environmental engagement. Conceptually, it is questioned whether a company can be said to have demonstrated the commitment implicit in the expectation of CGE, if it opts not to construct a formal EMS as part of the strategic delivery of effective governance. This is a value judgment based on the perceived benefits of systems such as EMAS or ISO. This question alludes to the adequacy of management systems, such as EMAS, in delivering substantive change, an area of analysis which has been extensively discussed elsewhere and which will not be repeated here. Arguably, an informal EMS can theoretically deliver everything that its formal counterpart can, if not be more ambitious in its objective. It must, however, be considered what the external perception of the failure to construct an EMS or to subject such a system to formal and independent scrutiny is, particularly, given the stated expectations for greater openness and accountability.

Whilst it is questioned whether an informal EMS retains the perception of legitimacy crucial to delivering such accountability, the empirical findings will provide insight into corporate thinking on this issue. Such insight will illuminate just how convergent or disparate conceptual and corporate interpretations of the importance of environmental management are. EMS is conceptually symbolic of change because it signals the consideration of environmental issues within strategic objective and operational management. How business has engaged with such management will illustrate whether companies believe the consideration of such issues to be strategically important.

### **Section 3: Corporate Environmental Disclosure and Verification**

---

The value of an EMS resides not just in its delivery of greater environmental focus within management but the recognition that it gives to stakeholder

---

*between those companies wanting a certificate on their wall and those taking environmental efforts seriously' (p8)*

expectations of accountability. Such expectations of greater corporate openness extend to all forms of CGE. Consequently, disclosure has become a key element of corporate environmental strategy and primary focus for stakeholder scrutiny of such strategy and governance. Larsen summarises the importance of disclosure, in particular, reporting, as being one in which: '*a company's environmental performance as well as its environmental reporting activities, should be considered as a strategic activity to ensure consistency and balance between the business strategy, the environmental strategy and the reporting activities*' (2000, p276).

Disclosure has unsurprisingly, therefore, become an increasing strategic requirement (Line, Hawley and Krut, 2002; Palmer and Cooper, 2001; Larsen, 2000; Kolk, 2000; Roome, 1998)<sup>29</sup>. The purpose of highlighting disclosure within CGE is to summarise the assumed motivations and manifestations of corporate disclosure across the spectrum of operational activity. Analysis is made of the forms and scope of disclosure, examining why it is that environmental disclosure and reporting in particular, is significant to the attainment of corporate governance of the environment. Subsequent empirical research will testify to the legitimacy, or otherwise, of the assumptions made, situating corporate perception within current disclosure realities. It is questioned whether current disclosure, both quantitatively and qualitatively, is demonstrative of, and contributing to, corporate environmental engagement and the governance being constructed to realise this. Focus is placed on the primary corporate disclosure mechanisms of environmental policy statements, reporting and verification of the data being disclosed<sup>30</sup>. The mechanisms represent what are arguably both the most prevalent and evolving forms for such information provision<sup>31</sup>, the ramifications of which in governance terms will be subsequently discussed.

---

<sup>29</sup> For the purposes of this research, it is used to explore the dissemination of specifically environmental information, pertaining to both corporate activities impacting upon the environment and environmental conditions per se.

<sup>30</sup> It is acknowledged that there are a variety of methods for data disclosure.

<sup>31</sup> Noting that this can be provided both in hard copy and online, as indeed the first methodological approach to gathering empirical findings within this research.

## **Disclosure Elements**

### *Policy*

The provision and communication of an environmental policy is an important element in any corporate environmental disclosure. Denoting the nature and ambitions of the company's respective environmental governance, it signifies not only commitment but also acknowledgement of the need and expectation of wider interests in the operational impacts of its activities. It is of itself, typically inadequate to assure all stakeholder concerns that adequate governance is being effected but nonetheless, it gives legitimacy to corporate environmental profiling. Noting the conceptual importance of corporate policy, it is, therefore, to be assumed that for paradigmatic change to have occurred, all or the large majority of, companies will have drafted policy statements commensurate with the nature of their operations and attenuating impacts.

Comparable to the lack of regulatory prescription or codification of what CGE is, or should entail, so are environmental policies left to the discretion of the individual company, both in content and more crucially in terms of the decision whether to construct one or not. It is this latter factor which is of particular importance when determining just how far corporate strategy has changed qualitatively: what is the nature of policy statements being issued by companies? Do all of the FTSE companies examined have such a policy and disclose it - if not, why not?

### *Annual Reports and Accounts*

Annual Reports and Accounts are, by their very name, a disclosure of the corporate activity and productivity throughout the preceding year. Typically comprising of a chairperson's introduction, synopsis of primary operational activity, directors' report and discharge of responsibilities and audited financial accounts, they are a primary means of noting how companies have performed (Tubiolo 2000, Case 2000, Roome 1998). The utility of such reports as mechanisms for environmental disclosure is subject to contention (Stray and Ballantine, 2000; MacLean and Gottfrid, 2000; Goldstein, 1998). Whilst it would seem perfectly in keeping with the objective of sustainability that such data should be included along with the financial performance of the company, the actual approach and quality of such inclusion can be highly variable.

Dependent upon the weighting and priority accorded to environmental governance within the company, Annual Reports can entail disparate levels of data provision and context. In some instances, this may be extensive and in others, a mere declaration of acknowledgement. The level and quality of disclosure are therefore subject to considerable dispute. It is questioned whether companies have sought- let alone achieved- the integration and not just, inclusion of, data within general corporate governance and disclosure, that sustainability necessitates. The primary criticism of the use of Annual Reports as the sole mechanism for environmental disclosure is the perceived importance which companies are ascribing to environmental data by including information solely in this format. Does the lack of stand-alone disclosure suggest a lack of corporate priority or is there adequate prioritisation within such Reports, to demonstrate the accountability which stakeholders expect?

#### *Stand-alone Environmental Reports*

In contrast, recent years have seen a proliferation in the use of stand-alone environmental, and related, reports. The primary benefit of such reports is that they are formulated with the specific objective of conveying environmental data and as such, give full priority to the information included within. Given the resources necessary to undertake such a measure, it is assumed that such reports will provide a more substantive and comprehensive appraisal of a company's environmental performance. Conceptually, the existence of such distinct disclosure provides an indication of the positive corporate commitment being made to environmental governance and disclosure.

An important caveat to any analysis of reporting disclosure, is the acknowledgement that it is perfectly possible to have disclosure without adequate governance (Morhardt, 2001) and that a disjuncture in governance occurs between what the company states in its general corporate governance and what it states are its corporate strategic objectives in relation to the environment. A company may choose to disclose information without being committed to substantive remedial action or a premise of wider governance to substantiate the information or policy objectives being declared (Polonsky and Rosenberger, 2001; Stray and Ballantine, 2000). Cerin highlights what is perceived as '*the gap between messages in environmental reports on the one hand, with messages in Annual Reports and actual corporate behaviour*' (2002,

p47). The utility of disclosure in this context, is questioned for the corporate intentions which premise it and the undermining of legitimacy which inevitably ensues.

### *The Internet*

As will be discussed in the Methodology chapter, Chapter 4, the web is of great utility to companies. Within the specific context of disclosure, the Internet and ICT broadly, offer great potential for companies to disseminate corporate environmental information (Heinonen, Jokinen and Kaivo-oja, 2001; Isenmann and Lenz, 2002/2001; Herbst, 2000; Kolk, 2000; White, 2000; Bamberger and Share, 2000; Ford, [www.greenware.com](http://www.greenware.com)). Corporate use of the Internet is in fact being actively advocated for environmental disclosure as Directives such as the European Commission, 'Public Access to Environmental Information' (402 Final, 2000) indicates. However, it remains to be seen whether companies have actually exploited the potential of the Internet in communicating environmental data and policies and reporting initiatives in particular (ACCA 2002; Sustainability, 2001; Rikhardson, 2001; ERM, 2000; Kolk, 1999). The question is whether given the presumption of importance attributed to environmental profile, are companies both cognisant of and actively utilising this mechanism for environmental data?

## **Current Corporate Practice**

### *Proliferation in Disclosure*

The ever increasing analysis of corporate disclosure (Holt, 2001), particularly that emanating from within business itself, suggests that the last few years have witnessed a rapid proliferation in corporate environmental reporting (Yeun and Yip, 2002; Green Business Letter, 2001; MacLean, 2001; CBI, 2000/2001). Such has been the very public marketing of many corporate environmental reports that it would not be unreasonable to assume that environmental disclosure has become an international norm in the changed reality of corporate accountability. Whilst disclosure is unquestionably occurring (Larsen, 2000), there is a growing counter-argument that the requisite change in practice is demonstrably too slow and too variable in quality (Solomon and Lewis, 2002; OXERA, 2000); that there remains considerable corporate reticence when it comes to issues of disclosure. Solomon and Lewis concur,

noting that *'the quantity of the disclosure is low or non-existent for most UK companies, further the disclosure that is made is frequently low in quality'* (2002, p159).

This perceived inadequacy of current disclosure is critical for its indication of the lack of corporate prioritisation of environmental governance and/or disclosure of such governance. Palmer and Cooper summarise this argument, declaring: *'much of this reporting is of questionable value both for what it tells us about an organisation's environmental performance and for what it suggests about underlying intentions and motivations'* (2001, abstract).

### *Uniformity?*

The uniformity of improvement of corporate disclosure is unsurprisingly, therefore, being questioned by many commentators (Green Business Letter, 2001; Synnestvedt, 2001; Stray and Ballantine, 2000; CBI, 2000). The reality, it is suggested, is that corporate practice is still fragmented and disparate in approach (Solomon and Lewis, 2002; Line, Hawley and Knut, 2002; Palmer and Cooper, 2001; OXERA, 2000; ERM, 2000). This has resulted in continuing significant inadequacies in the nature of what is being disclosed with inaccurate identification of operational environmental impacts and/or the nature of remedial action required to address them (Solomon and Lewis, 2002; ACCA, 2002; Morhardt, 2001). Whilst guidelines exist as a template for disclosure, based, for example, on financial disclosure requirements, companies are under no obligation to adhere to such guidelines. The lack of prescription allows for not just the flexibility which business associations call for (for example, the CBI, [www.cbi.co.uk](http://www.cbi.co.uk) ) but a conceptually inadequate standard of date disclosure.

### *Credibility*

The inadequacy in disclosure standards reveals what many commentators within the greening of business literature argue, is the prominence of rhetoric over action (MacLean, 2001; Belal, 2002; Cerin, 2002). This represents a serious detraction from the perceived legitimacy and credibility of disclosure initiatives; 'greenwashing' or unjustified bolstering of public image is not an acceptable corporate practice (Cerin, 2002; Polonsky and Rosenberger, 2001; MacLean and Gottfrid, 2000; Larsen, 2000). Stakeholders expect the provision

of legitimate data that reflects the reality of the respective corporate operations. Frequently, however, it is claimed, this is manifestly lacking (Line, Hawley and Knut, 2002): *'Environmental Reporting today has a long way to go before it reaches the same level of comparability, credibility and relevance that financial reporting achieves'*, as MacLean and Gottfrid surmise (2000, p254).

This declaration may not be surprising, given the relative nascence of environmental disclosure initiatives, in contrast to the established financial disclosure mechanisms currently in place. Nonetheless, it is testimony to the requirement for greater change and more accountable (to stakeholders) disclosure to emerge from business. The normative and practical gulf that is argued to exist within such corporate disclosure (from financial to environmental) indicates there is still significant scope for improvement. If the research findings reinforce this perception, it would indicate that the scale of change in corporate practice is not yet as fundamental or comprehensive as it has the potential to become.

Conceptually, it is argued that the qualitative assessment of disclosure requires a need for credible information; *'absolute and normalised data are critical for credibility'* (Tyetca, 2002; ACCA, 2002; Kolk, 1999), ideally contextualising such data within quantifiable and timetabled frameworks (Andrews and Slater, 2002; Yeun and Yip, 2002). It is also important when viewing such information that it is contextualised within the perspective of what the company has done and what it intends to do, i.e. the governance premise for such disclosure (Line, Hawley and Knut, 2002; ACCA, 2001/2002).

Ideally, it is advocated, reports, and their policy counterparts, should highlight corporate engagement with stakeholders (Belal, 2002; Calvert and WRI, 2001) and all forms of consultation and communication. It is insufficient, it is suggested, for a company merely to provide some element of disclosure if such data are not subsequently disseminated to those interested in its content. Communicating with those who have standing in the corporate governance of the company, gives validity to the process and facilitates informed engagement between the business and its stakeholders. It has also been suggested that to give added credibility and relevance to such disclosure, companies should cater their data to the varying needs of stakeholders. The customisation of data which this would entail, whilst necessitating greater forethought, would it is

advocated, enhance the relevance and immediacy of data to its respective audiences (Line, Hawley and Krut, 2002; Sustainability, 2001; ERM, 2000; Ball, Owen and Gray, 2000).

Disclosure being one of the key elements of such strategy, is also arguably the most publicly scrutinised. What then does it indicate about the corporate strategy if such disclosure is either, not undertaken by the vast majority of companies, or fails to provide a qualitative assessment of the company and its environmental impact? Given that disclosure is such an obvious and immediate point of analysis, what does it say of a company's perception of, and accountability to its stakeholders if it does not disclose adequately on environmental issues? In the context of the adequacy of CGE, the quality of corporate disclosure will contribute to the determination of whether companies have fundamentally altered their strategy towards greater accountability over environmental impacts.

### **External Auditing and Verification**

The concept of outside scrutiny is a key issue for corporate strategy whether through processes of consultation, disclosure, auditing or review (Karapetrovic, 2002; Yeun and Yip, 2002; WWF/C&W, 2001). The value of external verification, third party statements or auditing of any nature, resides in its assurance of credibility and legitimacy to those reviewing company performance (Brookes, 2001; Ammenberg, Wikand and Hjelm, 2001; Van der Gaag, 2001; Robinson and Clegg, 1998). It is argued that there remains considerable corporate reticence to subject company operations and performance to outside scrutiny, such is the importance of both commercial sensitivity and profile at risk. Public expectation particularly of companies already engaging in environmental governance, however, is that there is surely little at risk unless the data provided are not accurate in their depiction of corporate action. Failure to seek external audit or verification can then serve to undermine the validity of governance being exacted, immeasurably damaging corporate reputation. It has also serious implications for the credibility of subsequent disclosure, quality and nature of auditing as will be explored in the following section. Given the legitimacy which external verification can bestow

upon corporate governance, do all companies engage in such review? If not, why do companies believe such review is unnecessary?

Verification or provision of third-party statements is commonly accepted as enhancing the perceived credibility of the governance it is scrutinising (ACCA, 2002; Yeun and Yip 2002; Cerin, 2002, Kolk, Walhain and De Wateringen, 2001; Ball, Owen and Gray, 2000; FEE, 2000; GEMI, 1996). Line et al. surmise this as being the reality that *'third party verification can give a report an independent seal of approval and can reassure a reader of the validity of the information'* (2002, p76). The utility of third-party statements derives from the reality that there remains a degree of public scepticism as to the nature of corporate engagement and the commitment of companies to deliver a truly accurate and credible portrayal of their environmental impacts and attenuating action undertaken to address such matters (Line, Hawley and Knut, 2002; ENDS, 2002; GEMI, 1996).

There are a variety of persons and bodies who can undertake such verification, primarily those from management and environmental consultancies, engineering firms, environmental bodies/institutions and NGOs (OECD, 2001; GEMI, 1996; IRRC, 1996). The breadth and specialisation of knowledge and skill which these agents can bring to the auditing and verification process varies, depending on who is actually employed and the purpose for their use. Consequently, the process of verification can lead not just to disparity of approach to subject-matter and issue coverage but also the quality and utility of the outcome itself. Management consultancies may be used to provide the traditional statement of authentication that the facts disclosed are true, whilst environmental consultancies or NGOs can provide assurance as to the merits and consciousness of the environmental governance being constructed.

It is entirely at the discretion of the company itself, who it does or does not utilise, given that such disclosure and verification, is still a predominantly voluntary action. It is essential, however, that such statements or verification must be 'value-adding' and not simply an exercise in public marketing (Ball, Owen and Gray, 2000). Statements that would appear to attest to governance that cannot otherwise be verified, are inevitably perceived as attempts at 'greenwash' and can undermine even legitimate and substantiated claims being made within such disclosure (Welford, 1997).

It is, of course, possible to have major qualitative differences in the process of review being undertaken. A review may encompass nothing more than a nominal commitment to ascertain whether data of some type is being produced or that the company is maintaining an interest, in this case, in environmental issues. To substantiate the review of information and underlying governance, it is strongly suggested within the literatures that an audit of such data is undertaken to validate the authenticity of the information being provided. Within traditional corporate governance, audits are of course, well established; the financial data provided by companies being subjected to such procedures on an annual or even half-yearly basis. Within the environmental context however, despite the repeated priority that literatures may ascribe to such a procedure, it is debatable whether they are equally cemented into company practice.

## **Section 4: Categorising Corporate Environmental Strategy and Governance**

---

### **Categorising Corporate Strategy**

When seeking to analyse what has been constructed in CGE, it is important to note the lack of prescriptive clarity as to what this entails in terms of specific measures, which is a consequence of this lack of codification; Annandale describing this as the reality that '*companies react in entirely different ways*' (2000, p51). This has provided considerable flexibility to companies in terms of how they respond to the challenge of environmental engagement and somewhat inevitably, many commentators would argue, this has resulted in significant disparity of approach: '*There is no obvious pathway that companies might follow in order to integrate sustainable development principles into business practice*' (WWF/C&W, 2001, p2).

Progressing analysis from framing of CGE to categorisation of what such CGE actually seeks to deliver, there are a multitude of varying approaches to categorising the basis for corporate strategy. A variety of environmental management or strategy models exist to assess the strategic objectives of

companies engaging with environmental management issues. These models have emerged on the basis of an extensive conceptual debate over how to most accurately portray what is occurring (Porter, 1985; Hunt and Auster, 1990; Hass, 1996). The body of literature which has emerged from this academic, consultancy and business-led analysis is extensive and cannot be recounted in full within this conceptual discussion. It is important to note, however, that key differences do exist between models; differences which are critical to the understanding of what business strategy is, or as with certain models, what it should be.

### *Approaches to Categorisation*

Prescriptive models, typically strongly conceptual in basis, address what management models and strategies 'should', or have the potential, to be. By outlining the theoretical basis for such strategy, they articulate boundaries of strategic objective which define where companies are in relation to such an ideal or normative strategic perspective. More descriptive models can be, though are also not, largely empirical grounded, in their attempt to define or state what current strategy is.

Hass (1996) focuses on what she perceives as the two dominant approaches to current strategy models: those which emphasise continuum, as companies progress from one state to another; and those which classify companies in terms of discrete stages of development classifications. Addressing the former, key articulations of this model are those of Hunt and Auster (1990) and Romme (1992), who use a methodology that rates companies according to pre-defined criteria and aggregate their strategy in terms of clear stages along a scale of progressive performance. Varying importance is ascribed to the stages within the model: explicit progression within these stages being characteristic of this approach. The purpose of such an approach is to illustrate how companies evidence a continuum of strategic development, with the assumption being that that progression through the stages of this continuum will occur. The key tenets of this approach are, therefore, that there is a definite, bounded, scale of progression into which all companies can be placed; that such scales are continuous and that companies will develop through these scales.

Whilst the continuum approach has merits, particularly, in its depiction of how strategic development can evolve, there are also inherent limitations to this

approach. The primary difficulties, as Hass articulates, are that the dimensions of stages within the continuum are often not robustly defined and that placing companies within such stages can similarly be difficult to achieve; it is not always possible to reduce the complexity of corporate strategising into pre-defined stages which are conceptually distinctive. It is, also, conceptually arguable whether there is an absolute scale into which all companies can be placed. Can we definitively state what the end point of the scale may be?

In contrast, the second generic model of analysis is that of classification, which commentators such as Steger (1993) and Schot (1992) articulate. Not dissimilar to the continuum model is the reliance upon distinct ratings or assessments which are used to aggregate companies in terms of performance. Contrary to the continuum model, however, there is no necessary sequence or continuum of development between different strategies; rather the classifications depict distinct strategic responses into which companies fall.

Whilst the approaches diverge in terms of whether there is, or is not, a scale of progression through which companies evolve, they do share the common criticism that it is not always possible to reduce companies into distinct categories based on pre-defined criteria. Such criteria are typically conceptually defined, highlighting another key criticism of Hass (1996), that there exists a lack of empirically grounded assessment of current corporate strategising in this context; an over-emphasis on conceptualising the essence of change to the detriment of actual empirically based evidence of what such change is. Such criteria can, therefore, have the potential to mask the reality of current corporate practice though imposing artificially defined categorisations on what is occurring and failing to allow for the complexity of what is really happening.

To overcome the limitations of both approaches, Hass proposes two key factors are addressed: Firstly, greater linkage of conceptual and empirical understandings is required to ensure that conceptual models or typologies can be operationalised, whilst empirical models can be conceptually framed. When assessing empirically derived conceptual models, Hass notes that such an approach has '*some advantages overly the purely conceptually based models as all the data fit into the empirically derived systems*' (1996, p65). The limitation with this approach derives from whether the data set is adequately significant to ensure wider applicability. Secondly, the models should seek to

address the relationship between strategy and structure; in this research, this is framed as the relationship between strategy and the construction of corporate governance of the environment mechanisms, outlined as a template for governance.

### *The Approach*

In acknowledging the value of what Hass proposes, the research seeks to combine conceptual and empirical approaches through grounding the expectation of what strategic perception, framing and actual governance (the mechanisms or structures) is required to achieve CGE within the context of what the web and questionnaire research of companies reveals. By outlining what is being expected in terms of corporate governance change, to address stakeholder expectation, Chapters 2 and 3 have provided the conceptual premise and parameters for such change. There is, however, a deliberate attempt not to impose a typology or classification such as Hunt or Auster (1990), Roome (1992) or Greeno (1991), prior to the empirical findings. The typology for categorising the change revealed is, therefore, an empirically driven conceptualisation, in that it will emerge from what is revealed, although guided by the conceptual questions which frame the research analysis.

In deciding to adopt this approach, there is a concerted attempt to address the three key criticisms which Hass outlined in existing management models. The linkage of conceptualisation and actual evidentiary base is clearly established through applying conceptual parameters for what is being researched but also allowing the empirical findings to provide the actual classification or typology. In addition, the sample base of companies being researched, the FTSE100 and FTSE250 Indexes, allows for a significant research base from which to construct a model that is of wider applicability than those which Hass (1996) notes may be too limited in number/scale to be representative of business generally. Whilst the combined FTSE350 companies do not represent the entirety of UK business, they are constitutive of the top level of business of whom the expectation of corporate governance of the environment is arguably most keenly expected.

The empirically driven conceptualisation also places the assessment of corporate strategy within the context of the governance being constructed to

achieve such strategic objectives. The elements of this governance have been articulated previously, focus being placed upon strategic perception, management structure and specifically environmental management systems, and disclosure and verification of such overall strategy. In doing so, the approach embeds strategy and structure, to allow the 'meaningful context' which Miles and Snow (1978) highlight as providing a more robust basis for assessing corporate strategy.

Typologising change is useful in analysing current or potential corporate change. Its primary contribution, this research would argue, however, is its significance in the assessment of whether current state and business policies towards the need for change are productive or otherwise. Typologies are, therefore, a useful mechanism of assessment but are not an end objective in and of themselves. The typology constructed has meaning in the context of the overarching research question of whether business is, or is not, currently in the process of achieving paradigmatic change and what, in consequence, may be attributed to the policy framework currently in place to deliver such change. In particular, an empirically derived typology could aid the analysis of whether business self-regulation is achieving what is being sought of it and the importance of other stakeholders in driving this process of change, internal and external to the company itself.

The presumption is that the adoption of more sophisticated forms of CGE does follow a logical progression of development, the principal factor being the duration of time in which companies are engaged; incremental growth in understanding and capability will be characteristic of companies with longer timescales of involvement. That the realisation of comprehensive or substantive CGE will inevitably occur as time progresses would appear an inevitability within such a rationale; the logical conclusion ultimately being that all companies will be engaged, at which point, arguably, a *de facto* paradigmatic shift will have occurred.

It is anticipated that, in accordance with Hass's (1996) findings, traditional approaches to categorisation will not adequately reflect current corporate practice, nor probe/illustrate the complexity of determining factors which prevail in the context of corporate strategising. This thesis argues that the assumption of staged progression denies the complexity of CGE; the rationale, drivers and

most particularly, the importance of context, for individual companies and potentially for sectoral groupings of such companies. Whilst differing entry points for companies into the CGE debate will inevitably render companies in varying stages of capability, it is argued such disparity is explained not simply by, or even, primarily by, the timescale for engagement but a deliberate strategic choice on the part of the company as to the extent to which they adopt that necessary to achieve CGE.

This stands in quite evident contradistinction to literature within certain academic contexts and unquestionably to much of that emanating from the private sector itself. Business has asserted vocally and frequently that it is demonstrating a strong and powerful response to the expectation of corporate environmental responsibility. The difficulty with such an assertion from the perspective of a private sector keen to evidence good practice, is that best practice companies arguably remain the minority; that the groundswell of corporate practice has not achieved either the level of performance or uniformity of engagement necessary to designate a paradigmatic change, either quantitatively or qualitatively.

Furthermore, the apparent confusion of both terminology and multiplicity of approach would suggest that business itself requires clarification as to its strategic response, or responses, given the heterogeneous nature of the business community. Such uncertainty, it is argued, is reflected in three key areas: firstly, in the definition of what 'the need' is; demonstrated in its variable responses to drivers; secondly, what such 'need' will entail in terms of actual governance measures; thirdly, the stance business individually and collectively will assume: 'the strategic positioning'.

Such confusion could be seen as a reflection of wider socio-political and scientific uncertainty. The continuing 'debate' over the validity of claims of global environmental change and the attenuating discussion as to allocation of both guilt and responsibility has only served to enhance disparity of response from the corporate sector. A more pertinent question, however, might be that in the absence of such societal uncertainty, would there have been greater uniformity and clarity of purpose and affirmative response from business?; arguably not. Uncertainty has provided a justification for those companies reticent to engage and a source of prevarication for those strategically

ambiguous. For those companies adopting neither position, it is anticipated that there will be significant variability in governance undertaken.

Hass (1996) has also highlighted the necessity of constructing a typology that was empirically and not purely conceptually based: '*environmental management strategy is often researched and described in isolation to the context of the firm*' (p66). The necessity to premise a typology on a more 'grounded approach', does not negate the need for theoretical informing of management. This thesis would argue, similarly, that theory has an important role to play in assisting how management can progress; it can assume a significant role in shaping corporate thinking through its analysis of current corporate practice and can provide a degree of objective scrutiny, that builds upon prior analysis and literature, to help suggest how progression can ideally occur.

The potential limitation of the theoretical input derives from its use in isolation, or to the exclusion of, empirical analysis – if it is a truism that theory can inform empirical activity, it is logical to assume that the relationship may be reciprocal. To conceptually define without reference to that which is in existence, is to deny/ignore the reality of the context that is being analysed.

### **Existing Categorisations**

As argued, many categorisations, classifications and/or typologies exist to define what business is or is not achieving in the context of strategy/management of the environment. Examining a selection of these analyses in more detail as a prelude to my own empirical research, it is apparent that disparity exists in terms of the approach taken and categorisation of corporate strategy.

Kennelly et al. (1999) denote three key categorisations of corporate environmental strategy, namely: 'reactive'; 'evolving' and 'forward looking'. The first stage of reactivity is characterised by the lack of formal mechanisms of governance; the second stage by audits and corporate staff-driven action and the third, the most progressive, 'forward-looking', comprising of data collection, audits, routines and committees. In some respects this rather simple

categorisation is of greatest applicability in that the breadth of the categories and simplicity of their respective criteria allows for easier assignation of these categories to companies. By this very fact, however, the categories also reveal a very generalised assessment of corporate strategy and its governance capacity to deliver environmental engagement, and the goal of sustainable development.

Revealing greater complexity, Robinson (2000) uses the Environment Council's 'Ladder of Corporate Environmental Engagement' to denote five key stages in the development or evolution of what he describes as the ideal in corporate strategy, 'Sustainable Development'. The four stages beneath this are from the lowest level of governance, up:

1. 'compliance';
2. 'voluntary risk management';
3. 'corporate environmental sustainability' and
4. 'contribute to sustainable development'.

The development of strategic governance to delineate the attainment of each stage is not explicitly defined, however, it is assumed that both strategic objectives and the governance with which to deliver such objectives are at their most sophisticated in the fifth stage of sustainable development. There exist difficulties, however, in actually seeking to apply such categories to companies. What if 'compliance' *per se* is not an issue, as there may be little if any regulatory base governing some companies? What also does voluntary risk management denote where the perception of 'environmental risk' is negligible or, conversely, where risk is strong and management of it is, therefore, not perceived as voluntary at all (or at least not in terms of strategic management)?

There also exists significant conditionality in terms of what 'contributing to' SD denotes, as opposed to actual SD attainment. What distinguishes 'contribution' from 'attainment' and how is SD delivered?; at what point can such a classification be made? The degree of conditionality and subjectivity of these classifications renders them problematic to use in the basis of empirically driven research. Their contribution to conceptual debates is not disputed but as a practical tool for assessment, it was considered that their variability, conditionality and uncertainty detracted from the benefits of their use.

Robbins (1996), building upon the UN Benchmark Survey findings, highlights four management/strategy types, which broadly reflect Robinson's 'ladder' (2000). These comprise of: 'compliance orientated'; 'preventive'; 'strategic environmental' and 'sustainable development'. The activity which distinguishes 'strategic environmental' from 'preventive' is that of dialogue, disclosure, planning, R&D and target setting. Comparably 'sustainable development' is the development of policies for ethical trading, climate change, afforestation and global policies. Placing this within the context of UK companies, the MNC/TNC based typology may not be universally applicable to the FTSE companies. The strategic need to develop policies on, for example, afforestation, may not be as strong an imperative for many companies, with the exception of those companies operating within countries where this is an issue of with operations pertinent to this issue. The issue of sectoral operations is also of note; do all companies require such policies and to what extent; is sustainable development not also influenced by company activity and context and does the typology take adequate note of this? Equally, we have the issue of those companies who are operating in a manner that many define *themselves* as being sustainable or in keeping with sustainable development; the argument then being is the categorisation of strategy type or stage, a reflection of corporate perception, objective perception or both?

The decision to adopt a more empirically driven conceptualisation of strategic change within companies is an attempt to address what business is actually demonstrating in terms of strategy types, avoiding the imposition of stages or types which may not accord with what the empirical evidence findings reveal. By letting the empirical findings frame the assessment or classification of the nature of CGE, the qualifications to the use of the previous classification models, is, it is envisaged, avoided.

## **Benchmarking**

Many would argue, particularly from within business itself, that the lack of regulatory prescription is of less importance than might be assumed. The void that the lack of regulation has created, is subsumed by the proliferation of guidelines and benchmarking exercises which have emerged. Certainly, the

utility of governance benchmarking has been increasingly recognised both within and beyond the corporate sphere. Such a measure enables not only the company to assess how it is performing in relation to other companies and counterparts but is in and of itself, a value adding process (European Commission, 2002; King and Morgan, 2001; CSR Europe, 2000/2001; Zadek, 2001; Repetto and Austin, 2000; Romm, 1999; Robbins, 1996). Benchmarking is intrinsically beneficial not only to companies themselves but to wider interests in assessing the legitimacy and progress of corporate governance of the environment.

For stakeholders, benchmarking enables assessment of how their respective companies are, or are not, faring in relation to others within the sector or community as a whole; best practice, strategic alliances and the creation or adherence to industry norms providing a useful corporate exercise (Lotter, 2001; WBCSD, 2000; Kennelly et al., 1999; Rondinelli and Berry, 2000; Robbins, 1996). For states, this exercise demonstrates corporate engagement and a commitment to open accountability and progress, addressing the efficacy, or otherwise, of their policy-regulatory strategies.

Guidelines have been created at many differing levels. At the international level, as has been alluded to previously, guidelines exist in the national, European and international contexts (OECD, Sikkel, 2001) and from within the political, corporate, scientific, financial, institutional and academic spheres (BP, 2000; WB, 2002; CERES, WRI, UNEP, GRI, WBCSD). At the corporate level, individual companies themselves, such as Shell, have constructed guidelines for their managerial use<sup>32</sup>. Such guidelines, it is argued, facilitate the comparability of approach and standard which is a key premise for strategic assessment of current capabilities, necessary to identify where and how change is necessary to institute environmentally responsible governance.

The perceived utility of such guidelines lies primarily in their potential to generate awareness within companies as to what should be reported and the mechanism by which they can facilitate it (Andrews and Slater, 2002; BP, 2000; FEE, 2000; Kolk, 1999). Such reporting, in accordance with the guidelines, should create greater uniformity and consensus approach, acknowledging that

---

<sup>32</sup> 'Contributing to Sustainable Development: A Management Primer', 2001, [www.shell.com](http://www.shell.com)

there will, and should always be, flexibility to cater for the individualities of corporate operations and concern. The benefit of greater uniformity is that it provides for comparability. Yet excessive comparability may also detract from the legitimacy of innovative individuality that some companies are demonstrating. Comparability is also problematic because of the reality that companies give differing status to issues and the governance they construct to address them (Morhardt, 2001).

Divergence of approach does not, in principle, detract from the legitimacy of the governance strategy and the assumption that companies will reject strategic uniformity, unless it retains adequate flexibility to allow for corporate discretion in how the company chooses to respond. Even with sectoral divergences being considered, is there a commonality of corporate engagement that testifies to a sea-change in corporate strategy? The evidence from previous initiatives has been inconclusive. Whilst the pharmaceutical industry has sought global uniformity in its 'Responsible Care' standard, it remains to be seen whether other sectors wish to impose a comparable approach (Kolk, Walhaim and de Wateringen, 2001). Catering guidelines to sectoral specificities such as FORGE (2000)<sup>33</sup>, OXERA (2000) highlight the need for company co-operation within sectors to develop specific indicators that would be of particular usefulness to their operational concerns.

If such guidelines have the degree of significance which many business commentators argue they have, it would be anticipated that in adhering to the parameters which they suggest, the empirical research will demonstrate significant degrees of conformity in approach across the business community or in accordance with sectoral guidelines such as 'Responsible Care'. It is the application of these guidelines, in terms of how they may have shaped CGE, which is of interest to this research and not whether companies have stated they use them, *per se*. The assumption that such guidelines have actually produced uniformity in terms of how companies engage with environmental issues is again disputed and is a focus for analysis within the empirical findings. The greening of business literatures suggests variable approaches to

---

<sup>33</sup> FORGE Group comprises of AVIVA, Abbey National, Barclays, Legal and General, TSB, RBS, Royal and Sun Alliance and Zurich; FORGE Guidelines on Environmental Management and Reporting for the Financial Services Sector, 2000.

governance are or will be adopted by individual companies (Dobers et al., 2000; Roome, 1992) Proceeding on the basis that this evidence may be at best conditional, or at worst, contradictory, to this presumption of change, what then does this suggest about corporate engagement? Do we accept that divergence of approach does not detract from the quality of engagement or, conversely, does it imply that engagement in qualitative terms, has room for significant improvement?

## **Section 5: Contextual Factors**

---

This Chapter has outlined a generic template for governance mechanisms as a marker of the parameters of expectation, driven by stakeholder pressure and within the context of corporate governance. It prescribes elements of CGE which should be present if a company is strategically capable of addressing environmental issues; this strategic capability being a necessary element of any fundamental shift in CGE. It does not, however, prescribe the parameters of what can be achieved with CGE – the paradigmatic change being assessed through company construction of CGE and a framework of CGE that is qualitatively sound. The extent of what can be achieved is therefore generically implied through governance mechanisms; the scope of corporate delivery can however be impacted by other factors additional to this framework, contextual factors which cannot be generically assessed but which are nonetheless significant for their potential impact.

### **Changing Context**

Throughout this and the preceding chapter, I have questioned whether companies respond to drivers uniformly, if indeed at all, The expectation is, that given both the conceptual argument for variability in corporate response and the heterogeneous nature of business itself, such uniformity will not be evidenced through the empirical research. The factors contributing to variability may be a reflection of history, normative practice, structure of the company,

leadership role, and the capacity of companies to change, amongst others<sup>34</sup>. It will be of interest to note what companies themselves highlight as being of significance in this context, and what can be ascertained from the findings of the wider research itself.

Contextual change is not simply an issue of internal company factors but also a reflection of the relationship between external factors and their impact upon the company. There are many such factors but those of particular influence may be the changing market, nature of policy-regulatory frameworks and societal stakeholders such as NGOs, the public and socio-scientific understanding. The influence of these stakeholders has been discussed in Chapter 2. It is important to note, however, that such influence may not be uniform and that companies may, and indeed are expected, to respond disparately to such drivers.

### **Sectoral Activity**

Examining one such key contextual factor, that of sectoral activity, analysis is made of the conceptual role such a factor may have on the corporate strategy and governance framework for addressing environmental issues. Acknowledgement is made that whilst there is a drive to increase levels and quality of corporate environmental governance, levels of stakeholder expectation and the influence they exert, must reflect the actual and perceived environmental impact of companies. It is, arguably, unreasonable and unnecessary to expect commensurate scope of, for example, disclosure, when there are very disparate operational and impact activities within business (Synnestvedt, 2001; Morhardt, 2001; Kolk et al., 2001; Green Business Letter, 2001).

The issue of perceived impact is one that commentators such as Kolk et al. believe is significant in its influence upon governance mechanisms such as

---

<sup>34</sup> Extensive literature exists on the role of these factors. The role of management hierarchy and leadership, in particular, has been cited as critical to infusing strategic thinking and maintaining corporate drive to realise environmental governance (Jorgensen and Simonsen 2002, Figge et al 2002, Dobers, Stannegard and Wolff 2001, Lindell and Karagozoglul 2001, WBCSD/CSR 2000, Percy 2000, Atkinson, Schaefer and Viney 2000, Hussain 1999, Weinberg 2000, Nadler 1998, Rosenberg 1998).

disclosure *'the relationship between direct environmental impact of the sector and reporting frequency is clear'* (2001, p27). The implication of what Kolk and other commentators such as Krut and Moretz (2002) explore through their research, is that the higher the perceived environmental impact, the greater the propensity to disclose. The basis for such a propensity is rooted, it is argued, within two key factors: firstly, the pressure which stakeholder expectation will bring to bear on high profile companies, for example, those within the petroleum industry, will impress upon such companies the need for disclosure as a means of addressing such expectation; secondly, that the nature of sectoral activity such as the petroleum industry, will translate into *'a ready availability of data on environmental performance'* (Krut and Moretz, 2000, p87). This thesis will collate data derived, not just, from the company's own managerial requirements of monitoring their operations, but also from a legacy of benchmarking exercises within such sectors, and the attenuating demands for disclosure and scrutiny which this has brought.

Interestingly, however, it is not the role of regulation or even external stakeholder perception of environmental impact, which has arguably compelled engagement from within the Financials. This sector is an example of what could be argued to be internal pressure to change, emanating from within the sector itself. Initiatives such as FORGE and FEMAS, the Financial Sector EMAS<sup>35</sup>, are an example of how the sector is seeking to institute CGE commensurate with the specificities of their sector. The drive for such governance is not simply to address investor and societal pressure, reflected in the burgeoning market for Socially Responsible Investment, but also in the realisation that it is a shrewd business strategy (Kolk et al., 2001).

Companies, whose environmental performance is perceived as sub-standard, can represent an investment liability. Such liability emanates from the lack of shareholder confidence this may bring or the reality that the failure of the corporate strategy to address their environmental impact may make them liable to future costs for meeting regulatory standards, regulatory fines or even litigation costs. Investment in or underwriting of, such companies poses existing or future financial risk, which the Financials may be unwilling to undertake.

---

<sup>35</sup> EMAS for the Financial Services Sector; refer to The Eco-Management and Audit Scheme: A New Opportunity for Financial Institutions, [www.europa.eu.int](http://www.europa.eu.int)

The power of the Financial sector, in its capacity as investor and insurer/underwriter, is, therefore, considerable, as Friedman and Miles highlight: *'if companies do not respond voluntarily, the financial community is a powerful enough stakeholder to warrant intervention'* (2001, p542). Though noting that such intervention may be unlikely, the commentators do reiterate their analysis that both in the governance of firms within this sector, and in the influence the sector has on other sectors, the Financials are an example of how sectoral activity may diverge and the potential this has to impact upon CGE (Solomon and Lewis, 2002).

## **Section 6: Summary**

---

In examining individual and collective corporate environmental strategy, as both outlined and implemented, focus is placed on the nature, scope and ambition of the initiatives undertaken through key elements such as disclosure, management capabilities and strategic objective. Analysis focuses on whether such corporate strategising as exists, reflects a deeply embedded disjuncture not only between growing public environmental awareness, and a commercial climate not traditionally receptive to such value systems; but also in the disparate reality between what is promised and what is actually achieved. It is questioned whether the assumptions of comprehensive corporate change mask a differing reality of sporadic and often inadequate response. The ensuing empirical research analysis seeks therefore to address the nature of this commercial climate and the degree of corporate responsiveness being demonstrated within the context of such environmental concern, cognisant of the disparity expected to be manifest between and within sectors.

The presumption that we have achieved a paradigmatic shift in corporate thinking, that the private sector has demonstrated a normatively re-infused corporate governance of the environment practice that reflects the level of expectation being levelled by varied drivers, is not one which this research would seek to support. On the contrary, it is the proposition of this thesis that whilst change has unquestionably occurred within the private sector and the

CGE it constructs, this change is not sufficiently adequate in either quantitative or qualitative terms, to constitute a paradigmatic shift.

Four key assumptions that arise from current business and academic literature are challenged: firstly, business literatures would appear to potentially overstate the extent and nature of private sector engagement in environmental governance; corporate governance of the environment, as evidenced within FTSE companies, will not demonstrate the degree of fundamental change in corporate thinking that is presumed. There is inadequate evidence to support the proposition of paradigmatic change. Comparably, academic literature whilst cognisant of the conditionality of corporate change, still provides inadequate recognition of the particular context for CGE; the attempt to categorise change fails to recognise the individuality and specificity of corporate change. Generalisation of CGE, both in its current form and in the nature of its progression or development, denies the critical significance of context for companies who whilst displaying some degree of harmonisation or homogeneity in response, are not characterised by such unity of response.

Analysing CGE will demonstrate that corporate response cannot easily be defined by convenient categorisations which belie the complexity of current business practice; and that even where categorisation can occur, this does not accord with the traditional/established models for environmental management, as typically applied. Equally, a continuum of progression cannot be assumed on the basis of the research evidence; whilst it is anticipated that there will be a spectrum of development, factors of causality and progression may not be automatically presumed. The qualitative pattern of CGE progression may not be established; other factors may significantly interrupt/disturb the expected progression continuum.

Addressing corporate perception of this issue, of interest is whether companies prefer to see great uniformity in corporate governance of the environment or are they content to permit the disparities, as are expected to exist, of self-regulatory strategising? What are the factors which motivate this and what does this suggest in relation to paradigmatic change within the community/sector?

It is anticipated that the research will demonstrate considerable diversity in corporate strategies to self-regulate in pursuance of environmental objectives;

mixed portfolios will, it is anticipated, be evident within individual corporate strategies and between strategies even within the same sector. The motivation for such strategic disparity is expected to reside within the differing approaches companies adopt to the issue of CGE, coupled with the lack of adequate prescription from the state as to what should be constructed. This lack of clarity from the state is, of course, in part a consequence of the ongoing discussion of how best business can contribute but also because the state remains reluctant to dictate to a reticent private sector. Such reticence from business exists because of several, sometimes overlapping factors: primarily because it would appear not all of the business community, or perhaps even the majority, have accepted the necessity for CGE. There remains strong indifference to the notion of environmental responsibility, within certain elements of the business community, which it is anticipated will be evident within the empirical research.

An additional, strong, motivating factor against the possibility of harmonising business response, is that corporate strategising whilst uniform in its compunction to maximise profit and maintain the long-term health of the company, can demonstrate disparity in strategic approach taken and wider objectives sought. The vocal corporate commitment to addressing global environmental change such as climate change, which emanates from companies such as Severn Trent or United Utilities, is not universally shared and arguments to the contrary are not expected to be borne out by the empirical evidence. Researching all of the FTSE350 companies will, it is expected, reveal considerable gaps in corporate perception and attenuating commitment.

The consequences for this anticipated lack of paradigmatic change are significant, not just for the failure to address societal and wider stakeholder expectation but the implications such evidence would provide on the adequacy of current policy/regulatory initiatives. Chapters 5, 6 and 7 consequently outline the empirical evidentiary base for assessing whether paradigmatic change has, or has not, occurred and place this within the policy context of corporate engagement.

Preceding this, however, Chapter 4 'Methodology', outlines the key methodological approaches adopted to address whether corporate governance

of the environment, as a representation of paradigmatic change, is being manifest within the UK's leading companies.

# 4

## METHODOLOGY

---

Methodologically, this research utilised both established and nascent academic methodological approaches, to analyse its primary objective of analysing whether paradigmatic change in corporate governance of environmental issues, is in the process of occurring or has the potential to occur. The two principal approaches adopted were that of burgeoning Internet based research and the established practice of postal questionnaire. This methodology was constructed within the particular context of corporate enterprises and communication. Its selection is based on its perceived procedural efficacy of course, but also firmly within the reality of what would, and would not, be receptive to the commercial sensitivities of this sector, as will subsequently be discussed.

It was in consideration of the limitations of face-to-face interviews and their inherent difficulties of access and disclosure, coupled with the perceived advantages of the alternative approaches available, that it was decided not to use the research strategy of interviewing, or at least not as a primary methodological tool. The principal limitations of interviews, in the context of this research were as follows: Firstly, the nature of the sample base raised particular concerns about the feasibility of conducting in-person interviews. Geographically, the location of the relevant company departments proved diverse, with sites not only across the UK but also in the United States, Europe and South Africa. Access to such locations would have proven enormously difficult if not impossible. Secondly, the scale of the companies involved, 330 in all, meant that attempting to conduct interviews with the range of the sample would have also been particularly time-consuming and onerous. It was considered that a representative sample could have been contacted but the emphasis throughout this research was firmly on achieving maximum participation which would have been negated by such an approach. In addition, achieving representative smaller sample(s) would have proven problematic given the diversity in operational activity, size and the nature of individual and contextualising factors within the particulars of the company.

A pilot scheme of five phone interviews was conducted with companies chosen randomly from the sample base, to establish the feasibility of using this research strategy on a larger scale. Several difficulties became immediately apparent with this strategy. From the fore, gaining access to the relevant person proved difficult. Attempting to establish contact at a time that was also convenient proved additionally hard. Furthermore, conveying both the context and objective of the research, effectively cold calling, whilst also the range and multiple-choice nature of many questions proved enormously time-consuming and not to the satisfaction of hard-pressed respondents. It was also apparent that in conducting such interviews, respondents would feel under pressure to provide rapid answers to issues that perhaps suited more prolonged consideration; consequently the replies were less substantive than they had the potential to be.

In all, the telephone interviews proved unsuccessful, with only one company agreeing to respond and that being within very limited time constraints. In consideration of this, it was decided that the two complimentary methodological strategies of web research and questionnaires would not only overcome the aforementioned difficulties but also have many intrinsic benefits themselves, as explored subsequently. This chapter is accordingly structured to describe the relative attributes of the two methodological approaches adopted, noting both the benefits of their use and where applicable, the limitations, both conceptual and those encountered through the actual research. The literature is, as such, intended to illuminate key points of interest as they relate to the context of this research but not to be exhaustive in its examination of these two methodological approaches.

## **Section 1: Internet Research**

---

### **General Internet Use**

The Internet is of course a 'complex phenomenon' with enormous potential yet manifestly there are problematic issues concerning its construction,

organisation and use. There can be, as any researcher using the web will encounter, considerable difficulties with information presentation and retrieval. Whilst poor presentation and inadequate linking of data (Chen et al., 2001; Heo and Hirtle, 2001) have been significantly addressed by the ever increasing professionalisation of websites, issues remain with the efficiency and efficacy of data retrieval.

Search engines have proliferated within recent years, accounting for the existence of over 2000 such information retrieval bases on the web (Huey-Liu, 2000). Such engines vary widely in terms of their efficacy and specifically in terms of the nature and extent of Internet coverage they provide. Specialised search engines instituted and maintained by educational facilities are increasingly popular as researchers demand more precise search results for their queries<sup>36</sup>. Meta-search engines have also become much utilised Internet tools, as the inadequacy of single search engines becomes more evident with the expansion of the Internet. Such engines encompass multiple individual search engines and therefore offer the potential for greater results generation. The principal meta-search engines used for this research were those of 'Metacrawler' and 'Dogpile', the latter being useful for its inclusion of business news directories and therefore relevant to this research subject matter.

Problems remain however, with prolonged search times and low precision (Chen et al, 2000). Of particular difficulty is the reality that the retrieval bases are context free. When selecting wording for searches it must be remembered that the search engine de-contextualises the words and therefore can result in quite random results. For example, the word 'environment' is taken by a search engine to constitute a variety of meanings, from its green connotations to a 'working environment', to 'an environment of change' etc. The researcher is then faced with the inevitable glut of search results that must be trawled through to ascertain which sites are useful and which not (Frymier, 2000; Huey-Liu, 2000). This is, of course, time consuming and particularly problematic in terms of its academic research utility. The array of differing interfaces encompassed within search engines adds to the complexity of Internet use. Those 'surfing' the web have become accustomed to encountering differing

---

<sup>36</sup> Universities are creating their own university and faculty- based databases for research by students.

search strategies, differing presentations and considerable disparity in ease of use. Levels of familiarity and practice with differing interfaces develop expertise in Internet research and potentially minimise such confusion and inevitable time consumption (Lazonder et al., 2000). The duration of this research enabled the development of such expertise but is a factor that should be addressed when considering any Internet based research. Nonetheless, as a tool by which to gather information, the timeframes involved are significantly lower than that which would be encountered by, for example, physically obtaining data from a range of libraries where such information may otherwise be available.

### **The Internet as an Academic Tool**

Access to information via the net avoids the difficulties of disparate geographical location and access to such locations, which approaches such as face-to-face interviews or actual paper/printed documentation can encounter. The primary benefit of the internet is its immediacy and accessibility; the researcher can use this 'tool' from any location that has a networked computer; the abundance of such access points being an omnipresent feature of modern academic (not to mention, domestic and business) premises.

Unsurprisingly, the Internet has increasingly become a tool of research within the academic community, recent analysis demonstrating that an estimated 83.2% of those within the community utilise its research capabilities (Bao, 1998). Given the plethora of information sources, particularly those catered specifically to address academic needs, for example: electronic journals, specialist or bibliographic databases, it is unsurprising that it has become such a crucial information source (Speier et al., 1999; Lazonder et al., 2000; Hsieh-Yee, 2001). Of particular utility to research is the provision not only of expansive data sources but also of their contemporaneous nature, most sites being subject to systematic monitoring and review (Frymier, 1998). The Internet therefore not only enables accessibility to constantly up-dated data (in the main) but also to extensive archival information, allowing both current and historical analysis. For a subject matter such as corporate governance, such comparative data sourcing and its provision within one source, the web, enabled historical analysis, where available, whilst being resource efficient.

There has been a proliferation of web disclosure or online presence from the host of institutions, bodies and organisations that academic researchers would have traditionally physically accessed, for example the British Library. The almost universal online accessibility of information from these primary research sources is testimony to the status the internet has assumed (Bishop, 1994; Crawford et al., 1996; McCain, 2000). It is argued by many (e.g. Covi, 2001; Lynch, 2001; Lazonder et al., 2000) that the Internet is currently and will increasingly in the future, '*broaden academic research communities and change the way researchers work*' (Covi, 2000, p1284). On the collaborative front, the Internet has extensively facilitated the dissemination of work and co-operational possibilities, facilitating communication and dialogue and promulgating research collaborations across disciplines (Speier et al., 1999; Hurd, 2000; McCain, 2000).

The transformation of academic practice, by or through, the Internet is still, however, a topic of debate for many academics. It is not disputed that digital provision of data is enhancing research, the extent of practice transformation is, however, questioned in terms of its applicability across disciplines (Walsh and Bayma, 1996). Necessary to the attainment of such change, is the inter-action between work structure and institutional forces which the latter authors cite as essential to transformational practice is, arguably, not manifest uniformly across faculties. Traditional academic norms are typically displaced only over time and rely also on the receptivity of disciplines to change. It is this receptivity to change which can be variable.

Covi (2000) questions whether the traditional 'hard' sciences are willing to relinquish entrenched practices for the sake of a tool that can only be used in certain aspects of work and which is still comparatively nascent. Such scientific disciplines are demonstrative of the high-paradigmatic studies that Covi perceives as still sceptical of the legitimacy of the web in academic value terms and therefore reticent to invest in the requisite technology to broaden its use for students/researchers. In contrast, it is suggested that disciplines such as social sciences and self-evidently, computer studies, are more open to new research practice and therefore more willing to implement the computer facilities necessary – though of course noting the issues of cost and resource capacities of typically less-funded faculties. It is the growing conceptual acceptance of such an approach within the social-scientific context for this research, which

premised the decision to adopt this methodological approach. In attempting to explore this still evolving interface of business operation with the heavily academically rooted greening of business literature, emerging pragmatic research tools are rapidly usurping disciplinary tradition and entrenching their credibility. It would be difficult to envisage another research method providing such rapid and comprehensive data on the range of companies explored.

### *Credibility of Data Sources*

The very proliferation of information sources which enhances the webs' utility for such research purposes, poses questions as to the validity and credibility of the information sourcing and its provision. Whilst the on-line versions of academic journals and their ilk retains the same process of traditional review (though even this is disputed sometimes), other information sources do not retain this established academic process. It is possible for all legal entities, individual or collective, to have representation on the web simply by registering a web domain and paying (or even not paying in some cases) for web hosting. There is no global regulation of internet data, such online information being largely unregulated<sup>37</sup>. It is therefore consequently possible to 'publish' on-line literature of any source (legal) and nature, the legitimacy of which is not routinely challenged, at least not within the same web source. It is imperative therefore that researchers retain their normative practice of checking and counter-checking before using such web sources.

The issue of data legitimacy became a matter of primary research relevance throughout the period of data collation though the potential impact of this issue was lessened by the nature of the specificity of the information being sought and the sites from which it was gathered. Whilst websites, in general, are not comprehensively regulated, corporate websites, the focus for this web analysis, are subject to considerable stakeholder scrutiny. As the 'online' face of the company, such sites are subject to public scrutiny, with certain aspects of data provision being subject to the same expected standards as their printed counterparts. One example of this transference of standard is that of the

---

<sup>37</sup> Noting that there is country specific legislation to govern the disclosure of certain types of information e.g. within the UK, the Obscene Publications Act (1959) though this is not exclusive to internet disclosure.

regulatory duty to provide accurate, verifiable information relating to their financial accounts and reporting. Addressing the specifics of environmental data, whilst marketing may provide some licence to portray data in a favourable interpretation, it is unlikely that any FTSE company would condone the deliberate misrepresentation of company data that will be subject to public scrutiny and the potential damage to corporate reputation which would ensue.

### *Data Surrogacy*

Issue of surrogacy of data provision – the use of surrogates is increasing within the web and brings to the fore issues of trust between the provider and the recipient. Traditionally the use of surrogates has been perceived as a benign data provision. However, as providers become more adept with the use of the web there are questions over the legitimacy of the data being 'replicated' for such surrogates. Lynch (2001), amongst others, highlights the difficulty that arises when a provider of such surrogates uses this as a means of selecting the data they provide and directing users to access sites and information they had not requested. It is particularly contentious for researchers if the surrogate data being provided is inaccurate, or less than comprehensive, when the assumption is to the contrary. Emphasis is again placed on the necessity for, where possible, obtaining data at source and verification of the data obtained. Specific attention was therefore placed on obtaining such verification checks where possible, particularly where the data was of policy, regulatory or scientific nature, such information providing the premise for company analysis.

### *Portals and Clearinghouses*

The plethora of data and data sources on the Internet makes the creation of clearinghouses or web portals particularly attractive when conducting research. Given the appeal of an array of pre-collated information within one site or access to an array of other sources within this one site, it is important to check the validity of the collation. Such clearinghouses or portals are typically specifically established to offer such services and are constantly monitoring the sites which are used in their search databases, e.g. Google. Alternative portals used within this research were institutionally/organisational specific e.g. Europa (Europe Online). The information obtained from these portals is typically related

to the nature of the organisation which hosts it and is noted as such within this thesis.

For the purposes of this research, clearinghouses and portals were a prime area for general research over environmental change and specifically addressing corporate responses, as both a primary source of discovery and for verification of pre-discovered data. The aforementioned checks as to their comprehensiveness and relevance were applied as uniformly as possible. Whilst attention should be drawn to the reality that the legitimacy of the data can not always be testified to, it must be noted that this applies equally to off, as well as, on-line data.

### *Copyright*

The issue of Internet copyrighting is as contentious legally as it is academically. Replication of data on websites is normally predicated with a copyright disclaimer that theoretically extends to the recipients use. Such exercise of copyright to the researcher or data user is of course notoriously difficult to monitor and is also problematic for an academic to fulfil. Often citations are inadequately sourced and authorship difficult to establish, particularly where clearinghouses have selected data snippets from multiple sites (McCain, 2000). Research has demonstrated that particularly online data sources tend to be poorly acknowledged (Kaplan and Nelson, 2000). Noting these concerns, this research strove to catalogue website addresses and structure where used. Where individual authorship could not be obtained, the site source is cited instead, ensuring some acknowledgement is made to the researchers involved.

Appendix 1 to this research lists an extensive number and range of websites, which were integral to this research. Whilst it is traditional to merely cite specific individual references, the collective authorship of data from such sources must be recognised. For this research and indeed generally, they replaced much of the written literature that would otherwise have been consulted.

## The Internet as a Business Tool

The importance of the web is such that companies are fully cognisant of the imperative to have web representation or their own web domain (Elvins, 2002; White, 2000; Helms, 2000; ERM, 2000). The necessity for Internet use derives predominantly from two principal factors: firstly, operational activity and transactions and secondly, demonstration of corporate presence, profile and interaction.

### *Operational Activity*

The utility of the Internet and ICT generally is that it has the potential, if not already realised, to fundamentally reshape the governance of internal operations and logistics. Whether in the areas of production, inventory, product design, delivery and recall or various other aspects throughout the product chain, on-line facilities can greatly accelerate and improve the efficiency of operations (White, 2000; Cohen, 1997). The potential which companies have mainly seized, is for better management of entire operational activity, information dissemination/communication and closer interaction with all elements within the supply chain. This enhances not only individual knowledge within the company but also collective communication and intelligence amongst those with whom it deals (Ford, [www.ford.com](http://www.ford.com); Poon and Swatman, 1997; Rikhardsson, 2001; Segars and Kohut, 2001; White, 2002). It constitutes, as many commentators suggest (Bambury, 1998; Kalakota and Robinson, 1999; Holland and Baker, 2001) 'a *completely new business model*' or as Mott surmises '*the net is revolutionising industry after industry*' (Mott, 2000, p679).

### *Business-2-Public*

Such interaction is, however, not limited to the nature of operational activity and business-2-business communication but to the entire consumer and public stakeholders with whom operational activity and its governance thereof, must address. Establishing web presence is increasingly a manifestation of communicative governance. Whilst online presence is an endorsement of corporate and market position, status and importance (Kolk, 1999; ERM, 2000; Richardsson, 2001; Jackson, 2002), it also crucially provides an exercise in corporate communication to the stakeholder base of consumer and wider

societal interests. The Internet and its varying forms of online interaction facilitate, or can facilitate, unprecedented speed and level of communication between company and public. The capacity for more informed and responsive governance is evident.

It is acknowledged that many companies have not yet capitalised upon the potential of the Internet and ICT widely, to institute or augment either internal or external governance. There are a multitude of factors which can impede take-up of such technology; infrastructure, size, cost, complexity, awareness and training being some of the most commonly cited barriers (Berkeley et al., 1996). Comparably, even where the Internet is integrated into company operations, it is not always utilised to its potential and there remain fundamental challenges to be addressed in terms of its efficacy in delivering public friendly communication in particular (Hwey Jeng and Reynolds, 1998; ERM, 2000; ACCA, 2000/2002). Whilst it was not the intention of this research to examine the implications of internet effectiveness in facilitating internal logistical operations, attention was focused on its impact in business-to-stakeholder (public and consumer) communication. It was anticipated that given the size and operational status of the FTSE indexed companies, Internet take-up would not be an issue; of significance however, was the manner and merits of its use, as it currently is incorporated into corporate governance strategies for the environment.

Of primary relevance, therefore, for the purposes of this research, is the impact commercial use of the net had on two factors: the inter-relationship between the company and its stakeholders, its consumers and the public in particular; the potential for competitive intelligence gathering within the environmental context, and the comparison between and across companies which promulgates the corporate governance debate.

#### *Corporate Dialogue with Stakeholders*

The notion of dialectical relationships with stakeholders, in particular, consumer or customer bases for companies, has become increasingly attractive if not essential (ERM, 2002; ACCA, 2000/2002). The need for participative, consultative policy-making particularly within the context of the environment (per se) has long become the topic of academic research. Increasingly

companies perceive the Internet as facilitating a means for direct access to large sectors of its stakeholders and the public generally. Either through supplementation of, or perhaps outright displacement of, existing public consultation practices, the internet enables companies to either access or be seen to provide access between themselves and concerned stakeholders, feedback provision online heightening such access (Elvins, 2002).

The primacy of corporate concern with fulfilling its customer or consumer needs base, in particular, is manifest on websites. Given the potential access of the Internet and therefore the company's website, companies are capitalising upon the directness of the interface between itself and its customers. Conscious of the potential not only to market itself but to have direct input from the basis for its commercial success, websites are addressing two principal activities: customer service and customer relations (Cronin and Kim, 1996).

Whilst customer service may perform the more perfunctory role of administering to customer needs, the construction of corporate customer relations on the websites is analytically significant for its indication of the status of socio-environmental considerations in strategic governance. The inclusion of environmental data on websites is not a regulatory requirement; therefore, the motivation for its inclusion indicates corporate sensitivity towards its public image and its responsiveness towards customer expectation in this realm (Reynolds, 2000; Holland and Baker, 2001; Coviello et al., 2001). Exploring how business constructs this corporate environmental image online, its expansiveness and the motivation for its existence contributes to the overall analysis of company environmental governance.

Another stakeholder, oft forgotten in business literature, is that of the employee base for a company, often constituent not only of the public but also frequently of customers. The facilitation of internal communication is of course vital to the functioning of a company (Teo, 2000). It is however also particularly useful for employee consultation, collaboration and implementation of environmentally driven initiatives. The relative newness of most environmental policy initiatives, enhances the need for communication of the aims of such initiatives and a collaborative examination of how such measures can best be realised. The Internet exploration sought to extrapolate how either top-down or grassroots up initiatives within companies have been acknowledged within websites. It is, of

course obvious, but necessary to acknowledge, that Intranets within companies, where they exist, in reality will more readily facilitate this employee-corporate dialogue. The objective of exploring it within this research stage, is to highlight its differing status within company and public strategising, providing a context for the subsequent, second, stage of questionnaire surveying.

### *Competitive Intelligence Gathering*

A plethora of research has examined the use of the web for gathering competitive intelligence and its utility will not be repeated here. Suffice to note that companies have consistently viewed the internet as the '*top ranked CI data reference*' (Teo, 2000, p68). The net enables not only cross-company analysis and data collation but also provides easy access to a wealth of additional relevant sources such as national, regional and international governance information (Cohen, 1997; Elvins, 2002). This research does not explore the extent of competitive intelligence gathering within companies but uses it as a general contextual factor in shaping corporate policy on the environment. Specifically, the citation of participation in collective sector and business 'environment surveys' such as BitE, the prominence given by companies to their respective positioning and other indicators of corporate awareness of their public and commercial status, are factors actively considered and examined.

## **Section 2: Internet Research - Methodological Objectives and Strategy**

---

The utility of the web, as the previous methodological chapter highlighted, is manifold for business. Primarily it constitutes another element of their public representation and critically also, a further means of commercial activity, for many companies. Secondly, and particularly useful for this research, was its utility as a mode of information gathering. Given the imperative of the Internet to business, its utility for researching corporate strategising is comparably considerable. If business perceives the web as its top ranked competitive intelligence gathering tool, then the implications for corporate intelligence gathering for the researcher are considerable. Herbst neatly encapsulates the utility of the Internet for this stage of research, '*the World Wide Web is fast becoming the primary source for EHS information including...environmental*

*reports'* (2000, p81), its utility derives from its speed of access and relative comprehensiveness of data provision.

As a primary research tool for companies to gather information about their competitors, it also constitutes a crucial means for the researcher to gather data on all companies. Its utility in providing data on the sample base of 330 FTSE listed companies, is therefore evident. The continuing expansiveness of corporate websites allows for the further analysis of historical context with which to contextualise contemporary information. Access was provided to nearly the entirety of my sample base, with only a couple of notable exceptions: certain companies who did not have a web domain at the beginning of the research period, were subsequently represented on-line further into the period of research; certain companies were still in the process of registering and developing their websites at the end of the internet research period.

Thirdly, and equally significantly, the internet constitutes not only a tool with which to research but also a focus of research itself. Of primary interest is why companies are using online representation, the manner in which they are doing so and what this suggests about its potential utility for corporate governance of the environment. The very public construction of corporate identity that the internet provides, is of integral focus to any examination of corporate approach. Corporate identity in environmental terms is examined not through its mere existence within company websites, but the type and manner of data provision and communication potential provided within.

It must be noted that the provision of data online is typically less than that provided where specifically sought through direct modes of contact such as interview and questionnaire. The objective was not however to determine the expansiveness of data provided, though the comprehensiveness of subject-matter was noted, but the qualitative approach integral within the literatures presented on-line.

### **General Data Aims**

To recap what the methodological chapter listed, several generic areas of interest were identified, which then determined the nature of specific web

research conducted. These research foci comprised of corporate governance and identity as constituted online; the role of regulation and corporate use of the world wide web. All foci were contextualised within the framework of both archival and contemporary data sources, providing the necessary premise and in some cases, comparative basis, for understanding current corporate practice.

### **Specific Data Aims**

Prior to commencing the web research, a list of sought data sources was identified as being of primary interest. It was particularly interesting when conducting the research that other forms of literature were identified throughout the research, these being particularly interesting in relation to the specific companies involved but also in their potential utility through wider application.

### **Research Periods and Strategy**

Two research periods were undertaken with respect to web data; the first occurred at the commencement of the empirical research stage: September 2000-January 2001; the second research stage occurred March-April 2002. The sample base was constructed from the FTSE Indexes as listed at the beginning of this stage of research, September 2000. It is necessary to highlight that given the dynamic nature of business, the composition of the FTSE Indexes has of course changed and therefore certain companies may not currently be represented on the Indexes. During the course of research, specific companies noted that they had 'dropped out' of the index and therefore did not consider themselves subject to analysis. Other fluctuations occurred due to inevitable changes such as acquisitions, mergers and even differentiation of operational activity.

#### *Locating the company's web domain*

The websites of many companies were easily locatable by using the formula of 'www.company.com' or 'www.company.co.uk'. Other companies however were represented on-line in a number of distinct ways: through the name of their

parent company; through the individual names of the trading operations, which comprise the overall company; through the name of the merged or de-merged entity. Locating the sites of such companies required the use of search engines, in particular, specialised search engines such as 'Google' or 'Yahoo!' which have separate search capabilities for business directories. Alternatively where company domains were particularly hard to trace, industrial portals and business clearinghouses were utilised, typically providing linked access to the company site in contention. For a full list of corporate websites accessed, see Appendix 1.

The principal objective of researching company web domains was the generation of data about their environmental strategising, and the nature of their web environmental representation. Specifically, the following factors were explored:

- did the company have web representation generally and specifically, was there explicit environmental data within that web provision
- general company operational information
- corporate governance strategy; corporate governance of the environment and its response to climate change specifically
- environmental policy statements and reports where existent; an indication of the evolution of environmental policy through archival reports where provided
- company perception of environmental regulation and its strategic response
- contact details for the development of the surveys and potential interviews.

#### *Tabulation of Data*

The data was firstly tabulated to insure that all companies were included and for ease of collation and initial data comparison. The table below demonstrates the tabulation format and the six initial factors checked in this first stage of Internet research. All sample companies were initially collated in this manner, tables being constructed for the two indexes of FTSE100 and FTSE250. See Table 4.1. For the complete tables of the companies in both Indexes, see Appendix 2.

Company Name	Sector	Website	Environmental Policy	Environmental Report

**Table 4.1: Tabulation of Company Web Representation**

### *Individual Company Assessment and Reports*

For the purposes of examining individual and consequently, collective, corporate governance responses, a second stage of data collation occurred, individual company assessment reports. See Figure 2 below. These reports, a replica of which is included below, were constructed to explore the research objective criteria listed previously and to provide a more context specific and detailed examination of the companies. The report encompassed only the material available on the company's website, with the exception of company literature that was requested from the websites indexing. Whilst the reports were filed for all companies, a selection of companies was either not represented on-line or provided little or negligible data. Assessment reports on such companies provided a very visual and corporate policy significant, demonstration of the disparity existent within the FTSE indexes. Appendix 2 notes corporate reports, policies and data collated.

### **Assessment Sheet**

Name of Business

FTSE Index

Business Sector

Website address

Environmental Section on Website?

Environmental Policy: SHE, separate environmental policy etc.

Environmental Report: SHE, Community and the Environment, Environment only etc. Years...

Environmental Section of Annual Report?

### **Corporate Governance of the Environment**

Corporate Level Governance?

Environmental Management Strategy

Official Accreditation for EMS: EMAS or ISO14001?

External Assistance of Verification?

Participation in Sector, State or International Action? BiE, DETR, GRI, Trade Association etc.

Publications

Expressly state: Meet and Comply with Existing Regulatory Requirements?

Expressly state: Improvement on Existing Regulation?

Any specified measures or mechanisms for facilitating this?

Does regulation appear to be a principal driving force or incidental in terms of environmental performance?

**Figure 4.1: Assessment Reports**

### *Wider Analysis*

The Internet research was not confined solely to corporate entities, Particularly with the more environmentally conscious companies, referral was made to a host of wider sectoral, trade associations or other representation of which they were constituent. Research also highlighted invaluable comparative analysis sources within individual sectors and across the business sphere. Governmental, scientific and environmental data sources encompassing the climate change issue were extensive in number and scope, contextualising not only the issue but the individual and collective company responses.

### **Qualifications to Internet Research**

It must be noted from the outset that not all companies had corporate websites, despite the high profile nature of their listing in the FTSE Indexes. In particular, non-representation occurred within certain financial companies whose investment focus removed them from the 'high street' profiling of many other companies. Whilst researching, it became apparent that there were two different approaches to on-line corporate information provision. Firstly, such information was included within the general website of the company and linked through the section of 'Corporate Information', 'The Company', 'About Us' or 'Group Information'. The headings provided links to the data required and were typically visible, though not always prominently, on the opening page of the site.

Secondly and distinctively, many companies have separate websites specifically designed for corporate disclosure. Examples of this were Alliance & Leicester who had their commercial website [www.alliance-leicester.co.uk](http://www.alliance-leicester.co.uk) but also their corporate website [www.alliance-leicester-group.co.uk](http://www.alliance-leicester-group.co.uk) and Powergen, who comparably had the commercial based [www.powergen.co.uk](http://www.powergen.co.uk) and the corporate site: [www.pgen.com](http://www.pgen.com) . This differentiation of information disclosure greatly facilitated the ease of access to such information and typically resulted in greater data provision through such separate sites. It became important, however, to ensure that the correct site was being accessed by which corporate information could be obtained.

The provision of information between websites inevitably varied significantly, not just in nature but scope. Some companies provided open disclosure on a wide variety of subject-matter, others reported very little in the manner of substantive data. Certain company websites could not provide online data because of the nature or extent of their sites. Websites had varying capabilities. Firstly, where the company operations were extensive and diverse, often data was not as comprehensive as for sites where operational activity was limited and the data on each element more in depth. Secondly, companies also construct their websites with differing degrees/limits of data storage provision. This is, of course, not so much dependent upon the extent and nature of operational activity but on factors such as the purpose of the site, whether the site is purely for information or also for consumer commercial activity etc, nature of information the company wishes to store and its historical extent (e.g. archival activity etc). Thirdly, certain companies provided links to data either through the use of attachments or through online applications for either hard copies or sent attachments. Whilst access is therefore not denied, subsequent efforts to obtain this data were not always successful with a limited number of companies failing to reply to the request for such information or alternatively, questioning the validity of its request.

Overall, there were evidently many companies who are steadily improving their environmental governance, reflected through the continued improvement of their websites environmental data. The utility of the web for such companies was demonstrably ranked as a key mode of dissemination and public profiling of their environmental governance, as was anticipated. Given this quick summation of the nature of Internet use by companies, the next stage in this

analysis centres on the quality and scope of environmental disclosure actually provided through corporate websites. It must be noted that the following examination is solely a portrayal of corporate information as it is comprised on websites, i.e. what companies have sought to disclose and often crucially, what they have chosen not to.

## **Section 4: Questionnaire Surveying**

---

### **Survey Mode Selection**

#### *Considerations of survey mode selection and use*

The predominant considerations in selecting survey mode are typically issues of cost and access in achieving greatest potential response (Oppenheim, 1992; Fowler, 1993). The literature on survey cost is, however, somewhat ambiguous as to which mode is more economical and is typically too generalist in its presumption that what holds for one research approach will hold irrespective of context. The specificity of addressing the corporate sector constituted the single most important factor in consideration of what mode would effect greatest response. For the purposes of this research, therefore, the primary issue determining survey means was that of corporate access, though acknowledging that monetary considerations are at least partially inter-related to maximising response. The challenge/under consideration within this research was the question whether the notoriously unresponsive sector of business would respond differently irrespective of survey mode (Klassen and Jacobs, 2001). Whether, therefore, those companies who were unwilling to respond could be persuaded to do so by a specific mode or whether it was accepted that the non-response rate within this sector would be higher than the average 'public' non-response rate and mode may be of limited relevance.

#### *Case-study approach*

Personal interviews have many recognised benefits (Wiktorin et al., 1999; De Vaus, 1996; Lyberg, 1997). There were, however, significant difficulties with

such an approach in this specific research. Primarily, the geographical disparity in location of the FTSE companies would have entailed extensive time and monetary expenditure to address. Exacerbating this, despite being operationally based within the UK, several companies retained their environmental divisions overseas in places as disparate as the US and South Africa. The sheer scale, coupled with such location access difficulties, posed a considerable problem in selecting and constructing an appropriate survey approach. The factor of corporate schedules, attempting to access and arrange convenient times for interviewing, is additionally challenging when the intended respondents have hectic work timetables, often subject to unexpected change.

A small case-study of 10 selected companies from my sample list were chosen and the approach was to contact their respective representatives by telephone to convey the research project issues prior to, or as alternative to, delivering the postal survey. From the small sample alone, key difficulties were highlighted: the difficulty of accessing the correct telephone numbers for people in the departments charged with environmental responsibilities; attempting to converse when said person wasn't busy or was willing to speak and ultimately attempting to convey the premise, purpose and utility of the research in very brief timeframes, demonstrated that personal contact would prove highly problematic. Having already established the contact addresses of all sample companies through the prior web research stage, the vast majority of which were proffered as the appropriate communication forum, written contact appeared less problematic. It was decided therefore, that the approach this research would take would be primarily that of the postal questionnaire.

### *Postal Questionnaires*

The methodological choice of postal questionnaire for this research is acknowledged as potentially beneficial but coupled with inherent limitations (DeVaus, 1996). Unlike personal interviews (face to face or telephone), there is ordinarily no provision for further explanation or clarification. Given this consideration, the questionnaire (Appendix 4) was formulated, to specifically incorporate provision for a dialogue where required by either the respondent or myself, the researcher. This was realised through the provision of detailed information as to how respondents could contact me for any clarification and the request for contact details should I seek subsequent clarification from them.

The principal drawback, however, of the postal questionnaire is that of non-response, missing data or self-selected response (DeLeeuw and Collins, 1997; Jenkins and Dillman, 1997; Fowler, 1993; Sudman and Bradbury, 1992). Given the mode of distribution, there is unquestionably a tendency amongst sections of respondents, to easily dismiss such surveys. Alternatively, some respondents may be willing to reply but either deliberately self-select which parts of the questionnaire they will respond to, or unintentionally fail to fill in certain sections through oversight. Given the perceived sensitivity of the environmental issues for many companies, it was anticipated that incidences of self-selection would occur. This is, however, arguably as enlightening of corporate perspective, as an explicit response.

Oppenheim also notes the existence of an additional category of non-reply that of 'situational' non-response, wherein the intended respondent is unable due to context factors, to reply. In this instance, the primary factors governing such non-response were the instances of mergers, de-mergers, acquisitions, and corporate restructuring or even collapse. Such factors cannot be avoided given the nature of such a dynamic sector and were manifest in the subsequent research. That said, despite the complexity of non-responsiveness, as DeLeeuw and Collins note, '*when the questions are answered, the resulting data tend to be of better quality*' (1997, p205). The challenge was therefore to attempt to maximise business willingness to respond and minimise attenuating problems of inadequate replies due to perceive problems such as confidentiality.

The sample for this research, examined subsequently, comprised of 350 companies across the range of sectoral divisions. The plethora of business surveys already conducted and available on and off-line, demonstrated that arguably above all other sample groupings, business was the most widely and extensively surveyed. 'Survey fatigue' (Grofton, 1999; Klassen and Jacobs 2001) was an oft cited and reiterated response from business representatives when asked to account for low response rates to such surveys, which encompassed all modes of approach<sup>38</sup>. Given this seeming uniformity of low

---

<sup>38</sup> Business itself has been raising the issue of survey fatigue (Buckland, 2004; Investor Relations Society, 2003; London Stock Exchange, 2003/4)

response, the approach this methodology sought, was to lower the response rate to a 'reasonable level' (Fowler, 1993) achievable Fowler suggests by a number of means: addressing the specific nature of the sample; highlighting the specific study being undertaken; motivation for respondents and stressing how uncomplicated the task of participation will be for them. Additional elements such as indicating sponsorship inclusion, provision of SAE and confidentiality clauses (Kelly, 2000) also enhance respondent willingness to respond, it is generally perceived. Directly addressing this, a number of measures were taken to realise these minimising factors, as explored in subsequent sections. Such measures are typical of the type of specialised survey that this research sought to replicate.

In the private sector of commerce, data collection has utilised the method of specialised questionnaires for several decades (Klassen and Jacobs, 2001; Flynn et al., 1990), its advantages resonating around the level of knowledge and expertise that such surveys can offer to their respective sample bases (DeLeeuw and Collins, 1997). They appeal to potential respondents precisely because they are not overly generalised and address issues that relate to the context and practices of the sample being researched. Their findings have, therefore, the aim of contributing to that same base of expertise. Such an outcome provides a tangible incentive to possible participants. For the researcher, Joseph and Hewins (1997) highlight the particular benefits that such questionnaires can offer in overcoming the problem of inaccessible data or personnel, that which is typically not readily or publicly available. Additionally, this form of surveying allows for exploration of the nuances of general corporate responses, exploring the range and extent of the stated public statements.

Within this specialised sample, the postal questionnaire also allowed for respondents to be accessed irrespective of business operations and locality, and secondly, to answer when convenient with the provision for further or subsequent reappraisal of answers if or as when required. Mail questionnaires evidently overcome the problem of geographical access and comparatively were less costly to administer. Additionally, it was considered that given the importance of obtaining the company's perception as opposed to the individual concerned, questionnaires provided arguably a more considered approach. As the findings subsequently demonstrated, respondent surveys showed how the

surveys had been filled in but then checked and modified either by the individual or alternative person, through the use of pencil rubbings and scribbled out answers. Whilst the 'environment' may be of general concern to commercially sensitive companies, the contentious nature of climate change provides a context in which respondent companies are particularly eager to scrutinise their responses. Companies were also asked to submit to further clarification of their answers, if necessary, post-questionnaire analysis. The list of companies who consented to this and were subsequently engaged in e-mail discussion for additional responses, is listed in Appendix 6.

#### *Disclosure Sensitivity and Confidentiality*

The issue of sensitivity of questions being addressed is typically researched within the generalities of 'the public'. It is acknowledged that respondents may be reluctant to '*admit directly to an interviewer, a socially undesirable or negatively valued characteristic or behaviour*' (DeLeeuw and Collins, 1997, p200), questionnaires therefore removing the personal stigma and enabling fuller disclosure of such behaviour. Arguably, the potential for such sensitivity in disclosure is heightened, given the public position of many companies and the scrutiny they are subjected to, particularly if such socially undesirable practice impacts negatively on the environment. Commercial sensitivity within corporate research is evidently an issue that warrants particular attention within questionnaire construction.

Whereas a personal interview may have elicited a 'not open for discussion' response, questionnaires allow for respondents to frame their response in a way permitted, potentially allowing the scope for more information provision (DeLeeuw and Collins, 1997). The questionnaire, at least theoretically, enabled companies to again provide for fuller and more considered disclosure. Critically, however, this could only be realised through the inclusion of a comprehensive confidentiality assurance accompanying the questionnaire, predicating respondent openness.

The confidentiality assurance has, unsurprisingly, become an essential component of specialised or sensitive issue surveys (Jenkins and Dillman, 1997; Rasinski et al., 1999; JF Kennedy Centre Report, 2001). It is an issue of both ethical research concern and of practicality. Company respondents may

simply ignore a survey in which they perceive confidentiality to be lacking. The issue of establishing trust between respondent and researcher is arguably more problematic when there is both public and commercial sensitivity involved. The formulation of the confidentiality assurance is therefore crucial to engendering trust. Overstating the issue can, however, be as problematic as understating the case. Rasinski notes that over-emphasising the confidential nature of the survey '*may communicate...the idea that questions in the survey are more sensitive than they actually are*' (1997, p46) and potentially therefore heighten the potential for non-response. The clause listed below, Figure 4.2, was formulated to provide a compromise between necessary assurance of confidence and potential for over-statement.

***"Thank you for taking the time to complete this survey. All responses will be dealt with in the strictest of confidence and no answers will be directly attributable to either the individual or the company upon whose behalf this survey is being completed."***

**Figure 4.2: Confidentiality Assurance within Questionnaire, page 1, (Appendix 4)**

## **Realising Research Objectives**

### *Research Objectives*

Simply put, the primary objective of this questionnaire was to enhance the knowledge base on corporate governance of the environment, I had amassed through my first stage of web research. Additionally, the survey provided a means of exploring the nature of what were often vaguely stated or generalist governance options in both hard and virtual company environmental literatures. Specifically, the questionnaire asked companies to clarify their perspective of both their own and the wider state and regulatory governance frameworks within which they were situated. In addressing the notion of perspective in addition to actual stated policy approach, it was hoped to extrapolate how companies anticipated future governance strategies would be formulated and what they envisaged or sought such strategies to entail. Many prior surveys have sought to address the nexus between corporate sector and the environment, yet the emphasis has been on the general not the specific. Previous questionnaires have also been guilty of, where specialisation did occur, addressing only the traditional sector of smokestack industry. Such an approach blatantly misses the crucial point that given the globally pervasive

nature of the threat, climate change abatement will be effected by universal collective action and not just by tackling 'old' industry.

### *Questionnaire Framing*

Framing of the questionnaire relied both on referral to prior significant commercial questionnaires (Hibbitt and Roelands, 2001) and to the textual framing of environmental issues within business literature. Existing questionnaire research, conducted predominantly by environmental consultancies, contained a wealth of information on general corporate strategising, as discussed previously. The prior surveys offered therefore a general framework approach for addressing companies, issues of contention, general approach and such generic aspects of questioning. Redressing the need for exploring the specificities of climate change, the literature from within state, collective and individual company documents on climate change, proved particularly useful. Framing climate change as a business issue has been the topic of increasing realms of business-environment literature as the preceding chapters have demonstrated. Inclusion of such business perspective, in language familiar to its constituent companies (generally) was, therefore, a promising criteria for questionnaire wording and selection.

The questionnaire was worded in the industrial-regulatory terminology appropriate for my sample base and in keeping with the reliance upon familiar contextual information for respondents (Schwarz, 1997). Whilst the analytical objectives were in part, to extrapolate the socio-cultural ramifications of corporate governance of the environment, the use of overly social-scientific or academic language was avoided, for fear of unnecessarily prejudicing potential responses and to avoid the ambiguity or unfamiliarity that increases respondent mis-understanding or non-reply (Sudman and Bradburn, 1996; Lyberg et al., 1997). Oppenheim highlights the importance of framing the questionnaire appropriate to the respondent understanding, when noting that '*it is not merely important. to look at things from the respondents point of view, we must make them feel that we are doing so*' (1992, p122).

### *Sample Selection*

Integrating pre-formulated research objectives with designation of an appropriate sample, as Schuman and Kalton (1985; Also Lyberg et al., 1997) reiterate is necessary, was relatively simple in the context of the corporate sector being examined. The sample base of FTSE350 companies is both a pre-defined and commercially recognised entity, operational within the UK. The latter criterion was perhaps the most significant defining factor for survey selection. Access to the commercial sector is notoriously difficult, as was explored previously. Predicating the research within the confines of being principally or subsidiary-operational within the UK, enabled not only the potential for greater access but also ensured the relevance of the research to the companies. Needless to highlight that questioning a corporate response to the UK Climate Change Levy would not be particularly relevant to a company solely based overseas. Its selection also, however, critically afforded both a quantitatively significant grouping but also a contextualised sample whose established primacy in the private sector is acknowledged. Whilst arguably 'primacy' is not a general defining criteria for survey research, within a disparate heterogeneous sector such as commerce, formulating a sample base that would retain both interest in, and the capacity to respond to, my research objectives, negated many of the less established and operationally limited, companies. As noted previously, issues of access and general corporate accessibility are integral to designing research strategies for business. The selection of companies who had both the administrative and corporate size, and crucially, an established environmental policy framework, negated many SMEs<sup>39</sup>.

### *Positionality*

The questionnaire was targeted at those within the corporate hierarchy of their companies and where possible, those specifically mandated with socio-environmental governance. Respondents varied in seniority within the

---

<sup>39</sup> Important to note that the FTSE Indexes are not stable, prone to the fluctuating fortunes of the market and the companies respective positions within that market. Consequently, the sample of companies chosen may not entirely reflect the composition of the current indexes. This is inevitable given the dynamic nature of the market. The sample therefore was not precisely 350 companies. In the end, due to the time of the sample taken, there were 330 companies surveyed.

corporate structure but generally were all ranked in middle to high management, the objective being that of informed corporate strategising. Attempting to access the corporate sector generally is problematic, given the commercial sensitivity of the sphere but is additionally difficult when the position of the researcher is an academic and the respondents are in middle to high management. The latter, senior management, is commonly recognised as being particularly unresponsive to surveys (Klassen and Jacobs, 2001). Yet, their inclusion was necessary to inform the corporate policy analysis sought. It was essential in conveying the premise for the research to respondents that they were informed of the academic basis of the survey being conducted. Acknowledgement was, therefore, made of this in the forwarding letter that accompanied the survey. To offset the expected antipathy towards the survey as being solely that of academic interest, it was stressed that it was being conducted under the sponsorship of the ESRC (refer to Appendix 4) and within the workings of ESRU and this, in conjunction with its intended publication, gave the survey additional credibility and status.

#### *Questionnaire Format*

Whilst self-evidently, it is imperative to make the questionnaire appear appealing (Oppenheim, 1992; Fowler, 1993) to the intended respondents, this was not as easily achieved as expected. The intended subject-matter of the questionnaire, the issues it sought to address, was quite extensive in scope, from corporate governance structure to climate change policies (state and company led). Reducing question numbers and length became a primary focus, sharply addressed by honing in on the specific research objectives that were formulated in advance of choosing the survey mode (Oppenheim, 1992). This directly impacted upon the format of the overall survey, reducing its length to 6 pages of well-spaced and visually undemanding layout. As Kelly (2000) stresses, the key to inducing respondent participation is to portray the brevity and clarity of the questionnaire, thereby emphasising the lack of inconvenience incurred in filling adequate responses (Klassen and Jacobs, 2001).

<b>Q4. Is corporate governance of the environment an issue for your company?</b>	
Yes - it is an established aspect of our corporate governance strategy	
Yes - it is an emergent aspect of our corporate governance strategy	
No - it is of little relevance/priority for our corporate governance strategy	
Other, please specify	

**Figure 4.3: Excerpt from postal questionnaire, Section B: General Environmental Governance (Appendix 4)**

The latter factor of adequacy of response was catered in formatting terms through the provision of lined spaces for additional information if the respondent so desired to provide and through the inclusion of 'other' response options to cater for differing replies (see Figure 4.3). All respondents were encouraged to select as many options for response as they perceived were apt in the closed questions and referral to other sources of data was both encouraged and eventually realised in the responses obtained.

#### *Question Construction*

The necessity for clarity and avoidance of overly complex question format (Fowler, 1993; De Vaus, 1996) are basic presumptions in questionnaire formatting, the ultimate objective being of course, the enhancement of respondent understanding. The traditional approach to formatting responses is as Lyberg et al. (1997, p35) suggest that *'they (the respondents) are supposed to comprehend and then react by endorsing one of the response alternatives provided by the researcher...in line with the options given'*. Certainly the nature of questionnaires ordinarily constrains the possible options to those already provided. One concession to the distinct possibility that you will not always correctly envisage the range of possible answers, is the 'open ended option' or 'other' alternative wherein respondents are enabled to ignore the options given and formulate their own alternative. All closed questions retained this option so as not to prejudice respondent replies. Fundamental to capturing the range of corporate perceptions, was the inclusion of open questions on specific issues such as managerial style, corporate policy, which provide a space in which respondents can elaborate to the extent they wish.

In keeping with this objective of maximising information retrieval, multiple choice questions were grafted into the text of the survey. The inclusion and framing of multiple-choice options was a deliberate concession to the previously established (through web research) disparity in corporate perception

of the climate change issue. Whilst theoretically 'closed' questions, MCOs provided the possibility for respondents to give a more comprehensive answer, it was hoped, and the findings subsequently demonstrated. Respondents were informed that they were free to choose all options that best reflected the position of their company on the specific issue at hand. As the subsequent chapter on the questionnaire findings will highlight, this was availed of even in instances where it hadn't been envisaged as a possible response. MCOs therefore provide the opportunity for ambiguity of response certainly, but also, arguably, for more comprehensive data provision, particularly for evident differences in current and future corporate planning.

### **Analysis of Questionnaires**

Theoretically as Oppenheim opines '*when completed questionnaires are returned..they are almost ready for processing*' (1992, p262). The subsequent coding of responses can, however, serve to negate the validity of the findings if not correctly conducted (DeVaus, 1996; Oppenheim, 1997). It is imperative, therefore, that at the final stage of analysis, the process of handling the data from the questionnaires is rigorously checked and re-checked (DeVaus, 1996; Fowler, 1993).

The methodology applied to processing the questionnaires is that routinely applied in social surveying (Lyberg et al., 1997; Fowler, 1993; DeVaus, 1996). It comprises of three key elements: Construction of a codebook comprising firstly of a text of the original questionnaire complete with codes and number values; secondly, variable allocation documents; thirdly, coding frames.

The standardised coding procedure comprises of designing a format for data entry; designing a code; coding; data entry and data clearing. As with all questionnaires, the type of question structure, whether open, closed or multiple choice, dictates the 'value attribution' within the codes. The typical closed question format of most questionnaires allows for relatively straightforward coding, a value being attributed for each of the options provided. The open structured questions are inherently more problematic to impose set values upon, given the varying nature of the information they provide. In this survey it was, therefore, decided that open questions would be coded, were possible, on

the basis of key generic information bases: corporate governance information; specific environmental governance information; regulatory compliance measures; beyond compliance measures. Where the provision of data did not pertain to any of these categories, it was coded as 'other' with its distinct code. Irrespective of the code applied to open question replies, the data was separately registered for further analysis distinct from the statistical examination of the questionnaires. The issue of statistical sufficiency for open structured questions is examined in the proceeding chapter on questionnaire analysis.

Additional categorisation and coding was required for the range of multiple option questions. The coding frame constructed for the questionnaire had to account for the full range of possible options coupling, which as the analysis of the surveys will show, differed considerably (the coding frame is indexed in the appendix). Additionally, multiple answers were provided even for non-multiple option questions. Therefore, extra codes were constructed to facilitate such unexpected answers, of which there were many. Respondents do not, of course, always reply as expected. Unanticipated responses and missing data are typical constituents of any survey research. Codes were consequently constructed to facilitate not ascertained and inappropriate information.

### **Coding of Respondents**

Of primary interest in assessing the questionnaires, was the issue of who the actual respondents were in terms of their status within the company and of what sector the company was itself constituent. At all times the requirement for anonymity had to be respected. However, this does not preclude including data of position, which was requested on the front page of the survey, provided no specific names or company names are included. The range of corporate representation was coded as follows:

- Senior management- CEO/Head/Director/Manager (Senior )
- Specialist management–internal/consultancy assistance – science and environment
- Company secretary
- Unknown

**Figure 4.4: Respondent Status**

The code was restructured after the surveys were received as it did not adequately reflect the nature of the respondents' status. In particular, it had been envisaged that responses would typically come from lower down the hierarchy of the company and not as was realised, heavily from within higher ranked management. Additionally, the use of specialist internal and external management, for example outside consultancies, to fill in the surveys, was not fully anticipated and therefore a separate code was required to address this.

**Coding of the Company Operations:** The range of corporate operations listed within the FTSE indexes was too extensive to be of use for the statistical analysis stage of the surveys. The list was consequently abbreviated into ten categorisations; each coded, which provided a more manageable basis for comparison. The abbreviated list is noted below in Figure 7 and the separate operational activities that comprise the FTSE list are also included to demonstrate the natural clustering of company activity that was entailed.

<b>Sector Code</b>	<b>Sector Name</b>	<b>Sector Composition</b>
1	Resources & Utilities	Mining / Oil and Gas Distribution / Electricity / Water
2	Basic Industries	Chemicals / Steel and other metals / Construction and Building Materials / Forestry and Paper
3	General Industries	Aerospace and Defence / Electronic Equipment / Engineering and Machinery
4	Cyclical Consumer Goods	Automobile Parts / Household Goods and Textiles
5	Non-Cyclical Goods	Beverages / Food Producers and Processes / Health Packaging / Personal Care and Household Products / Pharmaceuticals / Tobacco
6	Non-Cyclical Services	Telecommunications and Automobiles
7	Cyclical Services	Distributors / General Retailers / Leisure Entertainment and Hotels / Media and Photography / Support Services / Transport
8	Information	I.T. Hardware/Software And Computer

Sector Code	Sector Name	Sector Composition
	Technology	Services
9	Financials	Banks / Insurance / Life Assurance / Investment Companies / Speciality and other Finance / Real Estate
10	Unknown	

**Figure 4.5: Coding of company operational activity: Re-categorisation of the FTSE listings**

It crucially contains recognition of an ‘unknown’ category, which became increasingly important as the completed surveys arrived. Certain respondents deliberately omit the name of the company upon whose behalf they submit. This may be for a host of reasons, in particular, social status, competitive sensitivity or perhaps even for political reasons. Yet there still remains a desire to register an opinion and have to count within the survey. This retention of anonymity highlights both the sensitivity of the climate change issue but also the importance corporate governance of the environment is assuming within companies.

### **Statistical Analysis**

Having coded the questionnaire replies, the data was fed into the statistical package of ‘Minitab’ to provide for comparative analysis of not just the level of engagement or otherwise, in each Index but in several cases, a sectoral breakdown of respondents in such engagement.

## **Section 5: Engaging with the Empirical Research**

---

### **Web-based Research**

Given the importance of websites for companies and their profile, this research anticipated that if a company wishes to achieve or maintain high environmental profile, it will also provide environmental disclosure online (Herbst, 2000). Even for companies who do not specifically wish for greater environmental profile, the possible detrimental impact on public perception which can result from lack of such disclosure, can motivate such data inclusion within corporate websites.

The initial stage of research, from September 2000-January 2001, demonstrated a considerable dearth in on-line environmental literature whether in the form of environmental policies or reports, particularly evident within the FTSE250 companies. This lack of data was even more conspicuous by its absence when compared with the financial and other data available on websites. Many corporate websites had information clauses or statements testifying to the future corporate commitment to produce environmental data but that data again was not yet attainable. During the second stage of research, Spring 2002, such commitments were again evident though often replaced by some level of environmental data provision. It must be acknowledged again, that change to the level and nature of such CGE information on the web, is possible since this research was undertaken. This alludes, in particular, to those companies whose sites made express reference to the forthcoming data provision. The following chapter is therefore an analysis of the data available in totality within these research periods.

#### *Corporate Change*

One crucial issue to be considered when conducting this research was that of the omnipresent factor of corporate change. During the period of subsequent questionnaire research, 2001-2002, it became apparent that many of the sample companies had undergone substantial change in structure or even existence. It was primarily for this reason that it was considered necessary for the adequacy and relevance of the web data collated, that a second web research period was undertaken.

Corporate change is, of course, an integral element of the commercial sector. Fluctuations in the composition of the FTSE indexes demonstrated that considerable change occurs within and between the listing of both indexes. Index composition change was coupled with that of wider corporate restructuring, with companies who merged, de-merged, were subsumed or stopped trading completely. The second research period noted a considerable number of companies who were consequently no longer acknowledged by their old corporate names and subsequently became the focus of additional website research.

Over the course of the two research periods, 2000-2002, there were many notable examples of such restructuring and in most instances, coupled with changes in websites. A list, though not exhaustive, of such changes is noted in Figure 4.6 below.

- Bass changed its operating name becoming 'Six Continents'
- Berisford became Endois
- Billiton merged with BHP to become BHP Billiton PLC.
- BP became BP Amoco and also subsumed Burmah Castrol within its control.
- British Aerospace merged with Marconi Electronic Systems to become BAE Systems
- British Gas have de-merged into many operating divisions, two of which were analysed: BG Group and Lattice Group
- Cardaon became Novar
- CGU merged with Norwich Union to become CGNU
- Halifax and Bank of Scotland merged to become HBOS
- Lloyds and TSB are now Lloyds TSB
- National Power split into Innogy and International Power.
- Railtrack are now in receivership.
- Royal Bank of Scotland and Nat West Group have merged
- Smithkline Beecham have been subsumed by Glaxo and are now GlaxoSmithkline
- Unigate operates under the name Uniq now
- Woolwich and Barclays are within the same corporate grouping

**Figure 4.6: Corporate Change**

#### *Corporate Profile Raising and Improvements*

The change noted in corporate data was categorised in terms of two distinct groupings, that of 'improved' corporate environmental data (Figure 4.7) and the more elevated status of 'developing' (Figure 4.7) corporate positioning on the environment. The former denotes not only those companies who have elaborated or substantially bettered their corporate positioning but also those companies who previously had little or no environmental profile but have subsequently altered this state. Such companies have not necessarily attained a good state of corporate governance but it does indicate that such governance

strategy is progressing. Similarly, many of the companies cited below as having either improved or progressed their strategy, have elevated their existing governance strategies to even higher levels of development.

<b>Nature of Change</b>	<b>FTSE100</b>	<b>FTSE250</b>	
Improved Online Environmental Data	Billiton BHP	Aggregate Industries	
	Boots	Airtours	
	BSkyB	Electrocomponents	
	Carlton	Premier Farnell	
	Dixons	Safeway	
	Great Universal Stores	Travis Perkins	
	HSBC	Wimpey George	
	Kingfisher		
	Land Securities		
	Pearson		
	Prudential		
	Rio Tinto		
	Standard Chartered		
	Unilever		
	Vodafone Air		
	Good Examples of Online Corporate Environmental Data	Abbey National	JJB Sports
		Alliance & Leicester	Hanson
Allied Domecq		Oxford Glycosciences	
Bank of Scotland		Whatman	
British Airways		Whitbread	
British Energy			
British Telecom			
Cable & Wireless			
Cadbury Schweppes			
Celltech			
Cenrica			
EMI			
GlaxoSmithKline			
Granada			
Legal & General			
Lloyds TSB			
M & S			
Scottish & Newcastle			
Tesco			
United Utilities			
3i			

**Figure 4.7: Improved Corporate Websites**

### **Archival data provision**

There were notable disparities in the extent to which companies provided historical or archival data on their websites. A significant example of a company eager to demonstrate its long-standing environmental commitment is Unilever which has catalogued reports for several years, all of which are available on its site. Researching through its reports demonstrated how the company had

matured its environmental approach from the (quite typical) initial declaration of intent, through to sophisticated provision of developed management systems and comparative yearly data and target achievement.

Whilst archival data is particularly useful in tracking a company's evolving environmental engagement, it can only be achieved when there is a historical basis for such commitment. Such a basis of engagement was lacking in many companies. It was therefore unsurprising that the majority of companies, particularly within the FTSE250 had provision for only their most recent reports, spanning typically the last one to two years, if at all. Archival analysis was therefore problematic and so the emphasis of this research changed to examining what such companies are currently, or proposing to establish in the environmental governance context, as publicised on-line.

### **Questionnaire Responses**

The questionnaire was constructed to enable a two tiered analysis, examination focusing first on the strategic governance of the 'environment' per se, with subsequent elaboration centring on the particulars of climate change redress, as framed within or independent of such corporate strategy. It is acknowledged, however, that utilising the 'environment' as a collective theme could have/can give inadequate recognition of both the disparities and complexities of the range of issues raised within its context. To have individually assessed the breadth of issues encompassed within the category of environmental would have necessitated a massively extended questionnaire, problematic to construct and inevitably significantly reducing the level of response. Such specificity would also run counter to the objective, for this first stage of analysis, of providing a reflection of overall corporate environmental perception and attenuating governance. Emphasis was, instead, placed on the collective categorisation of the environment as a means by which to facilitate discussion with companies<sup>40</sup>, determining their general attitudes, perspectives and experiences.

---

<sup>40</sup> It is emphasised that when referring to 'companies' within this Chapter, these are only those companies who responded to the questionnaire and not all FTSE100 and 250 Indexed companies.

Questionnaires were sent to 330 companies within the FTSE100 and FTSE250 Indexes in October 2001. One hundred and eleven companies responded to this questionnaire of which 97 responses were regarded as suitable for analysis. Appendix 5 notes the full list of these companies. Unfortunately, the remaining questionnaires were adjudged inappropriate for analysis for the following reasons. Whilst acknowledging their desire to be registered in the survey of corporate opinion, it was the official policy of the majority of these remaining 14 companies, not to respond to questionnaires (refer to Section 6 below). The questionnaire whilst returned unanswered by these companies was, however, accompanied by full corporate environmental literature, including documentation specifically written in response. It was the request of these companies that such information be used in the survey. As this, however, would have involved, to some degree, interpretation of data on the researcher's part. This was, however, deemed inappropriate for inclusion.

The small number of other corporate responses collated but not used was excluded because they comprised solely of data noting the nascence, or even potential, creation of corporate environmental strategy. They did not include a questionnaire response per se and therefore could not be included in the analysis. These responses were however noted for their importance in marking corporate concern that environmental strategy was forthcoming and that they, the companies, were concerned to have this registered in the survey. The list of those companies who participated in this survey analysis is listed in Section 6, below.

Respondents were further asked to engage in subsequent interviewing through personal, telephone or e-mail contact. Over fifty respondents intoned their willingness to do so and fifteen follow-up e-mail interviews were undertaken to both clarify and elaborate upon the answers provided in the questionnaire replies<sup>41</sup>. The level and nature of response to the questionnaire and subsequent e-mail interviews provided an expansive evidentiary base for examining the research questions which frame this analysis.

---

<sup>41</sup> See Appendix 7 for a list of respondents willing to, and actually engaged in subsequent discussion.

## Section 6: Questionnaire Respondents

---

The following companies participated in this questionnaire<sup>42</sup>: In total, the responses of 97 companies were used to collate the questionnaire analysis, with a further 14 companies having provided information which did not equate with a full questionnaire response *per se*.

Company Name	FTSE Index	Sector
3i Group	100	Financials
Autonomy Corporation	250	Cyclical Consumer Goods
Abbey National PLC	100	Financials
Aggregate Industries UK Ltd	250	Basic Industries
Allied Domecq PLC	100	Non-Cyclical Goods
Arriva PLC	250	Cyclical Services
Associated British Foods PLC	100	Non-Cyclical Goods
Anglian Water	250	Resources & Utilities
AWG	250	Resources & Utilities
Barclays PLC	100	Financials
BBA Group	250	General Industries
BG Group	100	Resources & Utilities
BHP Billiton PLC	100	Resources & Utilities
BI Group PLC	250	Cyclical Services
Bioglan Pharma PLC	250	Non-Cyclical Goods
BP Amoco	100	Resources & Utilities
Bradford & Bingley	250	Financials
Britannic Assurance PLC	250	Financials
British American Investment	250	Financials
British Airways	100	Cyclical Services
British Vita PLC	250	Basic Industries
BTG PLC	250	Cyclical Services
Cable & Wireless	100	Non-Cyclical Services
Cambridge Antibody Technology	250	Non-Cyclical Goods
Carillion PLC	250	Basic Industries
Capital Radio PLC	250	Cyclical Services
Cattles PLC	250	Financials
CGNU PLC	100	Financials
Computacentre PLC	250	IT
Corus Group PLC	250	Basic Industries
Dixons Stores Group	100	Cyclical Services
Egg Financial Services	250	Financials
EIDOS PLC	250	Cyclical Services
EMI Group	100	Cyclical Services
EXEL PLC	250	Cyclical Services
Filitronic Communications	250	Non-Cyclical Services

---

<sup>42</sup> Acknowledgement is given to those respondent personnel who kindly agreed to further questioning through e-mail, see Appendix 7

<b>Company Name</b>	<b>FTSE Index</b>	<b>Sector</b>
First Technology PLC	250	General Industries
Go-Ahead Group	250	Cyclical Services
Hammerson Properties PLC	250	Financials
Hanson PLC	250	Basic Industries
HIT Entertainment PLC	250	Cyclical Services
HSBC Holdings	100	Financials
IMI PLC	250	General Industries
Innogy PLC	100	Resources & Utilities
Invensys PLC	100	General Industries
IQE (Europe) Ltd	250	IT
Kelda Group PLC	250	Resources & Utilities
Kingfisher PLC	100	Cyclical Services
Laporte PLC	250	Basic Industries
Lattice Group PLC	100	Resources & Utilities
Legal & General Group PLC	100	Financials
Lex Service PLC	250	Cyclical Services
Lloyds TSB Group PLC	100	Financials
John Laing	100	Basic Industries
Johnson Matthey PLC	250	Basic Industries
Meggitt PLC	250	General Industries
MEPC	250	Financials
Nestor Healthcare Group PLC	250	Non-Cyclical Goods
NI Electricity/Viridian	250	Resources & Utilities
Northern Rock PLC	250	Financials
Orange	100	Non-Cyclical Services
Michael Page International PLC	250	Cyclical Services
Parity Group PLC	250	IT
Pilkington PLC	250	Basic Industries
Powergen PLC	100	Resources & Utilities
Prudential PLC	100	Financials
Railtrack Group PLC	100	Cyclical Services
Reed Elsevier PLC	100	Cyclical Services
Rio Tinto	100	Resources & Utilities
RIT Capital Partners	250	Financials
RM PLC	250	IT
RMC UK Ltd	250	Basic Industries
Rolls Royce PLC	100	General Industries
Royal Bank of Scotland Group	100	Financials
Royal & Sun Alliance	100	Financials
Scottish & Newcastle PLC	250	Cyclical Services
Scottish Power	100	Resources & Utilities
Securicor PLC	250	Cyclical Services
Serco Group PLC	250	Cyclical Services
Severn Trent	250	Resources & Utilities
Securities Trust of Scotland	250	Financials
Shanks Group PLC	250	Cyclical Services
Smith & Nephew PLC	250	Non-Cyclical Services
South African Breweries PLC	100	Non-Cyclical Goods
Stagecoach Holdings PLC	250	Cyclical Services
Thames Water	250	Resources & Utilities
Travis Perkins PLC	250	Basic Industries
United Biscuits	250	Non-Cyclical Goods
United Utilities PLC	100	Resources & Utilities

<b>Company Name</b>	<b>FTSE Index</b>	<b>Sector</b>
Volex Group PLC	250	General Industries
Weir Group PLC	250	General Industries
WH Smith PLC	250	Cyclical Services
**Un-named Companies x 5	-	-

**Figure 4.8: Corporate Responses Received Used In Analysis**

The following companies sent information/responses which could not, as previously explained, be included in the analysis:

<b>Company Name</b>	<b>FTSE Index</b>	<b>Sector</b>
Axis Shield	250	Non-Cyclical Goods
Bankers Investment Trust	250	Financials
British Land Corporation Ltd	250	Financials
Kidde	250	General Industries
Kwik-Fit	250	Cyclical Consumer Goods
Liberty International	250	Financials
Lonmin PLC	250	Resources & Utilities
Renishaw PLC	250	General Industries
St.Ives PLC	250	Cyclical Services
Gallaher Group PLC	250	Non-Cyclical Goods
Great Portland Estates	250	Financials
Signet	250	Cyclical Services
Tomkins	250	General Industries
Whitbread	250	Cyclical Services

**Figure 4.9: Corporate Responses Received But Not Used In Analysis**

## PRELUDE TO CHAPTERS 5, 6 AND 7: THE EMPIRICAL FINDINGS

---

The purpose of this and the following chapters is to outline the findings of the research conducted into the nature of corporate governance of the environment being constructed by companies within FTSE100 and FTSE250 Indexes. The research questions which emerged from the conceptual arguments for what and how corporate governance of the environment is now a business imperative, have previously been outlined in Chapters 2 and 3, and are noted at the end of this Prelude. The methodological approach constructed to empirically test these questions has been previously described in the preceding chapter, Chapter 4: to recap, a dual approach of web based research and questionnaire surveying of all the FTSE350 companies, the list of which is noted in Appendix 2<sup>43</sup>. The questionnaire was responded to by 111 of these companies. Throughout this and the following chapters, the findings of both strands of research are intertwined both to contrast or augment the differing sets of findings in outlining what has been found and in answering the questions which frame this research: what is the nature of corporate governance of the environment generally and within the specificities of climate change; secondly, given the level and nature of what is established from the findings, can it be said that we have reached a new paradigm in/of corporate governance of the environment?

This Prelude sets the context for the following chapters by addressing certain key premising facts, in particular, who and operationally what, comprises the FTSE100 and 250 Indexes at the time of research being undertaken. Analysis shows the breakdown of the companies examined through web research in terms of their sectoral divisions and the percentage representation of such divisions within their respective Indexes. This is followed by a comparable examination of sectoral representation within the questionnaire respondents, noting also who and at what level did accountability for the responses given, originate from.

---

<sup>43</sup> To honour the assurance of confidentiality stated on the questionnaire, respondent quotes cannot be ascribed to specific companies and the ordering of the companies has been deliberately mixed, to avoid alphabetical or other categorisations.

## The Data

Given the very substantial amount of data produced through the two strands of research, it has been necessary to extrapolate those principal findings which directly address the central questions asked within this research. In combining the two sources of research data, web<sup>44</sup> and questionnaire<sup>45</sup>, it is understood that there is, however, a need to differentiate between the generality of website provision and the specificity of individual corporate response. The origins of each section of data are, therefore, clearly identified to avoid any confusion. The purpose of such interspersed research findings is to both analytically and visually augment or contrast, the generality of corporate data as provided online, with the particulars of that discussed or elaborated upon within questionnaires and attenuating interviews. These two sets of findings are then used to address the questions which frame this research.

It is important when reading the findings in the following chapters that two issues are noted. Firstly, all the data contained within these chapters, is taken directly from the contents of the web pages of respective companies, extracted from downloadable material contained within such sites, or provided within or as an accompaniment to the questionnaire/interview responses given by companies. The examples used are, therefore, noted accordingly. Secondly, the information used is, as it was when analysed at the time of research, ending in Spring 2002. It is acknowledged that given the process of review such corporate strategy is subjected to, it is possible that change has occurred within such websites or strategy generally. The data contained is nonetheless, as contemporaneous, as was possible, for this research.

---

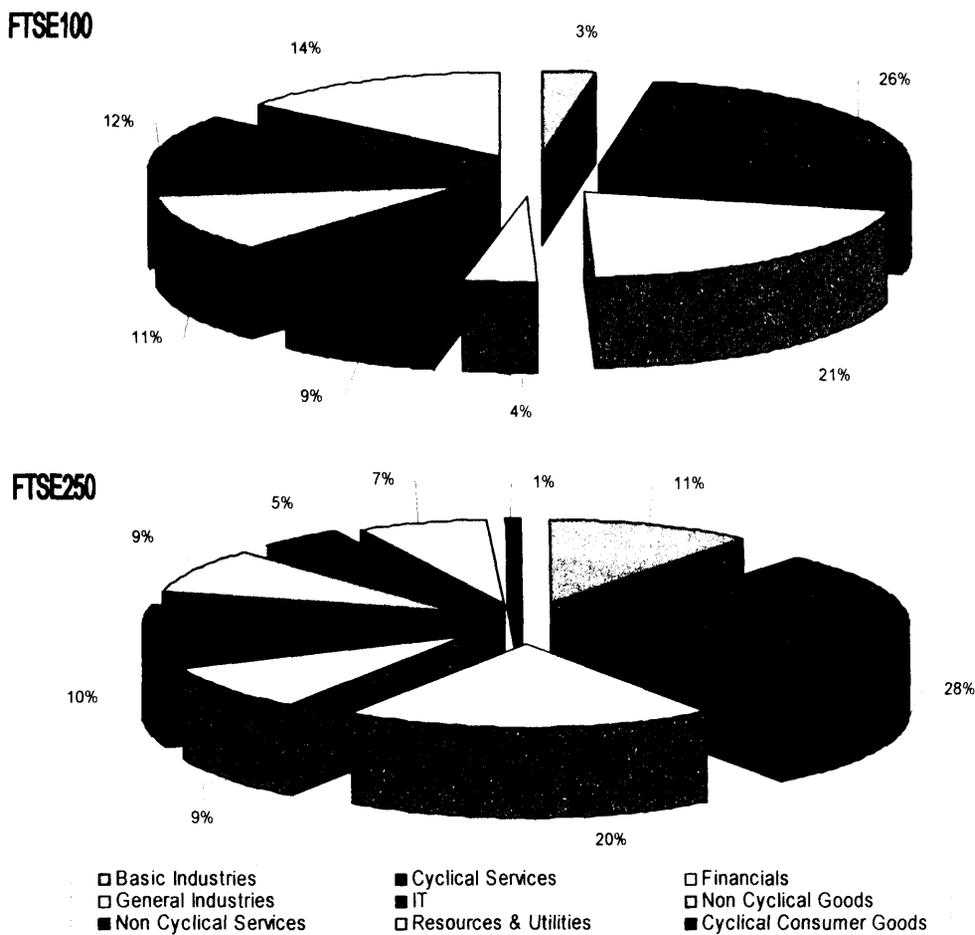
<sup>44</sup> Those companies examined through web-based research, all FTSE 100 and FTSE250 companies are hereby referred to as the 'Web Sample'.

<sup>45</sup> Respondents to the questionnaire survey are subsequently referred to as 'Respondents'.

## Section 1: Sectoral Breakdown of Company Sample

### FTSE Index composition: Web Sample

Before beginning this analysis of corporate governance of the environment, it is useful to have a quick overview of the breakdown of the FTSE companies, in sectoral terms, as they were at the commencement of this research. To recap, the sectoral categorisations are those listed by FTSE, subject to small amendments, as noted in Chapter 4 (Methodology).



**Figure 4.10: Sectoral Divisions**

At the time of research, commenced in 2000, the composition of the FTSE100 indicates the large presence (in terms of actual company numbers) of two major sectors: Cyclical Services, (such as transport providers) and Financials, (the banks, insurance and investment companies). Four other sectors,

Resources and Utilities (e.g. mining, oil, water, electricity, Non-Cyclical Services (telecommunications), Non-Cyclical Goods (food, health, tobacco amongst others) and IT have roughly equal, but smaller overall presence. General and Basic Industries have the smallest presence. It is noteworthy that Cyclical Consumer Goods (automobile parts and textiles) is the only sector not present in the FTSE100 Index, a fact which must be remembered when the combined FTSE sectoral comparisons are made, throughout this research.

The composition of the FTSE 250 (see Figure 4.10) reveals the largest presence to be that of the Cyclical Services sector, with the Financials being the most dominant sector at 20%. Four sectors hold roughly equal corporate presence in the FTSE250: Basic Industries, IT, Non Cyclical Goods and General Industries. Both indexes, therefore, represent a spread of operational activity and consequently, a broad basis from which to address the range of governance being constructed by companies operational within the U.K.

### Questionnaire Respondents: Sector Composition

Comparing the sectoral representation of questionnaire respondents with that of the FTSE sample generally, several key points were of interest:

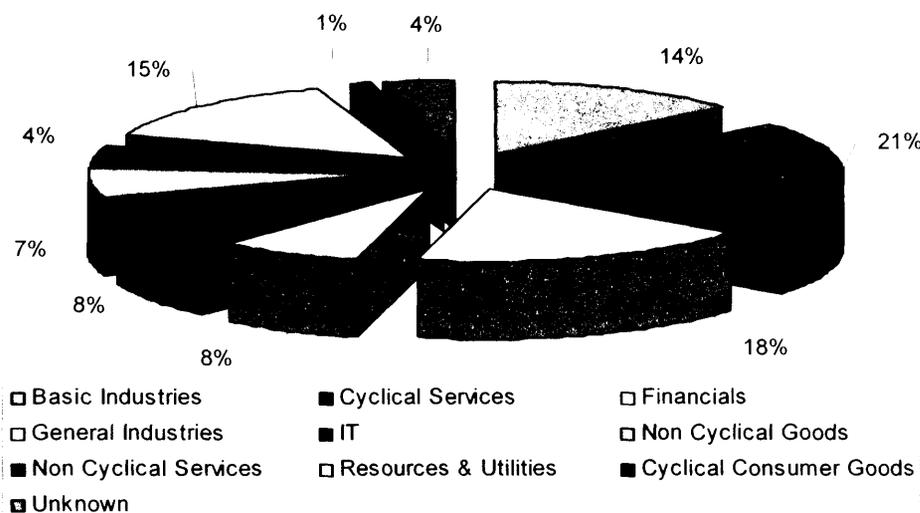


Figure 4.11: Respondent Sector Breakdown

Firstly, as was the objective, questionnaire respondents reflected almost the full range of FTSE sectors outlined previously (Figure 4.11). This enhanced the capacity to provide both an accurate and expansive reflection of corporate

governance across the diversity of operational activity. Referring to Figure 4.11, it was notable however, that the largest grouping of respondents was interestingly from Cyclical Services comprising 22% of respondents. Comparative to their relative composition in the FTSE Indexes, it is interesting that this sector chose to respond in the numbers that it did. The nature of their responses, as will be subsequently explored, perhaps suggests that this sector perceives the necessity either to justify its positioning and rationality, or generally assert its corporate perspective more clearly.

Secondly, three key groupings, of similar size, were conspicuous by their sizeable presence. Collectively representing nearly half of all respondents, comprising 19%, 15% and 14% respectively, were the Financials such as RBS, Abbey National and Egg; Resources and Utilities companies such as Lattice Group, Powergen and Scottish Power, and the Basic Industries companies of Hanson, Pilkington and RMC. The response from the Financials was particularly noteworthy, given the disparity subsequently revealed in the nature of its engagement, yet also the rapid evolution or development of governance characterised by current initiatives. The representation of both Resources & Utilities and Basic Industries was significantly high in relation to their overall standing in both FTSE 100 and 250 Indexes.

The next cluster of similar sized sector groupings at 8%, comprised of the General Industries companies such as Rolls Royce, Meggitt and First Technology; Non-Cyclical Goods companies such as Nesta Healthcare and Allied Domecq and IT sector constituents, for example, Computacentre, Parity Group and RM. These again represented a sizeable percentage of their composition within the Indexes. It is again interesting to note that comparable to the Cyclical Services sector, the response of the General Industries sector constituted nearly the entirety of companies within their sector contacted. The smallest grouping was that of Non Cyclical Services at 2%, comprising of the companies Filitronic and Cable & Wireless.

#### *Non-Representation, the Unknowns and the Confidentiality Clause*

Of note is the finding that Sector 4 within the classification of companies, 'Cyclical Consumer Goods' was not represented at all within questionnaire responses or at least by those companies who acknowledged their name and,

therefore, Sector. Whilst this Sector has very small representation within the FTSE Indexes it is interesting that no response was forthcoming.

Just over 4% of respondents were unknown, having deliberately chosen to omit the name of the company and the position of the person actually responding on the company's behalf. The rationale for this lies, potentially, in the perceived inadequacy of the confidentiality clause or, more probably, in the shield provided by anonymity, to reveal the reality of corporate perspective. Characteristically, these responses were forthright in their challenge to any suggestion of expanding environmental governance. This element of self-selection was expected yet illuminating.

Arguably, since 96% of respondents supplied the name of their company, the confidentiality clause would appear to have been acceptable. That said, this statistic provides no indication as to the perception of those who did not respond, whether their motive was in part borne out of confidentiality fears or rather apathy or reticence to disclose. It is impossible, however, to speculate as to non-respondent motivations. Suffice to note that the overall response rate was 34%<sup>46</sup>, higher than had been anticipated, given the oft stated current corporate frustration with public surveying, particularly that of an academic derivation. In addition to 'unknown' respondents, there were several incidents of response self-selection, as had been anticipated and noted in the methodology section. Particular questions prompted high levels of non-response as respondents deliberately chose not to supply an answer. The sensitivity of the questions being asked, may again provide insight as to the reasoning for this. This, however, proved as revealing of corporate strategy, as substantive replies provided and will be examined through the relevant sections in this Chapter.

---

<sup>46</sup> 335 companies were surveyed – the number of companies being slightly less than the theoretical number of the FTSE 350 because of a number of factors. Firstly, the FTSE250 was subject to considerable fluctuation at the time with companies dropping in and out of the Index, the Indexes did not actually comprise of 350 companies; several companies responded that they did not want to answer the questionnaire on this basis. Secondly, due to mergers and acquisitions, the list of companies at this time was fluctuating and it was considered most likely to ascertain a response from the acquiring company.

## **Section 2: “Positionality” of Environmental Governance within Sample Companies**

---

### **Web Based Sample Companies**

The positionality of environmental governance data within corporate websites was noticeably diverse. Information of this nature was placed within various places on corporate sites, from environmental sections (so called) to sub-sections within annual reports and declaratory statements. The siting of such data provided some insight into the priority being accorded to such governance, as will be discussed in detail in subsequent sections. What became strikingly obvious from the outset was the contrast in inferred status that the websites provided and the seniority of respondents to the questionnaire analysis. Even if one assumed that those who responded to the questionnaire may typically have already accorded priority to CGE within their websites—and this was NOT always the case—the seniority of questionnaire respondents was disproportionately higher than the status accorded to CGE on websites.

### **Questionnaire Respondents**

Whilst the substance of the questionnaire was intended to provide the basis for addressing corporate perception, the nature of the actual company personnel who responded, was in itself telling of such perception. Analysing the derivation of respondents not only on company basis but in terms of their internal structures, it was apparent that there were a range of departments charged with the responsibility to respond to the questionnaire. Whilst ‘environmental’ or ‘sustainability’ (typically ‘Group’ based) departments were the primary sources from which responses emanated, other respondents were based within Group Risk, HSE/SHE/EHS, Corporate Communications and Affairs departments, amongst others. The variously named departments indicate the establishment or designation of environmental governance with corporate structures, this being in accordance with the presumption that we such companies are progressing towards the fundamental shift in corporate thinking which is the focus for this analysis.

The variety of other departments noted do, however, suggest an interesting positioning of environmental 'governance', if this does indeed exist, within their respective corporate structures. Within a certain mid FTSE100 ranked<sup>47</sup> company, despite having a corporate citizenship department, chose to send the questionnaire to their external relations/corporate communications department based in another continent. The reply came from the head of this particular department indicating that it was indeed treated as an issue of sufficient PR status, as to warrant his attention. Whilst it is impossible to ascertain whether the corporate citizenship department would have provided a different response, it is interesting to note that they were not given the opportunity.

On a similar vein, several questionnaires revealed that respondents had amended their answers or that alternative perspectives had been supplied. A large proportion of questionnaires were duplicates of the original sent; branding such as 'filed' indicating that the originals had been kept. Other questionnaires had answers corrected, typically to convey a greater degree of governance and in one case, two questionnaires were received from the same company with important disparities in the answers provided. The head of the department in question conveyed a strategy that was considerably more pro-active and developed than the responses conveyed by the less senior member of personnel within the same department. These factors again suggest a degree of self-consciousness amongst corporate respondents as to the perception they convey.

Contrastingly, other respondents in high ranking board positions, such as company secretaries and chief operating officers, again reinforced the perceived importance of the questionnaire response but also potentially the lack of specific environmental department or personnel designated to address such issues. This implies that whilst issues of environmental engagement do not assume specific strategic priority, reflected in governance structure, they nonetheless are sufficiently important to warrant a public response. The gulf between acknowledging public perception and actual governance strategy being suggested.

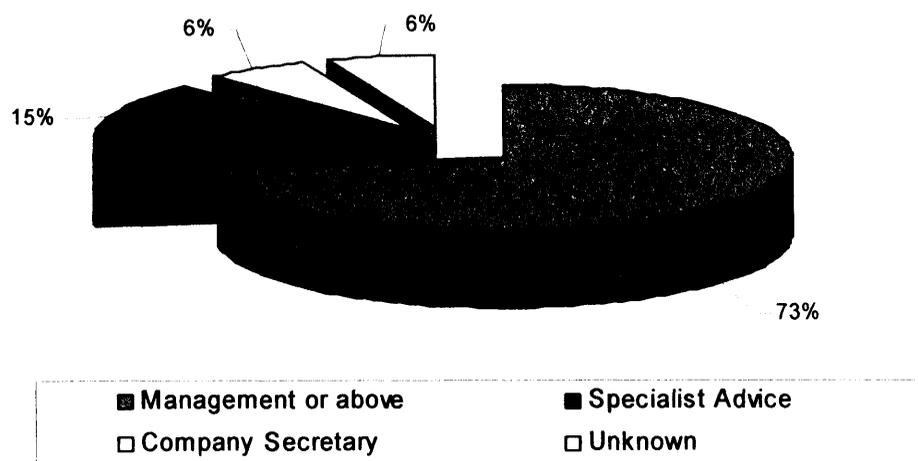
---

<sup>47</sup> Confidentiality clause in questionnaire precludes the name of the company being given.

Corporate media departments and external environmental specialist respondents were also significant for their implications as to corporate strategy. The role of external environmental expertise in developing corporate strategy and CGE will be examined in greater detail subsequently, it being significant to note that companies are obviously aware of the need to engage with such an environmental benchmarking analysis but implying that they do not yet have the in-house structure to address this themselves. An alternative interpretation may, however, be that corporate perception of being environmentally engaged is such that they are ensuring such consultancy or media departments convey the correct impression.

The variety of internal corporate departments engaging in the survey illustrated what would become a repeated findings of this research, that there is significant disparity in the nature of corporate governance of the environment and the strategic objectives which underpin it.

Addressing the specificity of respondent positioning within such departments and the company generally, it can be seen from Figure 4.12, 73% of respondents were of management level or above, including CEO and Chairperson. The nature of response was demonstrative of senior level strategic engagement, providing the highest level corporate insight into their respective strategising in this context. There was a strong inference that companies were evident of the need to communicate their strategic engagement and the generally the 'right' environmental profile. The remaining 27% of respondents comprised of three categories: specialist advice, company secretaries and 'unknown' respondents (Figure 4.12).



**Figure 4.12: Respondent Positionality**

*Specialist Advice*

The categorisation of specialist advice, constituting 15% of respondents, is significant for its composition (Figure 4.12). Two principal groupings were identified; those with ‘specialist’ scientific knowledge and those listed as ‘environmental specialists’. The differentiation between ‘scientific’ and ‘environmental’ within such expertise was revealing of the apparent disparate corporate perception as to the premise of the governance being constructed. For some companies the grounding of measures was clearly in the strictly ‘scientific’ analysis of their operational activity and its environmental impact. For those adopting the ‘environmental specialist’ approach, it could be argued that companies construed their governance initiatives as been founded on more than, if indeed at all, scientific analysis. This became evident in the stated rationales and framing of the environmental data provided both online and through questionnaires. Interestingly, common to both groupings was their composition of either (or both) internal company employees and external consultants providing such specialist advice.

This element of external environmental/scientific consultancy indicates a growing recognition on the part of companies of the need to provide verified information on what is increasingly an issue of public scrutiny. Companies are additionally retaining the services of such consultants in an attempt to accelerate the establishment of strategic plans of action and accompanying governance structures. The lack of prior engagement in the environmental sphere has left many companies in the compromised position of having little

internal expertise upon which to capitalise. External specialist advice, therefore, both amends for such knowledge deficit whilst also potentially facilitating internal capacity building in the medium-long term. Several companies chose to make known that their questionnaire responses had been verified, and scrutinised, by such external consultants.

### *The Unknowns*

The unknowns, constituting 6%, comprised of those who had either deliberately chosen to remain anonymous or had accidentally omitted their position and their seniority in the company<sup>48</sup>. Interestingly only 4% of overall respondents chose to omit company name of which half were those whose positionality was unknown or knowledge of which was presumed but not included.

### *Company Secretary*

It is significant that the seniority of company secretary as a corporate position can differ from merely administrative capacity to integral corporate management. The position of company secretary can assume equal seniority in certain companies, to that of management or above. Over 50% of this grouping belonged to (Sector 7) Cyclical Services. Is this of significance? It is difficult to establish statistical significance given the limited sample of just over 100 companies. Nonetheless, the delegation of environmental responsibility, not to designate environmental (or comparable) departments but to the generality of the company secretary may be viewed as indicative of the very specific and arguably limited forms of environmental governance being instituted in this sector. This will be explored further in subsequent sections.

What follows in the subsequent chapters, is a detailed provision of the findings of this research. Through examining both the generality of approach and the specificity of corporate context and governance measures, it is hoped that an authoritative portrayal of the state of current corporate governance of the environment, is provided. Critically the following chapters seek to address this research's central question: have we reached a new paradigm in corporate governance of the environment?

---

<sup>48</sup> The latter was inferred from respondents who stated they were happy to be contacted.

# 5

## THE REALITY OF CURRENT CORPORATE GOVERNANCE OF THE ENVIRONMENT

---

### Introduction

If the literatures, particularly those emanating from within the business sector, are to be believed, we have reached or are in the process of reaching a new paradigm in the greening of business, reflected by corporate governance of the environment within the UK. The times of corporate ignorance or failure to accept the sustainability consequences of operational actions, would appear to have been supplanted by a new ethos of corporate responsibility, promising the era of enlightened commercialism that sustains the economy whilst also the environment. The question this research sought to address is whether this fundamental change in corporate thinking has actually occurred and if so, to what extent. Are companies truly cognisant and responsive to their environmental responsibilities; do corporate governance strategies reflecting this? Or have we not yet, nor possibly ever will, achieved this degree of accommodation in corporate thinking?

The answer to whether this has occurred or not, is not as straightforward as might be presumed. Business is not, nor has ever been, a homogenous entity, acting in unity of perspective or objective; it was not anticipated that there would be uniformity in term of one discernible collective response. Consequently, in order to ascertain what is occurring, it was considered necessary to cast the empirical sample as broadly as possible to reflect such corporate diversity. This research accordingly attempted to encompass both the generality of corporatism within the UK, in its coverage of both FTSE Indexes, and the specificity of individual corporate perspective, achieved through the questionnaire. With a database of web-researched 350 companies and just under 100 hundred individual questionnaire (and accompanying

literatures) responses<sup>49</sup>, it is hoped that the findings achieve this and are representative of at least the higher tiers of the UK private sector.

This being the case, the following provides a somewhat ambiguous response to the question of whether such a paradigmatic shift has occurred in corporate strategising on environmental issues and in doing so, challenges the conceptualisation of how we assess business engagement in the environment. As will be demonstrated, there has certainly been an element of change in corporate strategy and the governance embodying such strategic objectives.

The nature and categorisation of this change is, however, not as conceptually envisaged within the frameworks of environmental management typologies that have been previously discussed. There is also a clear indication that the reasons why such a fundamental change has, or will, occur if indeed at all, demonstrate a greater degree of complexity than the dominant typologies which seek to explain or depict it. The question of what companies do, or do not, accord status to, in strategic governance terms, is particularly pertinent in the environmental context given both the imperative of addressing detrimental environmental change and the ongoing and contentious policy/regulatory debate over how best to engage the business community in abating such change.

Whilst literatures cite the apparently overwhelming concurrence of pressures from a litany of stakeholders (Lorente et al., 2003; Belal, 2002; Synnestvedt, 2001), this research does not presume that external pressures necessarily accord or equate with internal corporate action as was discussed in previous chapters. It is perfectly feasible for a company to be subject to demands, for example from relevant NGOs over its conduct, yet continue not to engage with the issues raised. It is also equally possible for companies to be cognisant and apparently responsive to such matters, yet in substance do little. The disparity between ideal and actual reality within corporate governance is addressed as integral to assessing whether paradigmatic change has or has not occurred.

---

<sup>49</sup> As noted previously, 97 questionnaire responses were used for the analysis; a further 11 company responses being used as background information but not contributing to the statistical assessment per se.

This chapter accordingly seeks to address the template, outlined within Chapter 3, of what corporate governance of the environment could and should entail in terms of specific elements of governance. The chapter is, therefore, structured in accordance with the template for CGE, addressing: corporate perception and recognition; strategic establishment

### **Section 1: Corporate Perception and Recognition**

---

Strategic perception, in this context of environmental issues, is unsurprisingly imperative in the determination of how and why companies act and the governance they consequently construct. Whilst the web research provides some insight into corporate thinking, in so far as it indicates what companies have or have not done, it was not always easy to discern whether the information given is representative of such perspective or simply what companies believe they should be saying and doing. The purpose in specifically asking respondent companies their perspective through the questionnaire was to determine how such issues were ranked and whether this was supported by appropriate action/measures. In effect, are companies achieving what they say they are and in the manner they outline. It is of course impossible to ascertain whether the opinion voiced is entirely accurate but nonetheless, the shield of anonymity which the questionnaire provided, did allow companies a greater degree of openness than public disclosure via their websites could facilitate, and many companies availed of this.

#### **Perception of the 'Environment': Online**

This research sought first to examine how companies actually viewed environmental issues, as a prelude to examining whether indeed perception predicated practice. Web analysis revealed that during the time of this research 77% of companies provided environmental data on their websites<sup>50</sup>. Whilst there was significant disparity in the substance and scope of such data, it is

---

<sup>50</sup> 23% of companies' were categorised as having 'nothing discernible' in terms of CGE-based information on their websites.

apparent that companies are responding to the perceived profile environmental issues have assumed generally, and more specifically, the need to provide environmental disclosure as integral to such profiling. Augmenting the research conducted through the corporate websites, the first element of the questionnaire (see Appendix 4) was designed to examine how companies perceive their own strategies on the environment, in conjunction with or in comparison to, their stated literatures on their websites and otherwise. This also constitutes a significant indicator by companies of the status accredited to the environment.

### Perception of the 'Environment': Respondents

Reassuringly, in environmental governance terms, the level of corporate acknowledgement is very high within respondent companies. Figure 5.1 shows that 93% of respondents ranked the environment as being of operational significance; overall 61% declaring the environment to have assumed primary or core strategic importance. For the survey respondents at least, such a high percentage denotes the salience of the environment as a strategic issue and accords with the inherent expectation of stakeholders, reaffirming the conceptual importance ascribed to such stakeholders in the greening of business literature. This would accord with the high percentage of companies who provide online environmental disclosure.

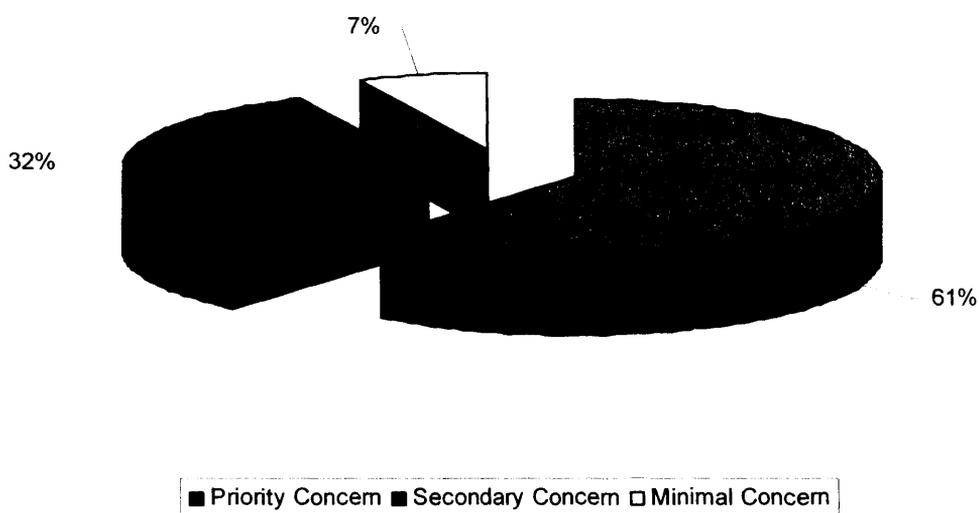


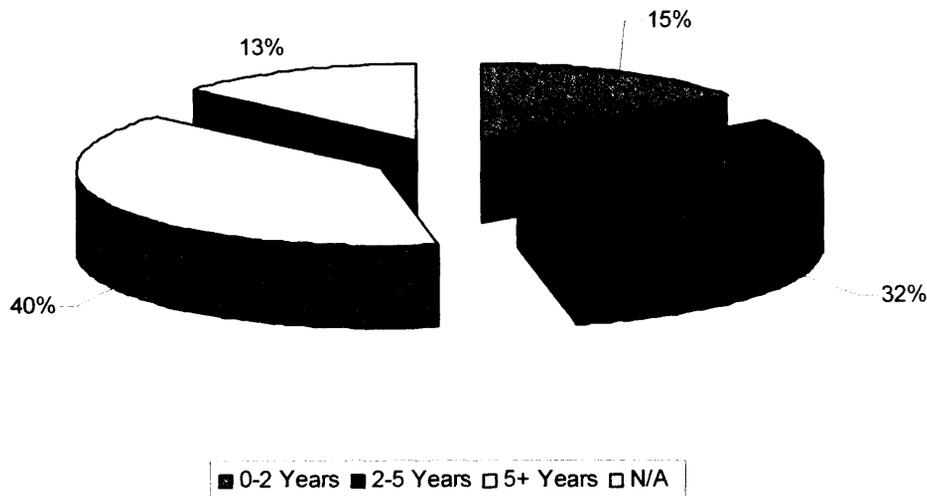
Figure 5.1: Corporate Perception

The perception a company has, is critical to the evolution of corporate environmental strategy or governance; if a company fails to see the totality of its impact, then its perceived need to respond is evidently diminished. Addressing the strategic accommodation of such perceived priority, it is interesting to note the apparent incongruity between perceived priority and the acknowledged duration of time in which such priority has been strategically reflected in governance.

### **Timescales for Strategic Priority**

If a fundamental shift in corporate perception has occurred, over what time period has this strategic development occurred: has the shift been more of a gradual evolution or rapid change? Examining, therefore, the historical basis for such strategic prioritisation, companies were asked what timeframe existed for their environmental strategies; whether strategic guidance was an established or a relatively nascent development, see Figure 5.2. The web literature, in particular, its reporting provision, highlighted disparities in the length of time companies have been involved. For some, environmental initiatives have stretched several years, evidenced primarily through reporting disclosure. For others, governance was a new initiative, and consequently, reporting, or other elements, were only in the process of being produced. Would the same be replicated within the wider governance context, and if so, what does this indicate about the motivation for establishing such corporate governance of the environment?

Ascertaining accurate timescales of engagement through online disclosure, proved problematic as the majority of corporate websites typically provided only contemporaneous data. There was little or no reference made to the existence or availability of archival information, the one main exception being that of reports. The questionnaire, in contrast, did allow for such analysis, with respondents directly probed as to the origins of their governance in this sphere.



**Figure 5.2: Timeframes for Governance: Respondent Findings**

Given the high level of corporate prioritisation previously noted by respondents, it was interesting to note that only 40% of these companies had developed their systems of governance within the past five years. Just under half of respondents had, conversely, made the strategic decision to develop such governance within the past five years, indicating that CGE remains for the majority of companies a relatively nascent area of strategic governance. The inference would be that corporate perception of the importance of addressing environmental issues was in itself nascent. Nonetheless, this reflects a changing context for business engagement with the environment. CGE as a priority concern for the majority of FTSE companies, has only been established within the past five years.

Examining this changing context, of particular note are the 40% of respondents who initiated governance in response to arguably the first concerted wave of demands for business-environment engagement in the early to mid 1990s<sup>51</sup>. A characteristic profile of such companies situates them typically within operational sectors whose activities are of high-environmental impact and which consequently have long established policy-regulatory guidance. These companies are principally within the higher tiers of the CGE hierarchy model, as discussed later in this chapter. The sectoral breakdown of such initial market leaders (overall constituting 40% of respondents) indicates the prominence of

<sup>51</sup> Acknowledging that there were calls on business to engage from the 1970s but noting the particular urgency and concerted nature of such demands within the 1990s.

three operational areas: Resources and Utilities (31%), Basic Industries (29%) and the Financials (20%). Whilst the first two sectors arguably responded to the impact of their operational activity, i.e. direct and manifest environmental impacts, the third sector, the financials, is revealing for its inclusion due to its perception of its relatively low direct environmental impact. It is also, interesting for the continuing disparity between those who do and do not become engaged, as will be subsequently explored.

At the other end of the spectrum, are the 13% of companies who have no form of environmental governance established<sup>52</sup>, contrasting with the 7% of companies who state such governance is of little relevance to them. This is not a substantial percentage gap in itself but should be considered in the context of the 93% who state that the environment is of operational concern; what of the 6% of companies who note operational concern but have no form of governance?

The relative nascence of the majority of CGE strategies suggests, however, that despite the reality that public environmental consciousness has existed for three decades or more, its corporate reflection has been a comparatively newer phenomenon. If this were to be assessed in terms of progression scales, it is perhaps somewhat incongruous that there should be such a differential in timescale between concern being raised and actual strategic response. It is important, therefore, to analyse why such companies decided to undertake the strategies approach being evidenced and what impact this has upon the concept of continuum or scale models.

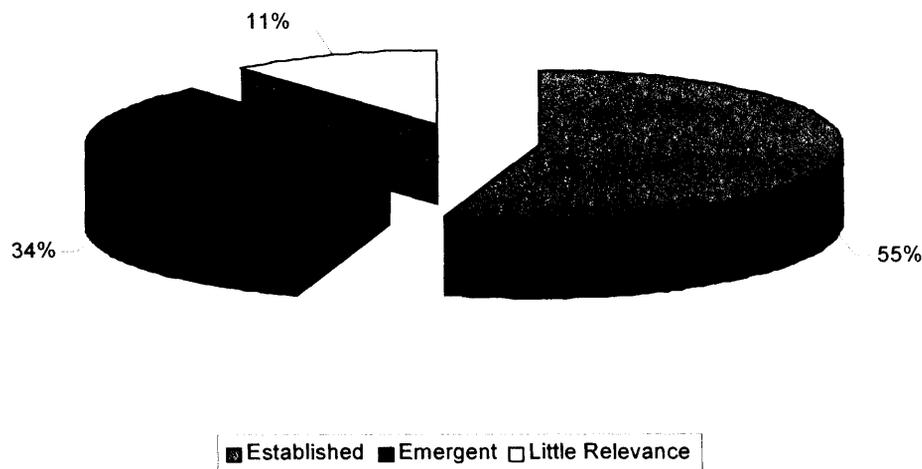
## **Section 2: Strategic Establishment**

---

Juxtaposing both the stated perception of environmental issues and the duration of time in which such perception is translated into actual engagement, how developed do questionnaire respondents perceive their own governance strategies to be?

---

<sup>52</sup> This is indicated as (N/A) within Figure 5.2.



**Figure 5.3: Perception of Governance Strategy**

Figure 5.3, above, highlights that only 54% of companies believe their CGE to be 'established'; this despite the finding that 93% of respondents declare the environment to be an acknowledged corporate issue. A further 34% of respondents do, however, define their strategies to be emergent, overall indicating that companies are, if not now, then in the future working towards the delivery of their strategic acknowledgement of the environment. This would seem to reaffirm the previous finding of the relative newness of CGE, having emerged for the majority of companies within the past five years.

The percentage of those with a corporate governance strategy, emergent or established, could be argued to be surprisingly high, given that 32% of companies ranked environmental issues as secondary, if at all, in operational terms. The implication is that corporate strategising would appear to be occurring even in the absence of core operational impact, suggesting the importance of environmental profiling for such companies; the need 'to be seen to be green' in effect. This finding, augmented by that of the timeframe for majority engagement with strategic engagement (5 years and less) would strongly suggest a considerable shift in corporate thinking. Companies themselves have acknowledged that such environmental consciousness is borne out of an acceptance of the need to change. This is a reflection of changing times and expectations, is it paradigmatic though? Would it necessarily give rise to any anticipated qualitative development in terms of strategy?

It is equally interesting to note that whilst 34% of companies believe their strategy to be established, 40% noted their strategic consideration of the environment for over five years; in this scenario companies are engaged per se but not actually strategising to the extent that they believe their governance to be, by their own admission, established. The disparity suggests either that there is inadequate corporate priority being accorded despite the time frame, or that development of such governance is somewhat tentative. The former, in particular, would again refute the suggestion that progression is primarily facilitated by time alone.

It is this qualitative aspect/assessment which should be considered when addressing the potential disparity between established and emergent strategy, akin to the difference between primary and secondary strategic priority. This is highlighted by the fact that 34% of companies note that their strategies are still emerging, but are not yet, in their own estimation, established. This suggests a substantive degree of under-development which was reinforced by the significant disparities in governance strategy which subsequent findings reveal. Typical of such an approach was the conditionality of much of the strategising that was made explicit. Governance in such cases was described in ambiguous terms, the emphasis firmly on the *intention* of the firm to undertake such measures but only *if* and *when* the company was able to. Commitments were frequently caged in terms of the future and frequently devoid of substantive timetables or specified objectives/targets.

So what exactly does such governance, established or not, entail? The subsequent sections seek to probe what the substantive basis of governance initiatives is or are. To do this, three key elements of governance strategising are addressed: corporate demarcation of environmental accountability, corporate strategy composition and the nature of environmental management and accompanying systems.

### **Accountability for CGE**

So who is responsible for delivery of CGE strategy? Addressing the question of where accountability resides within current corporate governance structures, attention turns to the level of seniority that companies accord to environmental

responsibilities, providing strong indication of the status generally accorded to environmental governance.

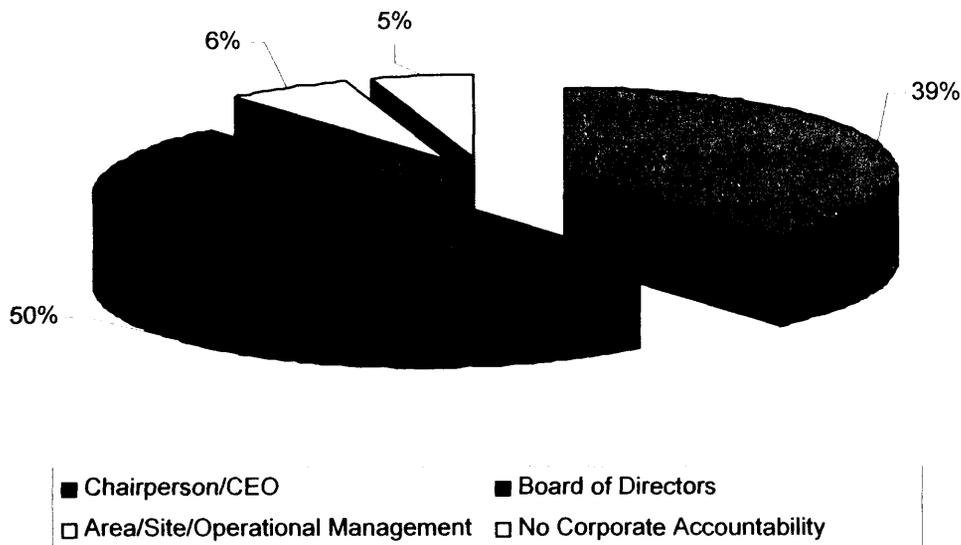


Figure 5.4: Company Level Accountability for CGE

### Senior Management and CEO

When asked to indicate into which of four categories, their corporate level of environmental accountability fell, significantly 89% of respondents indicated it to be at Board level or above, CEO and Chairperson (Figure 5.4). This level of senior corporate engagement strongly implies the importance being attached to strategic environmental governance within companies. In and of itself, such high level accountability does not automatically equate with a substantive shift in corporate practice but is certainly facilitative of such a shift being able to occur.

### Area/Site/Operational Management

Figure 5.4 illustrates that 9% of respondent companies delegate environmental responsibility to area, site or operational management. Two potentially contrasting governance perspectives could be implied from this finding: firstly, certain companies may be lacking a co-ordinated strategic approach, delegation being demonstrative of this lack of cohesion; secondly, and alternatively, many of the multinational companies chose this mode of strategic

management because the scope of their operations lent themselves to the devolution of responsibility in this manner.

Decentralisation of corporate responsibility does not, however, necessarily denote a diminution of corporate priority. Companies, cognisant of varying national policy-regulatory demands, have the flexibility to customise their governance strategy to accommodate operational activities and the disparities which may occur for example, as a result of geographical location. Decentralisation still requires highest level strategic monitoring, as would befit any realm of corporate governance. The potential danger for some companies, however, is that such decentralisation can add confusion and discontinuity to governance through failures in co-ordination and cohesion. The small percentage in this category suggests, however, that companies are largely cognisant of the benefits of such corporate wide uniformity.

#### *No Corporate Accountability*

Only 5% of respondents have no semblance of corporate accountability for the environment- this roughly according with those respondents who perceived the environment as minimal operational concern. Noteworthy within this context, is the apparent incongruity between the 89% of respondents who have senior management accountability (Figure 5.4) and those 55% of companies who believe the environment is an established element of their governance strategising (Figure 5.3). This disparity is important for its implications of what such accountability denotes in the absence of established governance.

Positively, this would suggest that despite the emergent nature of environmental governance within many corporate spheres, high priority is being accorded to this issue. It is important to question, however, just how extensive is the accountability? Is there a system of corporate governance of the environment, the delivery of which such senior management will be held accountable for? Is this hands-on environmental management at the board level or merely 'signing off' environmental policy decisions made at a lower level? It is these questions which the next section seeks to analyse.

### Section 3: Environmental Management

Assessing the nature of management systems implemented within companies, attention was focused firstly on whether hierarchies of environmental management responsibility existed and subsequently, if they did, was there a formally recognised strategic system to translate management into practice (Figure 5.5, below).

Significant disparity can be seen to exist between the two FTSE Indexes, in respect of their adoption of environmental management systems, as disclosed online (and in accompanying reporting disclosure). Whilst 60% of FTSE100 companies (Figure 5.5, below) provide disclosure of an EMS, formal and informal, this is not mirrored within the FTSE250. Analysis of the latter Index revealed that only 37% of companies have what can be broadly defined as an EMS, and a further 12% have data or measures that address environmental impact but are inadequate to be categorised as a 'system'.

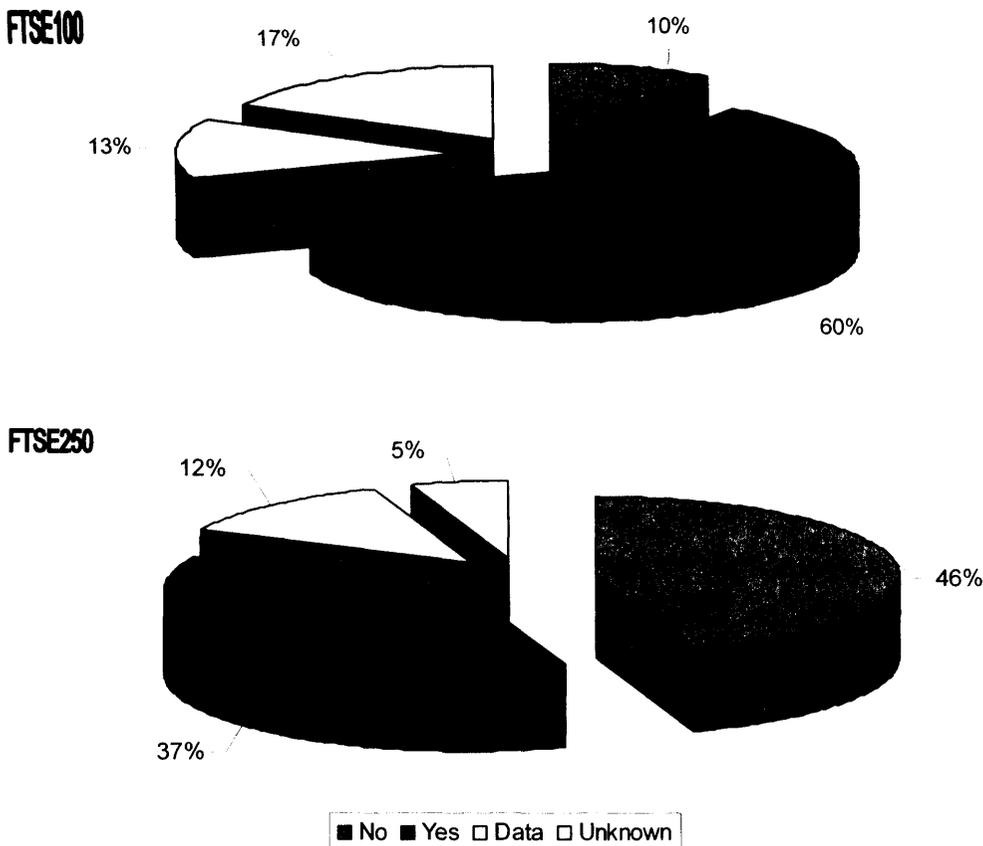


Figure 5.5: FTSE Indexes: EMS

Collectively, therefore, less than half of the FTSE250 have any form of environmental management, a key element of any governance strategy to address environmental impact. This represents a significant vacuum of governance in an area that is increasingly under stakeholder scrutiny and which conceptually is assumed to be an integral element of CGE.

Analysing the questionnaire findings, a significantly higher degree of engagement with the development of an EMS is apparent; 72% of respondents declaring the existence of an EMS. The disparity in findings could be explained by the variance in distinguishing an EMS from data/measures. Whilst certain respondents perceived their actions to be commensurate with having an environmental management 'system', this research would have categorised such actions as being inadequate to constitute such a system, instead denoting this as 'data/measures'. The difference in categorisation reflects the significant disparity which exists within, in particular, informal EMSs. This is manifested in both the scope of what/where is addressed within the system and the nature of corporate ambition for such management. Certification to ISO demands a certain standard of engagement through the existence of a prescribed system to address environmental impact, as will subsequently be discussed. In the absence of such prescription, companies have constructed very variable forms of 'management', many of which are less than ambitious in scope and which objectively viewed, would not be regarded as systematic in nature or allow for management of the range of issues which the company should be seeking to address in terms of its environmental responsibility.

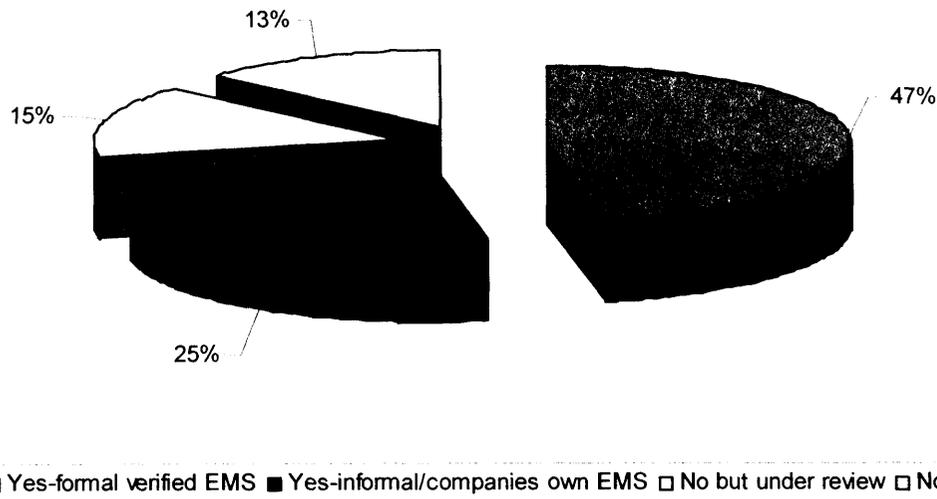
The findings also illustrate that whilst 28% of companies do not currently have an EMS, formal or informal, a majority of these companies are currently reviewing this position, indicating that again growing recognition of the importance of environmental 'concern' is prompting companies to reconsider their corporate governance in this context. The question remains, however, why such companies have not responded to the swath of existing stakeholder pressure to construct such management and what it will take to deliver engagement in this context. It is also important to recognise that this percentage is lower than the web findings demonstrate; the position is one of even lower engagement amongst the FTSE companies as a whole.

Overall, whilst the findings indicate a high level of management response, this statistic is interesting for its' comparative relationship to the differing levels of accountability previously identified in this section. To recap, 89% of companies stated they had senior or top-level management accountability, an additional 6% having area or site specific responsibility for environmental management (Figure 5.4). The disparities are therefore immediate: what of the 17-23% of companies who have such high level accountability yet have no accompanying management system in place to realise such strategic priority?

The findings infer the potential existence of "signing off" within management of environmental issues within such companies, as was suggested by some commentators (Welford, 1997). For what does corporate accountability exist, in the absence of any management of environmental impacts? When also recalling respondents' own perception that only 55% had established governance, it must be questioned how extensive such systems, as do exist, are in qualitative terms if they are either emergent and/or lacking in systematic management.

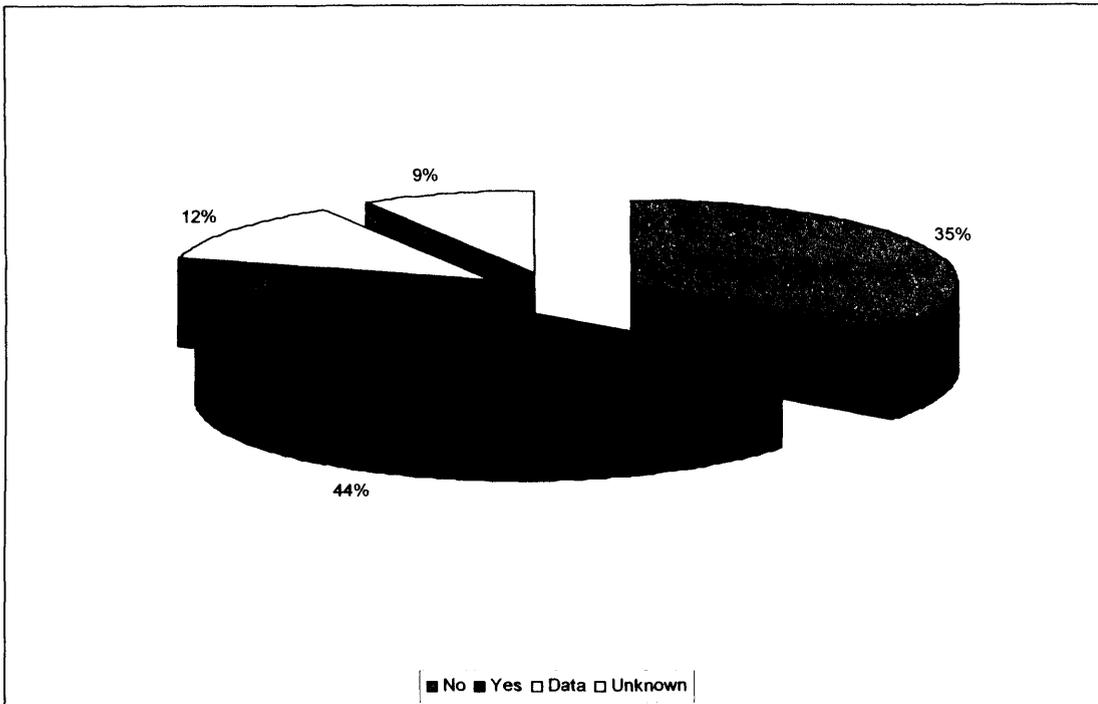
### **Formal and Informal Environmental Management Systems**

Examining the governance of such management systems, nearly half of all questionnaire respondents stated their corporate commitment to formally recognised external standards and frameworks for such management (Figure 5.6). There was a broad balance of sectoral engagement within this, though noticeable was the low level of IT companies adopting such management. This can be viewed as demonstrative of the importance companies attach to the environment as a strategic issue. Standards such as ISO14001 or EMAS are widely perceived as providing a qualitative harmonisation of standards of management within firms across the globe. They also perform an equally, if not greater, role in contributing to a public demonstration of accountability and responsibility, aimed at both publics and government bodies alike.



**Figure 5.6: Environmental Management Systems: Respondent Findings**

The finding that just under half of all companies have neither a formal or informal system of environmental management (as disclosed online) suggests that companies are not concerned to address such stakeholder expectation or at least have not acted upon such concern. This represents a significant degree of non-engagement with such a key element of CGE. Interestingly, the level of stated engagement with environmental management was significantly higher amongst respondent companies. In total 44% of companies (online) have no EMS, formal or informal, verified or not; approximately 32% difference in status (Figure 5.7). This is the strongest example of divergence between online and questionnaire findings and highlights the self-selection element intrinsic to questionnaires; that companies choose whether they want to respond, or not, and that more of those who are engaged may be willing to participate in the questionnaire than those who are not engaged. Nonetheless, the findings do still represent the perspective of those companies who are not engaging in CGE, and EMS specifically, given the 47% status of those who do not have an EMS and are willing to disclose this fact.



**Figure 5.7: EMS: Online Disclosure Findings (aggregating FTSE 100 and FTSE250)**

A range of motivations for maintaining the emphasis on non-verified activity are explored below.

#### *Why do companies not adopt EMS standards?*

The rationales for companies not seeking such prescribed management standards within their environmental governance are varied. For some companies, such standards are inadequate because they either do not provide the level of management they need, nor the approach that would best accommodate their interests or existing strategy. Alternatively, companies are currently in differing stages of environmental governance development, with many aiming for, but not yet attaining, or prepared for, outside accreditation. Company 22, for example, (an IT company) noted *“we will move towards external verification once reporting is better established”*. Companies are understandably unwilling to expose themselves to external scrutiny until they are more assured of their own competency. It is an often cited but, nonetheless, important factor that companies are fully aware of the negative publicity that is created by ill-conceived or externally perceived inadequate attempts to “go green.” Companies have also to consider whether they have the personnel and resources to devote to attaining such systematic EMS as the

ISO14001 standard entails and to assess the timescale necessary to develop this.

A third scenario exists wherein companies may develop environmental management systems, subject them to external scrutiny but not go for accreditation – for example Company 13, a non-cyclical service sector company, who state that their *“formal system is externally audited but NOT going for certification”*. In this scenario, it may arguably be the lack of expectation from stakeholders, commercial partners or competitors that assures the company external accreditation is not necessary. Alternatively, some companies simply do not consider the standard to be a worthwhile corporate objective.

Fourthly, other companies consider such systems as inappropriate to their operational activity and corporate structure. The emphasis shifts therefore from striving for such pre-designed or structured measures, even with their inherent flexibility, to the formulation of company-specific systems of environmental management. For Company 70, the solution lies in the fact that *“we are developing a retail solution”* to address the particulars of the cyclical (or non-cyclical) consumer goods sector, other systems seemingly affording inappropriate governance. Whilst such systems do not afford the comparability that standards such as EMAS or ISO14001 do, they nonetheless facilitate innovative strategic responses which may greatly assist in achieving effective governance. Companies have also to consider whether they have the personnel and resources to devote to attaining such systematic environmental management structures as the ISO14001 standard entails and the timescale necessary to develop this.

For a certain element of companies, however, the lack of demand for such standardisation is unquestionably borne of reluctance to progress environmental governance. The nature of audited EMS, if not EMS generally, is that they embody an expectation of incremental improvement in governance. If a company has little ambition to achieve higher forms of governance, the attainment of accredited EMS status, such as EMS, will not become a strategic target.

## Management Strategy

Examining what this high level accountability actually relates to, what the governance systems which premise such accountability are, the questionnaire enabled more in-depth analysis of the content of current environmental management systems. Respondents were asked which of four key elements, which the literature indicated, should be constituent of good environmental strategising<sup>53</sup>, they sought to integrate into their EMS. These elements are: monitoring; feedback; assessment and 'other actions' to denote those factors or elements which companies believe are additionally required within the context of their own EMS.

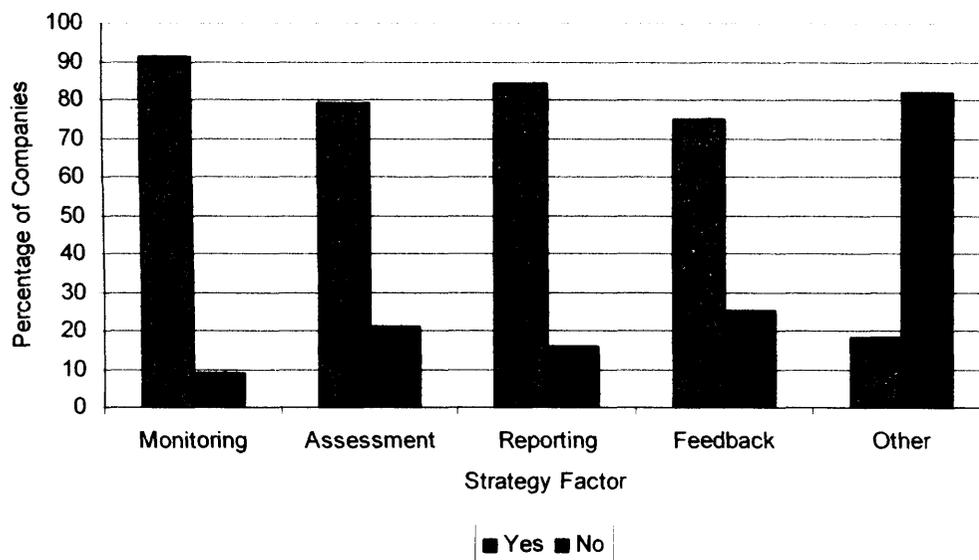


Figure 5.8: Strategy Composition: Respondents

Just over half (54%) of respondent companies noted inclusion of all four elements within their corporate strategies. Given the plethora of literature demonstrating the necessity for the inclusion of all such elements (and countless business literature advocating the adequacy of their approaches), this percentage is surprisingly low. This finding would raise doubts in the assumption that a sea-change in corporate strategy has occurred – or even

<sup>53</sup> Irrespective of formal certification or not.

question the adequacy of those who have become relatively engaged. (Figure 5.8). Reassuringly, however, only 9% of respondents noted their strategic belief to the contrary, that only one element was necessary to effect good governance, if that was, or is, indeed their objective.

### *Monitoring, Feedback*

Whilst just over 90% of respondents revealed that monitoring was an integral strategic measure, only three-quarters of company strategies include the capacity for feedback and corrective action. This could suggest a number of things. On the one hand, certain companies are content to monitor and assess but not to integrate, corrective mechanisms by which such monitoring can be related to actual practice. This disjuncture is, however, incongruous with the inter-related role of monitoring and correction, key to achieving continuous environmental improvement. Alternatively, not all companies have progressed to the stage of developing reflective or dialectic mechanisms by which governance inadequacies are addressed systematically. This has obvious implications for the adequacy, or otherwise, of the governance being constructed.

### *Assessment*

Accepted within all literatures is the reality that regular scrutiny and assessment of strategy assists in incremental progression of environmental governance. Fewer than 80% of respondent companies, however, stated their institutionalised procedure of assessing their environmental governance strategy (Figure 5.8). This is perhaps lower than anticipated given the utility of such assessment but it nonetheless demonstrates corporate commitment to review and the processes of incremental learning and capacity-building that should accompany it.

### *Other Actions*

When asked what other measures their governance strategies entailed, the replies revealed some interesting aspects to emergent styles of governance. For instance, Company 13, stated its imperative to develop “new initiatives to encourage environmental awareness”, the issue for this company being the

generation of awareness and dissemination of information and ideas, which it considered its primary focus. The emphasis centred mainly on the means by which the company could address the specificities of its own operations, stimulating innovation and engagement within the company.

'Identification' was an issue noted that encapsulates a key area of concern for companies, recognising existing and emergent issues requiring corporate redress. Whilst this may seem a self-evident component of strategising, within the context of unknown environmental impact of varied processes and resources, this is an integral element of corporate learning and pre-emptive strategising. Research into operational impact and alternative technology, was another highlighted priority which again has obvious utility in the development of environmental governance. Both identification and research are suggestive of a more pro-active approach being applied in formulating strategies which will not only address current, but contingent, future operations.

Both the web and questionnaire findings illustrate that there exists significant scope to expand the management systems currently being implemented within many companies. Whilst the questionnaire evidences a high degree of EMS adoption, it must be noted that this is higher than the overall FTSE100 or FTSE250 performance and is either attributable to differing perceptions of what constitutes an EMS or reflects the more engaged sections of these Indexes. In either scenario, there remains a significant number of companies who have no semblance of environmental management or whose systems offer the potential for development. Within those systems currently in place, the efficacy of such governance could be greatly enhanced by, for example, implementing assessment, reporting or feedback procedures. Obviously, for those companies who do not have any such system, consideration of the benefits which can accrue from implementing an EMS, may provide a rationale for a strategic review of this position.

Once again, however, the question arises as to the sizeable number of other companies who are either not on the CGE horizon at all, or who do not appear to be advocating the need or means by which to strategically develop. Noticeably, there was little significant sectoral disparities, with the exception of the continuing relative disengagement of the IT and Cyclical Services sector; an issue which will be discussed in greater detail within Chapter 6.

## External Regulation of EMS

The variety of management approaches suggests the individuality of strategic frameworks being constructed - this accords with the prior findings of the web-based research. This confirms the suggestion within the literatures, that the lack of codified prescription as to what management is, led to considerable differences in actual strategic systems. Whilst fostering innovative response, it is however, crucial that the core standard or measures sought should be of a comparably high level. Given the demonstrable variation in standard and approach evident through voluntary strategising, it is questioned whether government regulation is not required to achieve greater uniformity, as was suggested in Chapter 2.

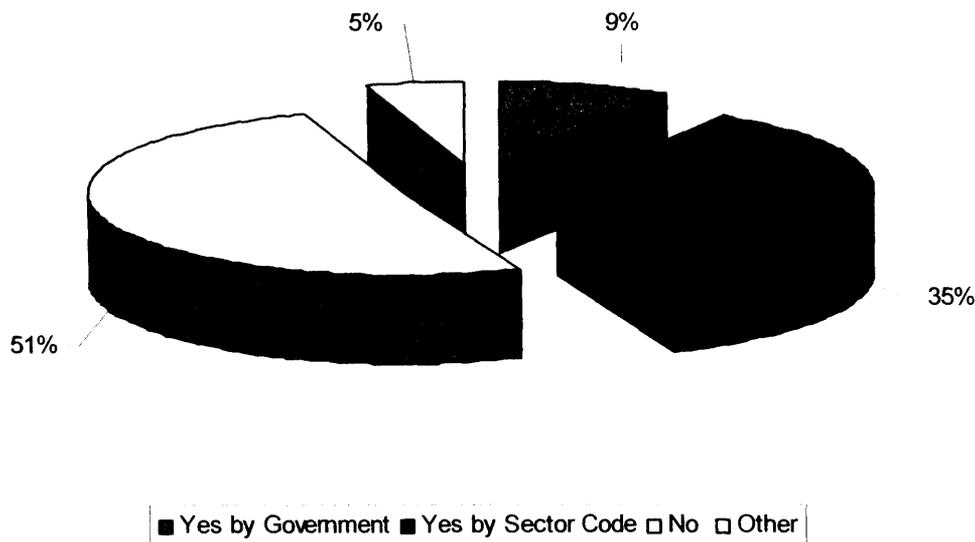


Figure 5.9: Regulation of EMS

When asked whether they would be willing to accept external regulation of such management systems, the majority of companies refuted the validity or necessity for such an approach (Figure 5.9). This was anticipated, given the presumption of widespread corporate disillusionment with state regulation. Interestingly, however, 35% of companies were prepared to see enforced sector codes of management standard, and an additional 9% stated their preference for state intervention. The percentage breakdown indicates a significant split or polarisation of opinion among the business questioned. The

results again demonstrate that whilst emphasis is still placed firmly on self-regulation, there is a surprisingly strong body of recognition that the current emphasis on voluntarism is inadequate.

There are several motivations for greater demand in coded standard setting: companies who have initiated such governance are typically those who seek more uniformity in management approach. Aside from the desire to avoid other companies free-riding in terms of lax or non-existent management standards, companies are also keen to highlight the governance they have already undertaken. The imposition of coded standards or formal systems such as ISO14001, augments the validity and status of both the management and the strategy of such companies. Many of the companies stressed their implementation of such standards as was previously noted and indicated by literatures. In increasingly competitive markets, the attainment of such standards can be of considerable profiling and commercial status.

## **Section 4: Environmental Disclosure**

---

### **Introduction**

There are many ways in which a company may choose to disclose information relating to its governance of the environment, if indeed such governance exists. Standard measures or means of disclosure within traditional corporate governance have typically centred on the provision of policy and annual reporting. Such disclosure is mandated by law within the UK and provides a regular mechanism for ascertaining information on corporate approach, management and performance. Within the specific context of environmental issues, there is in contrast, little mandatory responsibility for a company to provide any such information, though as has been discussed in previous chapters, considerable pressure is now being exerted by non-state actors to change this.

Corporate environmental disclosure is, therefore, based on the less than assured presumption that companies are voluntarily engaging in such practice.

Addressing the notion, though in many cases not actual practice, of corporate environmental disclosure within the FTSE indexes provides, therefore, a means by which to examine what companies are doing in the absence of such regulation; the scope and ambition of such disclosure and their rationale for doing so. Why do certain companies provide detailed, substantive, declarations of environmental performance and impact when others are without even acknowledgements of the issue or issues?

For the purpose of this research, two particular modes or mechanisms of disclosure have been examined: environmental policy statements and environmental reports/reporting. Both mechanisms of policy and reporting provision are the mainstay of traditional corporate disclosure, as previously noted. Addressing their transference to the realm of CGE provides therefore, an indication of just how progressed or entrenched the environment is within the corporate governance of firms and is analysed within the wider context of CGE and paradigmatic change.

The web-based research provides an initial overview of who and what companies within these two indexes are doing, examining how disclosure is realised and the scope of such information provided. The corporate questionnaire then provided a means by which to assess individual and aggregate respondent perceptions of the rationale for such disclosure: why does a company feel the need to disclose environmental data to whom does it disclose and what objective scrutiny is such information subjected to? Collectively they are used to illustrate how companies have responded to this element of CGE; what the nature of their strategic ambitions are and whether this is representative of a fundamental change in corporate practice.

### **Corporate Environmental Policy**

There is no definitive pronouncement as to what a corporate environmental policy is or represents, its scope or format. There is also, crucially, no regulatory demand for such a policy to even exist and for many FTSE entities, it simply does not. The objectives in examining corporate environmental policies or CEPs for short, were therefore as follows: Firstly: to ascertain if a CEP per se, exists. This was achieved through initial web based research and subsequently confirmed by questionnaire for those companies who responded.

Secondly: given the lack of prescriptive guidance as to CEPs, a judgement was made about the nature of such policy provision. Both the need and basis for such a judgement was borne out of the huge disparity in data scope and framing, provided by companies.

As such, Box 5.1, below, lists five main categorisations which I derived and titled from the nature of the data revealed. Such divisions were necessary to explain the substance of the information provided, e.g. small snippets of data to comprehensive integrated governance declarations. Groupings whilst accurate for the majority, did not, however, preclude some degree of disparity between companies, e.g. Annual Report statements were, for example, typically very limited, one paragraph disclosures, but in a few select instances were also full environmental sections. The significance of such positioning in governance terms, will be subsequently explored. The categorisations do however reflect the scope of coverage for the vast majority of cases.

**Policy/Yes:** *Environmental policies which are visible as stand-alone within corporate websites. Typically the most substantive disclosure evidenced in this context.*

**Annual Report:** *Environmental policies which are only visible within Annual Reports. Typically limited in disclosure.*

**Info/Data:** *Data that pertained to environmental issues but inadequate to constitute a policy, often lacking in integration and scope.*

**Policy/No:** *No environmental policy of any nature on the website*

**Unknown:** *It was impossible to discern whether there was or was not an environmental policy online- administration or registration difficulties*

#### **Box 5.1: Categories of Policy Disclosure**

#### **Standard of Policy Disclosure**

Where policy disclosure does occur, there exists considerable disparity in the quality of policy provision made. Policies varied from extensive analyses of the range of impacts and considerations which the company perceived as central to its operational activity; in the best examples, this was accompanied by timetabled commitment to redressing such impacts and detail as to how this

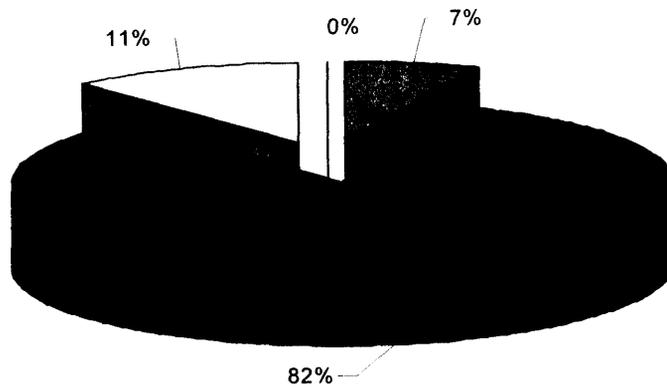
would be achieved – whilst other statements comprised of little more than several lines of nominal corporate acknowledgement of the environment constituting an issue of concern and potential responsibility. The failure to provide any level of substantive analysis or contextualisation of such environmental responsibility in relation to the company's activities or strategic delivery, negates the utility of such statements; such statements are only 'policies' in the respect that they have been entitled as such.

The provision of information relating to environmental issues but not actually constituting a policy statement, would appear to reflect the position of companies who are aware that corporate recognition of environmental concern is an increasing stakeholder expectation, yet who have not sought to construct any substantive mechanism to address such expectation; in effect, a half-way house in terms of corporate engagement, awareness without tangible engagement. There exists, again, significant scope for companies to address such data and clarify what their strategic environmental objectives are and how best to articulate this within a company wide environmental policy.

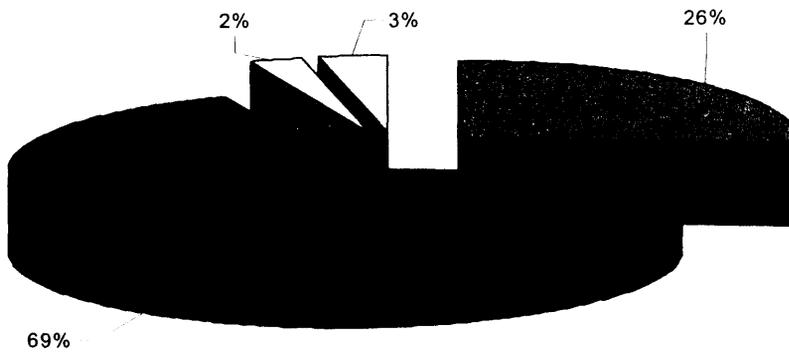
#### *Comparison Between FTSE Indexes*

In total, 82% of companies within the FTSE 100 Index (Figure 5.10) have an environmental policy statement either presented as a stand-alone policy within the main text of the website or existing within their Annual Reports. This high level of policy presence indicates that this element of disclosure can be said to be a firmly established governance practice within the FTSE100. In contrast, as Figure 5.10 shows, the ratio of policy disclosure to non-disclosure within the FTSE 250, was discernibly different. Less than half of all companies have a stand-alone environmental policy though an additional 10% did include such policy statement within their accompanying Annual Report and Accounts.

**FTSE100**



**FTSE250**



**Figure 5.10: FTSE Indexes: Policy Provision**

With just under two-fifths of companies in the FTSE 250 and 11% in the FTSE100 Index having no environmental policy or data at all, this represents a significant degree of non-engagement or non-disclosure of such a principal and basic element of corporate governance of the environment. Whilst it was anticipated that there would be a degree of non-disclosure, the extent to which this occurred was not anticipated. The importance of disclosure as a mechanism of public accountability, was documented in Chapter 3. The policy statement, a principal element of such disclosure, was expected to be a feature of all, or at least, the vast majority of companies environmental strategising. That such a high percentage of companies have failed to recognise or respond to the importance stakeholder perception accords to its provision, is important to note for its potential implications in wider governance.

### Questionnaire Respondent Positioning

Probing respondents through the corporate questionnaire, 84% of respondent companies stated they had a corporate environmental policy that encompassed the entirety or national, site or operational specific activity (Figure 5.11). The ratio of disclosure to non-disclosure among respondents is, perhaps unsurprisingly, higher than that of the wider web based findings. It could be postulated that companies volunteering to respond may be presumed to be more actively engaged in environmental governance and, therefore, more willing to divulge their practice, than those who are not engaged and whom may be conscious of the need to not highlight such a stance.

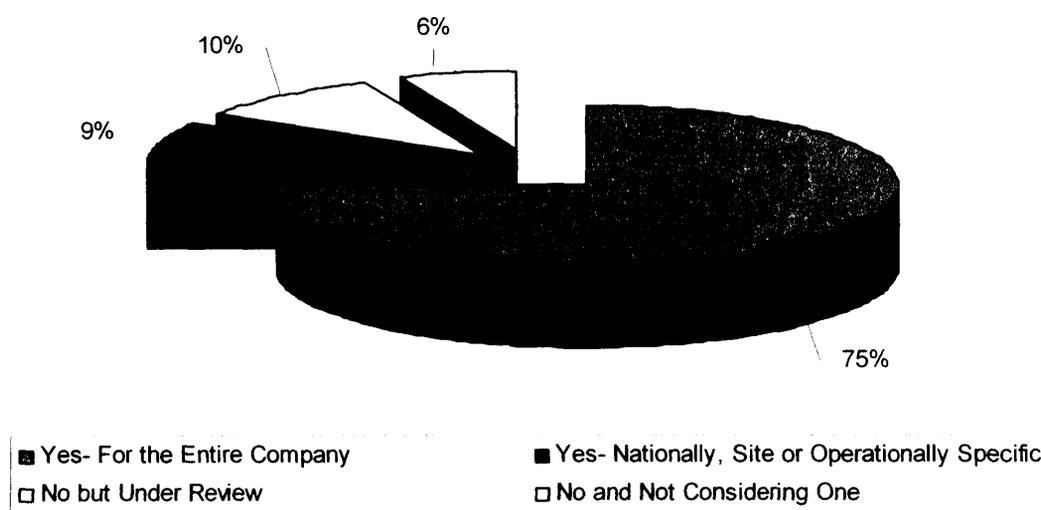


Figure 5.11: Policy Application: Respondents

More tellingly, however, was the finding that of the remaining 16%, nearly three-fifths attributed this lack of policy to its operational irrelevance or low corporate priority but were actively reviewing this strategy. This is an important indication of the changing corporate attitude towards environmental disclosure: that non-disclosers are conscious of the need to review such an approach would suggest the growing governance stature of such information, even amongst those not currently engaged.

When asked to elaborate upon why they had chosen not to engage in policy disclosure, nearly two-fifths of these respondents failed to supply a justification as to their stance. This significant degree of self-selection in response, suggests the sensitivity of corporate perception in this context. As was

considered in Chapter 3, companies would appear aware of the expectation that they should disclose are, in all likelihood, cautious of the justification (if any) they seek to give for not meeting such expectation. For other companies, some degree of operational relevance could be established yet is not; certain companies would appear to be deliberately holding back from entering the sphere of environmental disclosure and environmental governance generally, as will be explored further.

Seeking explanation in light of their wider responses (previous sections) the inference would appear to be that companies are prepared to devote resources when corporate priority is established; no 'non-policy' respondent opted for the explanation of this measure being overtly resource demanding. The difficulty, however, remains in creating and establishing such status. What does it take to re-prioritise this issue in the corporate agenda and therefore receive the resources to realise such activity?

### **Drivers for Environmental Policy**

Examining, through the corporate questionnaire, the range and status of those consulted in corporate strategies revealed the same, considerable degree of disparity in corporate approach evidenced throughout this research<sup>54</sup>. When asked who, or what, was the primary motivation for their policy formulation, there was an interesting array of replies, with multiple stakeholders being cited. The most frequently cited driver was that of meeting shareholder expectation, with nearly 73% of respondents selecting this category. This confirms the prominence accorded to such grouping in both corporate and academic literature.

#### *Shareholders*

Given that companies are ultimately accountable to their stakeholder base, upon whose behalf the company strives to maximise profit, it is unsurprising that shareholders constitute the dominant driver for motivating reporting disclosure. This is a affirmation of the importance ascribed to such

---

<sup>54</sup> Refer to Q11 of the Questionnaire, Appendix 4

stakeholders, within the literatures (Lorente et al., 2002; White, 1999). When asked in subsequent e-mail interviews, to elaborate upon their identification of shareholders as primary motivators, respondents re-iterated their opinion that environmental performance would increasingly impact directly on share value and overall corporate financial performance. This is not sector specific, it is not confined to basic industries or resources and utilities as initially thought.

The Financials as has been noted, have become increasingly aware of both societal expectation and the commercial imperative for engagement, cognisant of the growing demand for ethical investment strategies and changing shareholder expectation. It is interesting, however, that so large a percentage of respondents placed this stakeholder as their primary driver. Stakeholders are constituents of both internal corporate drivers and external, societal, pressure. Their influence is, therefore, significant, as evidenced through respondent perception; this reinforcing the conceptual primacy discussed in Chapter 2.

### *Regulators*

One of the more surprising facts that arose from analysis of policy drivers was that only 20% of respondents cited regulators as their primary motivation for reporting. Since regulation was conceptually assumed to be a primary driver for change (Lahusen, 2000; Annandale, 2000; Howes, Skea and Whelan, 1997), it is surprising that it does not feature more prominently in this analysis. Postulating why it is that such low recognition is given to such important actors, several possible reasons can be given. Firstly, it would appear from many corporate positioning statements that companies are eager to be seen to be responding to public expectation and may not, therefore, wish to appear to be merely reacting to legislative demands. To do so would risk the perception that their response was motivated by semi-regulatory obligation rather than voluntary recognition of responsibility or good will.

An alternative scenario addresses those companies who do not perceive the environment as an issue of operational relevance and tend not to be subject to substantive legislative demands. The potential for the lack of regulatory oversight to reinforce the perception of low strategic priority is apparent. Additionally, those companies who are subject to minimal regulatory onus can formulate a policy simply to respond to such requirements and omit any further environmentally motivated actions; this was an evident practice amongst many

sample companies. A contrasting but equally evident situation, is one in which companies who strive for market leadership but do not cite regulatory stakeholders as primary motivation because their objective is to achieve 'beyond compliance'; therefore, to note regulators, could be perceived as a corporate response based on obligation.

When compared to the status provided through consultation, a disparity is visible between those whom the company acknowledges as primary drivers for environmental reporting and those with whom it is willing formally to engage. Half of all respondents stated that they consulted with both financial stakeholders and regulatory communities, indicating that whilst regulators may not be the primary disclosure motivation, publicly acknowledged, they have nonetheless an important role to play in shaping governance strategy.

### *Consumers*

The success of a business depends in large measure on its consumer base, who have also assumed an increasing role, as discussed in Chapter 2, as the commercial voice of green activism. They are, it would therefore be assumed, a vital component of company strategy, yet these findings indicate their influence does not yet pervade the boardroom of the companies reliant upon them. From the companies surveyed, just under 23% of companies consult with their consumer base. Not only does this contradict much literature declaring the significance of this stakeholder in influencing corporate environmental strategy (ethical consumerism and boycotting being two forms of such pressure), but also stands contrary to the declaration by half of all companies in the sample, that their environmental policy is primarily formulated for such specific stakeholders. This is a significant disparity which has direct implications for the governance being constructed – if a primary rationale for developing environmental policies and other forms of governance, as noted in papers and by companies, is not being adequately consulted, then how can it reflect the concerns and interests of those who are of key importance?

The implications of this finding are twofold: Firstly, the majority of companies surveyed believe or behave as if the determination of their governance does not require the input of their consumer base. Secondly, such stakeholders have either not sought to influence such governance or have only been acknowledged in the very small minority of company cases analysed through

the questionnaire. Bearing in mind that the 110 companies who responded are amongst the largest in the UK, and in some cases, abroad, this would indicate a significant degree of corporate non-prioritisation of public/consumer concern by well-established, major corporate entities in a burgeoning area of governance. This stands contrary to the litany of corporate principle statements, government expectation and the pursuit of greater corporate responsibility, which has marked recent years.

### *'Others'*

Within the questionnaire, six broad categorisations of stakeholders were identified from the literatures, as being at the forefront of corporate concern in determining the course of their governance and operations generally. Respondents, however, were given the discretion to identify any other group of stakeholders who they perceived as being of key status in this context. The findings reveal respondents cited seven other significant stakeholders; ethical investors; environmental consultants; contractors; NGOs and academics; peers and independent environmental advisory panels. The role of environmental consultants and advisory environmental panels has been discussed previously. Of the remainder, employees are a particularly interesting category of stakeholders to examine.

### *Employees*

Perhaps surprisingly, when asked who was consulted in the formulation and review of corporate environmental strategies, employees ranked first with 65% of companies listing this stakeholder grouping. The degree of prioritisation was perhaps unexpected because generally the greening of business literatures, whilst citing their stakeholder status, gave greater prominence to other actors such as regulators, as being of greater significance for governance. Nonetheless, the prioritisation of employees would appear to make good strategic sense. Employees are prioritised precisely because they constitute not only members of society (the public), are (potential) consumers but also, critically, are agents of the company. They are both internal and external stakeholders with direct and immediate impact; it would appear business is alert to their unique position and the contribution they can make.

## Corporate Environmental Reporting

Policy provision and disclosure is of course only one element by which a company can reveal the nature of its environmental governance. Arguably, indeed, it is only the first step in what could be a more systematic provision of information encompassing all corporate operational activity, as noted in Chapter 3. The primary presumption with policy provision is that the company will proceed to undertake and fulfil the commitments outlined in such a policy. When such actions have been undertaken, or in the course of such actions being undertaken, the logical progression in disclosure if not governance terms, would be to reveal the process and outcomes of such action. It is at this stage, though possibly before, that the corporate disclosure may centre on the provision of environmental reporting or to singularise it, an environmental report.

Recalling the importance attributed to such disclosure by the greening of business literatures, both corporate and academic commentators, in profiling a company's environmental governance strategy focus turns to who does/does not report and the nature of such reporting. There is again no mandatory requirement to produce an environmental report and it cannot be assumed that the absence of reporting automatically equates with a lack of governance per se. It is however accepted that good practice should involve it, as discussed in Chapter 2. The UK government has also repeatedly stated its expectation that companies will voluntarily report, and the European Commission amongst others, has endorsed such a call. Given the weight of expectation and the recognised combination of pressures, it was anticipated that few if any in the FTSE Indexes could claim to be oblivious to the demand for reporting. Indeed the more pertinent question to ask now is if a company does not report, the suspicion is why not<sup>55</sup>?

---

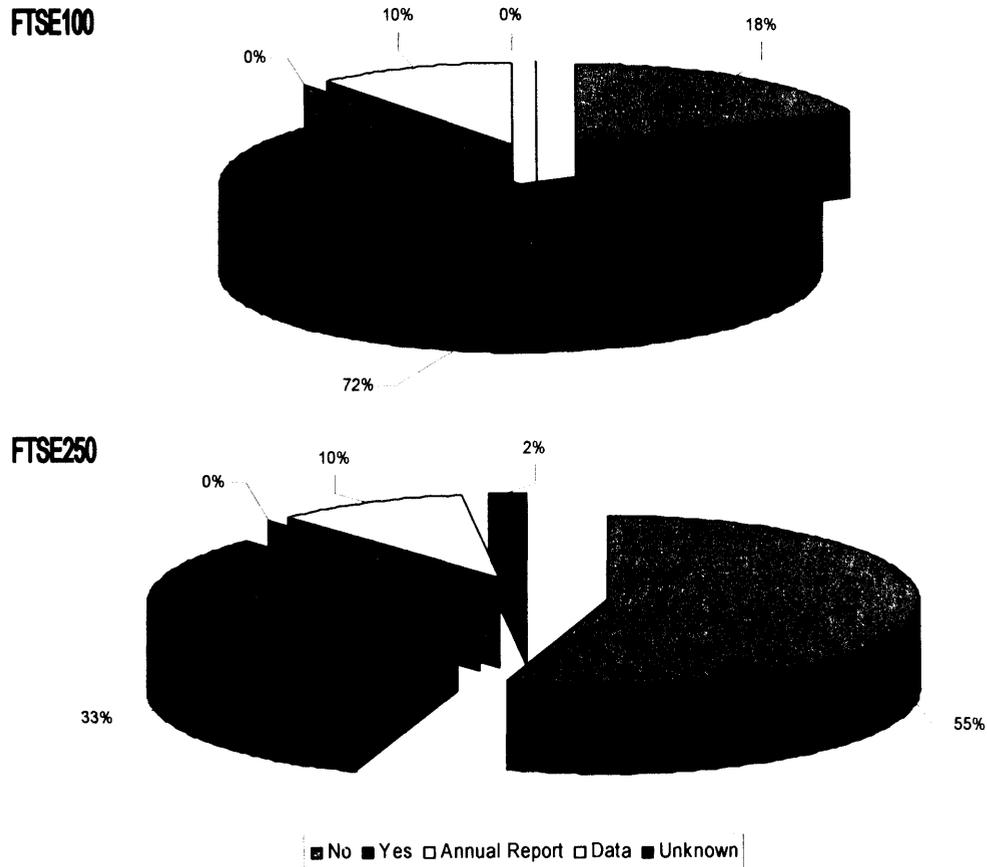
<sup>55</sup> It must be reiterated again, that this research is an examination of the dissemination of corporate governance of the environment, as provided through their corporate websites and revealed within respondent questionnaires. It is possible, though perhaps unlikely, that a company may report on environmental matters, whilst not choosing publicly to acknowledge this fact. Such an approach would seemingly serve to contradict the purpose of reporting but conditions of commercial sensitivity or perseverance of corporate reputation, may serve to enhance non-disclosure<sup>55</sup>. This was, however, not expected to be a major issue however, given

Noting the significant variability evident in other CGE mechanism, it was anticipated this would be replicated in reporting disclosure. The purpose of addressing reporting was to provide further elaboration on the nature of corporate environmental disclosure, in particular, whether companies had reached the stage whereby they had adequate governance in place to actually undertake such reporting; or whether they were indeed cognisant of the need for such reporting to occur even in the absence of developed strategic action. Examining, firstly, the level of reporting undertaken by FTSE companies, a quantitative description is made of those who are and those who are not engaged in this procedure. Secondly, a brief assessment is made of the nature of such reporting; as evidenced by the categorisations made of the 'reporting' data revealed. The second key objective in this stage, was to elaborate upon the findings of the web research and assess individual corporate perceptions and motivations for undertaking such disclosure and their potential implications in wider governance terms. This was achieved principally through the corporate questionnaires.

The importance ascribed to environmental reporting and the profile it has assumed within companies, is reflected in the finding that 72% of FTSE100 companies have implemented some form of reporting provision, as Figure 5.12 highlights. The level of FTSE250 disclosure is, however, significantly lower; only 33% produce an environmental report though a further 10% do disclose environmentally related data.

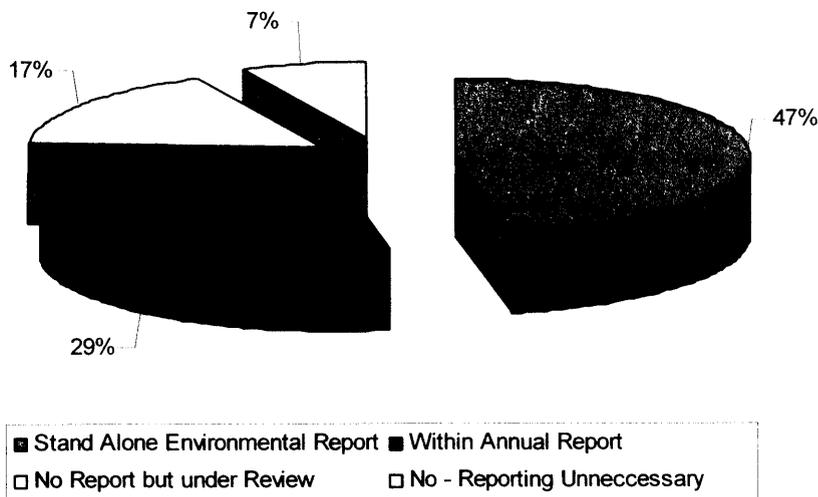
---

the capacity of firms to provide other forms of disclosure without endangering their commercial or competitive security.



**Figure 5.12: FTSE Indexes: Reporting**

The level of disclosure revealed within the corporate questionnaires was higher than that of the web-based analysis, both as an average overall and for individual Indexes. As an aggregate, 76% of respondents claim to report, as can be seen from Figure 5.13, below. Breaking the respondents down into their respective Indexes revealed that 91% of FTSE100 respondents stated they did report, whilst 61% of FTSE250 respondents claimed the same. The level of FTSE100 engagement reflects the conceptual priority accorded to it. The significantly lower percentage of FTSE250 reporting disclosure, indicates, however, that such priority is not uniformly shared.



**Figure 5.13: Reporting: Respondent Findings**

### **Nature of Reporting Initiatives**

For those companies who do engage in reporting initiatives, Figures 5.12 and 5.13 highlight the varying degrees and approaches to reporting. Considerable qualitative disparity was evidence within such disclosure and as a means of clarifying the nature of what was revealed, two sub-categories of 'reporting' were made to describe the differences revealed: Data provision; Reporting but only within Annual Reports and Accounts, and Corporate Environmental Reports. These categorisations derive directly from the research findings.

The categorisation of corporate environmental reports or CERs, self-evidently encompasses those companies who do produce stand-alone environmental or environmentally related reports. Such reports are suggestive, to a much greater degree than other forms of disclosure such as policy provision, of relatively developed forms of CGE, as will subsequently be discussed. Debating the existence of the other forms of reporting provision, data and Annual Report information, here are several possible explanations for the existence of such 'sub-reporting' approaches. Firstly, the provision of such information can serve as an initial fact-gathering exercise for companies who may be only commencing their environmental governance strategies. The provision of such data, therefore, serves as the precursor for the development of more sophisticated developed forms of environmental reporting and governance generally. This would accord with those companies identified in the previous

CGE section, who are engaging in governance but have not yet fully developed systems of governance; in effect, in the medium stages of the hierarchical depiction of corporate governance of the environment.

Secondly and contrastingly, companies may not have the capabilities for effective monitoring and data collation within the environmental context. The declaration of such data may constitute, therefore, the only form of knowledge-gathering they have thus far achieved. This state of affairs may either reflect the precursor to more advanced environmental management systems, alluded to in the first incidence, or it may alternatively indicate the company's refusal to become further engaged in establishing forms of environmental governance. Simply put, such companies may have decided not to invest resources into achieving better environmental reporting, as was anticipated in theoretical discussion of CGE. This would encompass many of the examples of companies in the previous chapter who had limited if any form of governance, the lower echelons of the governance model.

#### *Provision of Corporate Environmental Reports*

Demonstrating the most visible form of commitment to CGE, it is unsurprising that many FTSE companies seek to undertake environmental reporting (Figures 5.12 and 5.13). The most advanced form of disclosure is that of the stand alone report, FTSE100 examples of this being: Abbey National, Centrica, CGNU and United Utilities. It is important to note, however, the significant disparity between the indexes in terms of reporting provision; the FTSE250 evidences much lower disclosure in this context. Nonetheless, there are positive examples of reporting provision by companies within this Index: examples being Carilion, Northern Rock, Thames Water and LASMO. These companies have, by their strategic choice, considered CERs to be worth investing considerable time and resources into, indicating a prioritisation of not only such disclosure but the environmental governance which premises it.

#### *Data Provision but No Corporate Reporting*

For those companies wary of disclosing information of a sensitive nature, the alternative, as can be evidenced in many reports, is simply to provide a 'honed down' version of their environmental reporting. This alludes to the existence of

a key trait in environmental reporting - selective disclosure. Given the lack of regulatory control over the nature and scope of environmental reports, the flexibility this provides has resulted in somewhat inevitable disparity in the substance of such disclosure. Unsurprisingly, there are incidents of minimal, if not nominal, environmental reporting, with such disclosure characteristically little more than an extended environmental policy document. Other companies provide data that cannot be stated to be a report *per se*, though does provide some element of disclosure, normally in the form of a short review or extended statement of activity. Within the web analysis of the FTSE100, (Figure 5.12) 10% of companies adopted such a strategy, e.g. Allied Zurich, Astrazeneca, Marconi and Rentokil. The same percentage of data provision was reflected in the FTSE250, examples of such companies being Coca-Cola, Premier Farnell, JJB Sports and Debenhams.

#### *Reporting but only within Annual Reports*

An alternative and arguably more evolved stage in reporting strategy, is the provision of environmental 'reporting' within the context of Annual Reports and Accounts' documents. Speculating as to the rationale for such an approach, a number of potential factors could be of influence; whilst companies may decide that such disclosure is an adequate reflection of their corporate commitment to environmental governance, they may simply not perceive the need to report independently on environmental issues. The motivation for such a stance may arise from either the perception that the issue is of low corporate priority or that environmental issues are comparatively irrelevant to their operational activity and, therefore, there is no legitimate need to report separately. Companies may also perceive that there is inadequate stakeholder pressure to adopt such a reporting policy and in the absence of any regulatory requirement to do so, will not undertake such a measure, as was implied by several respondents.

A discrepancy arises when contrasting online and questionnaire findings; this stemming from the perception of what constitutes data provision (as categorised within the online findings) and what is regarded by respondents as reporting within Annual Reports. Whilst 29% of respondents declared themselves as reporting in this context, this analysis adjudged the nature of such 'reporting' to be, more accurately, only data provision; inadequate in nature to constitute 'reporting'. Cross-referencing respondent companies

against online disclosure and the Annual Reports contained within, it was apparent that such companies were adopting a generous interpretation of what constituted 'reporting'; not one which is qualitatively in line with the assessment this research would make. This is, however, interesting for its indication of how corporate and conceptual interpretations, can and do, diverge.

### *No Reporting Provision*

Examining the lowest tier in disclosure, the complete lack of reporting provision, it was not anticipated that so high a percentage of FTSE companies would not engage in environmental reporting. A significantly high, 57% of companies in the FTSE250 do not have any form of environmental reporting or data provision as evidenced on their websites (Figure 5.12): 265 Corporation, Cedar Group, Anite Group and First Technology being amongst the many examples of this. The percentage for the FTSE100 is considerably lower yet still significantly higher than anticipated, at 18%, with companies such as ARM Holdings, Logica, Capita Group and MISYS occupying this role. This level of non-disclosure was unexpected, not only because it contradicts the increasing impetus of expectation from state, publics and other stakeholders to report, but also because of the much publicised warning issued by state that it will be forced to regulate in the absence of voluntary disclosure.

It was expected that FTSE 100 companies, whom the research findings would appear to illustrate greater overall engagement, would have higher disclosure provision than their FTSE250 counterparts. That 18% of companies within this top Index have not done so, demonstrates what is still a significant lack of reporting provision. Contrasting this with the 11% of companies who have no policy provision, it is interesting to note that 7% of FTSE100 companies would appear to perceive their responsibility to disclose environmental impact, as being adequately fulfilled through an environmental policy alone. Given that policy statements, however good, are typically only declaratory statements of corporate intent or objective and not actual environmental performance, this would appear somewhat incongruous with the stated declarations of corporate environmental responsibility. Such a finding also questions how adequate the CGE of such companies are and just how expansive their notion of engagement is.

Analysing the FTSE250, the 57% level of non-reporting provision contrasts with the previous finding that just over half of these companies, do disclose environmental policies. The implication again would appear that such companies perceive policy establishment as an adequate form of environmental strategy. The consequences for the efficacy of such governance are obvious, yet even more so is the reality that despite the plethora of stakeholder pressures, seven tenths of FTSE250 respondents still do not perceive the requirement for such a crucial element of CGE. The implications of any assertion of paradigmatic change, are apparent.

Interestingly, again, a higher level of engagement in reporting provision is revealed by questionnaire respondent companies, than that evidenced through online analysis. The divergence in interpretation, discussed previously, could account for this disparity.

### *Overall*

The findings illustrate the disparity in reporting approach which characterises current corporate practice. Considerable disparity exists between those who choose to report through stand-alone environmental/sustainability reports and those who incorporate reporting within the established mechanism of Annual Reports and Accounts. Whilst, theoretically, the incorporation of environmental reporting within the latter could indicate the integration of CGE within wider corporate governance and a holistic approach to reporting which embeds environmental performance, in reality this would not appear to be the case for the majority of FTSE companies.

The divergent location/format for reporting, would instead appear to be a reflection of the priority which companies accord to such disclosure. Environmental 'reporting' within Annual Reports was typically, though not exclusively, brief and very limited in scope. In several instances, reporting comprised of less than half a page, substantially different from the extensive documentation presented by other companies. Whilst length is not necessary an indication of quality, it is difficult to perceive half page 'reporting' as being qualitatively comparable.

Addressing the findings overall, it is apparent that there exists significant scope for development of current reporting provision within those companies who are currently not engaged with such governance but also with those companies whose reporting is comparatively limited.

## **Report Composition**

Having examined who does, or does not report, analysis turns to what exactly is being disclosed within such CERs or relevant data, as noted within the conceptual discussions of environmental reporting. The vacuum left by the relative lack of specificity for environmental reporting guidance within the Turnbull Report<sup>56</sup> and Company Law Review, now White Paper<sup>57</sup>, has left a continuing uncertainty within corporate standards of environmental reporting. Nonetheless, companies are subject to other environmentally derived regulatory obligations pertaining to their operational activity. Addressing whether companies would disclose such issues, the questionnaire asked respondents whether they noted the following facts within their reporting: existing regulatory requirements; incidents of non-compliance; procedures for rectifying non-compliance; commitment to 'beyond compliance' status and/or other relevant issues<sup>58</sup>.

Less than 50% of companies acknowledge incidents of non-compliance and/or legal cases. There are two possible explanations for this, either there are no cases of non-compliance to report or that given the increasingly public consciousness of such reporting, companies do not wish to draw adverse attention to themselves. In the case of the latter, whilst there exists independent records of such incidents for example, through public registries or environmental agency data, such records are by comparison significantly less accessible and less obvious means for public scrutiny.

This element of disclosure is crucial for engendering public trust in the willingness and capacity of companies to acknowledge and rectify non-

---

<sup>56</sup> 'Internal Control: Guidance for Directors on the Combined Code', Turnbull Report 1999

<sup>57</sup> 'Modernising Company Law', White Paper, 2002

<sup>58</sup> Refer to Q14 of the Questionnaire, Appendix 4

compliance and ideally, prevent their repetition. When co-joined to the finding that 75% of companies have corrective and feedback mechanisms, it can be seen that the majority of companies are instituting capacity building measures. Many respondents specifically noted the term of 'continuous improvement' as an indicator by which they adjudged themselves (a term integral to the attainment of ISO). Company 29 noted its belief that whilst they had had no incidents of non-compliance to date, "*we would take corrective action and build into the review cycle*", incremental progression being a measure of the efficacy of their governance strategy. Such strategic philosophy must be applauded for its vision yet arguably should constitute the norm and not the exception.

### ***Drivers for Reporting***

Within the literatures it is suggested that key drivers for governance and reporting thereof, were operational relevance, social concern, stakeholder pressure and anticipation of, or actual, regulatory obligation<sup>59</sup>. It was, therefore, assumed that when probed as to their primary motivations for reporting, such drivers would be acknowledged and consequently these four options were given within the questionnaire.

The findings of the questionnaire revealed that there was strong identification with these drivers; nearly half of all respondents viewed multiple factors as constituting primary drivers for reporting. This was anticipated given the complexity of individual corporate context and activity. There were, however, two principal factors highlighted as being of pivotal importance (Figure 5.14), shareholders and social accountability. The importance of shareholders has been explored previously in the policy context and its rationale is of equal applicability here. Just under 60% of all respondents viewed their primary motivation as being that of social accountability. Given such a high proportion of respondents, this would appear to confirm the pressure which such social expectation is exerting on corporate attitudes, as conceptually outlined. It does however, also highlight inconsistencies in the stated drivers for corporate response. Just under 23% of consumers and 38% of wider public interest groups were noted as being consulted on issues of corporate environmental

---

<sup>59</sup> Chapters 2 and 3

strategy. This indicates that whilst constituting a primary driver for reporting, there would appear to be an apparent formalised lack of communication between the primary drivers and companies themselves.

A significant number of respondents have also, tellingly, reconstructed their perception of social accountability to incorporate employees and shareholders but, not other, public groupings. For many sample companies, it could be argued that a legitimate case exists for extending status or standing beyond that which they appear to acknowledge. The current, arguably limited, scope for stakeholder engagement which these companies demonstrate may be understandable, given the limited sphere of accountability that companies will position themselves but does poses the question, however, of whether such relatively exclusive approaches can or do adequately fulfil public notions of how accountable companies should be.

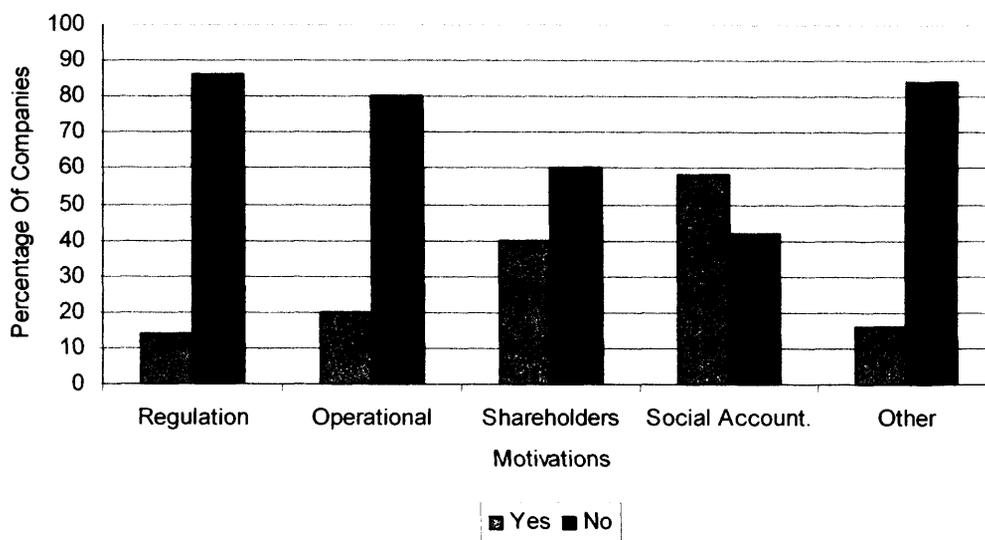


Figure 5.14: Reporting Drivers: Respondents

### Regulation

Only 14% of respondents cited regulation as being their primary motivation for reporting. This replicates the low acknowledgement given in policy analysis and would appear to contradict the experience of many companies subject to significant environmentally related regulation. It must be asked again, why would companies not cite regulation as a primary driver when it is openly acknowledged and prioritised within environmental reports and usually constitutes a driver for particular operational responses? A potential rationale

for this has already been alluded to, in relation to policy acknowledgement, but equally applicable in this context: appearing to be overly cognisant of regulation undermines the profile of companies constructing an engaged strategic responsibility. This is particularly the case when so great an emphasis is currently being placed by the state and corporate sector on the importance of maintaining self-regulatory control in the private sector.

It is also important to consider that there is little actual environmental regulation, currently in force, to be explicitly said to be compelling such strategic disclosure. The potential imposition of, or even desire to pre-empt such regulation may nonetheless serve to drive such action but need not be acknowledged as such.

#### *Operational Concern*

Whilst 93% of companies' declared the environment to be operational significant, less than a fifth viewed operational concern as driving corporate reporting. The finding seems still considerably lower than expected. So low an acknowledgement of operational concern has implications for the CGE imperative of construing environmental governance as business rationality. To not acknowledge operational activity as a basis for disclosure would appear to undermine the message the government is trying to relay (and many companies themselves state) that there is a corporate governance and commercial compunction for good governance in this context.

#### *Competitiveness*

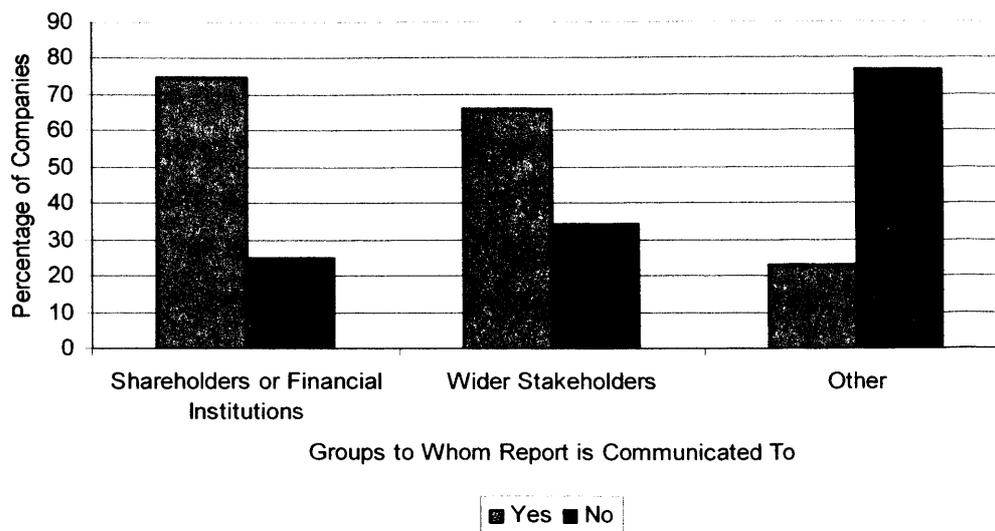
Four key stakeholders, identified through the literatures and corporate papers themselves, were provided as answer options for respondents. It was anticipated that individual companies would nonetheless potentially have other factors they perceived as being of importance. The responses demonstrated a variety of such factors some of which were common to many whilst others particular to their operational circumstances. Perhaps most intriguingly, and as an adjoin to what has just been discussed, the competitive case for reporting was explicitly recognised by few companies – whilst we have seen the social case being created, few companies expressly cite their primary motivation being directly commercially driven, despite the recognised potential of this. The corporate reticence to highlight the economic rationality for action is borne

principally, it is suggested, and as was alluded to previously, out of the fear that to do so will not be socially acceptable. That companies must report out of a sense of social duty, not business interest, is still a prevalent issue, though noting that the former provides an indirect manifestation of the latter.

For those companies who have made such explicit acknowledgement, the direct business case was stated through motives such as '*winning new business*' and '*reporting is one element of environmental leadership (core value)*'. Interestingly, companies also declared that building relationships with stakeholders was a valuable exercise for the company, not just for environmental governance but for the competitiveness of their operations. These rationales are significant indicators of what could be utilised to further motivate those companies presently not engaged.

### **Communication of Report**

Having considered who does or does not engage in reporting, the scope of such disclosure and underlying corporate perception thereof, focus switches to who exactly such disclosure is being communicated to, or targeted at. The findings confirmed much of what was anticipated given previous responses and their analysis, and prior literature expectation also. Given the established corporate governance model of disclosure responsibility to shareholders, it was unsurprising that such stakeholders were viewed as the primary target for such reporting. This would also be in accordance with their status in both policy and reporting motivational approaches.



**Figure 5.15: Questionnaire: Report Composition**

Aligned with the previous findings that both stakeholder and financial consultants were key motivations for policy and reporting, 75% of companies communicate their environmental report to these two primary stakeholder groupings (Figure 5.15). Significantly, nearly two-thirds of all respondents also note that they report to 'wider stakeholders such as consumers, public interest groups etc', this level of wider communication would be expected, given the importance ascribed within most literatures to these groupings<sup>60</sup>.

What arguably distinguishes CGE from wider corporate governance, is the nature of wider stakeholder influence. Within the second and third categories of stakeholder, 'wider stakeholder' and 'other', a broad range of stakeholders to whom business directly communicates, were identified. A range of established stakeholders, in particular, regulators/government, were noted as key audiences for reporting. This was, however, matched, if not surpassed, by less established and more divergent groupings such as scientific and environmental institutions and NGOs, the public/society, academic, consultancy and benchmarking bodies. The inclusion of the latter groupings highlights corporate awareness that they are being scrutinised by a variety of stakeholders, who directly or indirectly, can influence corporate policy.

<sup>60</sup> Nonetheless, only 40% actually see such stakeholders as primary motivations for reporting (Figure 5.14). The presumption would appear to be that whilst noting their interest in viewing such reporting, companies do not apparently perceive or at least acknowledge such groupings as being primary drivers for such disclosure.

Of particular note, was the prominence accorded to employees, a primary stakeholder as noted by many respondents. The status of employees within CGE is interesting because of the marrying of internal and external roles which employees assume. Employees are internal company agents, perhaps even shareholders, yet also members of the public and interest groups, bringing to their position a combination of societal and business interest. In this respect, employees can also act as a benchmark for companies in terms of how they perceive their company to be performing.

## **Section 5: Governance Review**

---

### **Consultation and Review**

Specific attention was focused on the role of consultation and review as providing legitimacy to the governance being constructed. By exploring consultation, the range of stakeholders who were integrated into the strategic process, could be assessed. The issue of review also provides an indication of the willingness of companies to subject themselves to independent scrutiny and the perceived legitimacy which this creates.

Respondents were specifically asked to highlight whom they have sought to engage in consultation. A selection of options were provided within the questionnaire: employees; financial stakeholders; consumers; wider public interest groups; regulators; trade associations. Apparent from the responses provided, were markedly disparate persons and bodies being engaged in consultation over environmental governance. The findings indicate that all of the aforementioned persons and bodies were widely consulted. In addition, however, aside from the stated options listed, respondents identified other key groups. In particular, external advisers: '*environmental management consultants*', '*outside consultants*', '*Independent Environmental Advisory Board*', '*Our Independent Advisory Board*'; '*academics*' and '*external experts*'.

These reflect those persons who whilst not, arguably, perceived as having stakeholder status by certain companies, were nonetheless consulted. This is interesting for several reasons. Firstly, the fact that companies do not perceive academics or experts as being stakeholders, delimits their perception of relevant interest or concern to the company. Secondly, evident within many respondents' data was the implication that whilst they recognised the validity of certain stakeholders, there was no automatic assumption of the need to accommodate such knowledge or expertise. It is from external stakeholders such as consultancies and Advisory Boards, that companies would appear to be seeking assistance in strategic direction. Whilst such entities unquestionably represent bodies of knowledge, it implies that companies are balancing or prioritising knowledge claims; those whom they engage on a professional capacity, arguably appearing to engender greater trust and expertise. It would also seem to confirm what was conceptually raised, that stakeholders are being 'ranked' in importance, subjective to individual company perspective. The notion of status is subsequently explored further.

### **Stakeholder Status**

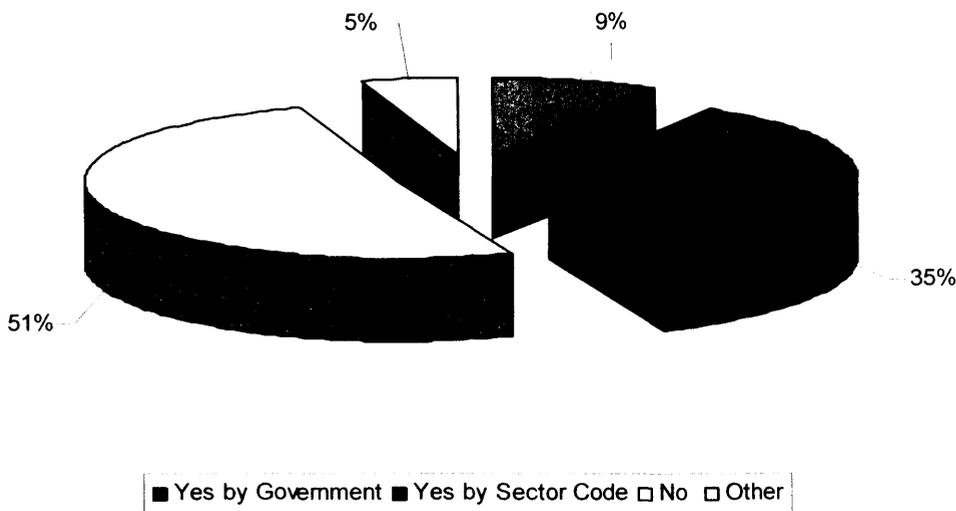
The efficacy of consultation strategies requires representation from differing spheres, interests and levels of power. This incorporates both public sector representatives such as government agencies and private entities such as business associations and collective bodies; from employee to customer and public interest groups; professional bodies of associated management consultancy, scientific and academic derivation. Respondent comments on whom they consult, suggests the diversity of stakeholders is being reflected in terms of corporate engagement.

Perhaps most important to undertaking consultation, however, is its integration or engagement of both internal stakeholders and those of external, representation. This brings additional accountability and openness to corporate governance. Developing the role of external consultation to its next level, typically, some companies noted their creation of advisory panels, which comprise solely of external persons of socio-environmental and scientific status. The use of such Panels or Advisory Boards, are symptomatic of the developing unveiling of corporate governance, engendering greater

accessibility to the strategising of previously confidential thinking. The stakes are of course higher once exposure of this nature is initiated but it is precisely because environmental governance has become so critical to certain corporate reputations, that such exposure is facilitated. Companies will of course still protect their status, economic and social, and issues of commercial sensitivity are doubtless still guarded. The point of interest, however, is that such Panels are still characteristically autonomous and therefore free to scrutinise and criticise where necessary. Such a mechanism engenders public perception of greater accessibility and accountability – critical, given the reality of continuing mistrust or scepticism levelled at either corporate or political spheres, highlighted in the literature, Chapters 2 and 3.

#### *External Audit and Review of Reports*

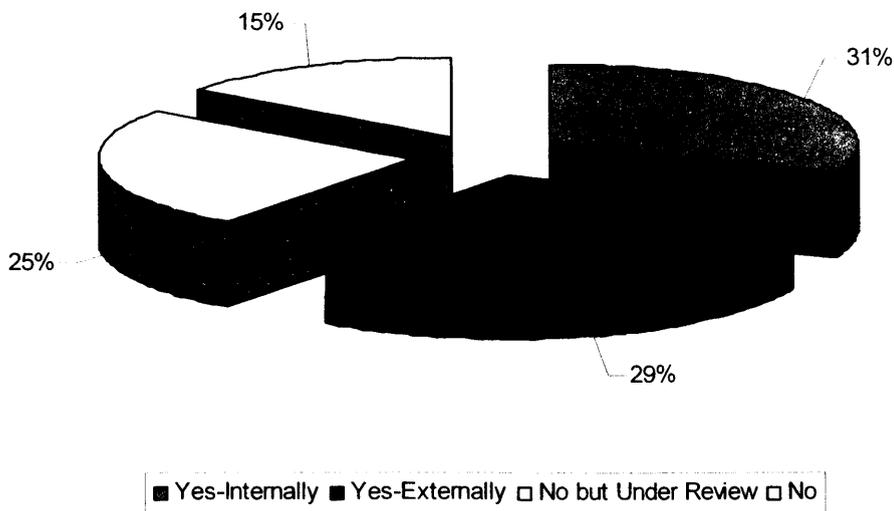
Conscious of the fact that disclosure centres on more than the mere production and dissemination of information, respondents were asked their opinion as to the requirement for systematic review of the disclosed data. The questionnaire responses indicated that an overwhelming 92% of those companies who do report, review their corporate environmental strategies. There was an equal division between those who did so continuously and those who did so on an annual or bi-annual basis, as can be seen in Figure 5.16, below. A further 6% of respondents were reconsidering their lack of review capacity, leaving only a very small minority of 2% with no existing or future potential for environmental governance review. This suggests that companies recognise the value of ongoing scrutiny of their disclosure. Without the capacity to review, governance is serially undermined. The level of positive response to governance review, however, whilst laudable, provides no guarantee of the quality or merit of that which is being assessed. It is important to note that review mechanisms are only useful when the governance which precedes it, is equally adequate.



**Figure 5.16: Review of Corporate Strategy: Respondent Findings**

### *Auditing*

When asked whether auditing was undertaken on such environmental disclosure, less than 60% of respondents answered in the affirmative. Such a high level of non-review, two-fifths of all respondents, suggests that the environmental governance and disclosure thereof, where it exists, is still not subjected to the same level of scrutiny and rigour, as its more established financial counterpart. It is pertinent to ask therefore, why companies perceive this as acceptable, and/or if such data is verifiable, why companies are not eager to do so? Further scrutiny of the processes of auditing actually being undertaken by the 60% of respondents revealed there was a nearly equal division between those who undertook external auditing, and those content with internal scrutiny (Figure 5.17). In totality, therefore, only 29% of respondents engaged in external verifications, despite the importance academic, political and business literatures attributed to such scrutiny.



**Figure 5.17: Audit of Strategy: Respondent Findings**

In the context of both web research and questionnaire analysis, the choice of internal-only auditing would appear to be a consequence of several factors. For some companies, their environmental capabilities may not be sufficiently developed or indeed, are completely non-existent; auditing in the absence of subject matter would therefore seem a moot point. Addressing the former, from both web-based research and the answers of respondents, it would appear quite common for companies to undertake their own internal audit as a prelude to outside review and accreditation. Companies would also appear to be hiring consultancies, on an increasing basis, to either create or augment their capabilities, which arguably performs a degree of auditing of company strategy, though how open this is to public scrutiny is variable.

For those not engaged in achieving such standards or auditing per se, it can be inferred that reticence exists, in terms of being exposed to external scrutiny or oversight. The issue of added legitimacy, which independent auditing can bring, is, therefore, not of priority concern or relevance to such companies. The benefits of review would be out-weighted by the perceived disadvantages of exposure to such scrutiny. For those who have capabilities in place, it is, however, to be questioned why such legitimacy is not being pursued.

## *Regulation*

It was anticipated that given the repeatedly cited demand for self-regulation, companies would insist on continuance of the self-regulatory policy context for CGE. Respondents interestingly however, were less reticent to see external regulation of environmental management strategies, with a nearly even split of respondents for and against. That two-fifths of respondents perceived benefit to accrue from the imposition of codes of conduct or comparable prescriptive standards (soft regulation) is an interesting finding given the business community is conceptually defined as strongly self-regulatory.

Speculating as to the explanation for this, many companies subject their systems to external review through accreditation and may, therefore, be willing to see a level playing field established to eliminate potential competitive advantage for those who do not employ equal environmental standards. Whilst only 5% wanted government intervention indicating that legislation remains a rejected corporate option, another 40% wished to see other forms of external review such as codes of conduct established. Strongly suggested within respondent literature and answers to the questionnaire, was the belief or perception that there is too great disparity between those companies who act and those who do not. Given that the 'free rider' scenario was evidently an issue of concern in this context, reticence to see objective standard-setting was considerably less; the suggestion could therefore be made that companies themselves are aware of the current limitations to self-regulatory practice in environmental governance.

## **Section 6: Overall Findings**

---

The findings demonstrate that the level of corporate environmental engagement *per se*, is greater than has ever historically been the case. CGE is unquestionably established on the corporate radar; even companies who have not sought to constructively engage with governance of the environment themselves, nonetheless, recognise that there is significant societal expectation that they do so. It would also be reasonable to state that in qualitative terms, for those companies who are engaging with CGE, the nature of what is being constructed is significant for its existence, scope and ambition. That the

majority of questionnaire respondents have only developed CGE within the last five years, indicates the increasing importance it has assumed in recent times. There exists a high level of corporate recognition of the importance of strategically addressing environmental issues and many companies are generally striving to develop governance commensurate with such strategic objectives. There are also many positive examples of companies establishing ambitious environmental targets and developing governance frameworks potentially capable of delivering on such objectives. It is important to acknowledge the merits of those who are seriously attempting to engage with environmental issues and construct governance commensurate with their stakeholder expectations.

Nonetheless, there remains significant scope for development within current corporate engagement with governance of the environment. There remains a high level of non-engagement or minimal engagement, reflected by those companies who do not have key elements of CGE such as policy statements, reporting or management systems to address their environmental impact and responsibility to addressing this. Significant disparity exists in the quality of what is being constructed or undertaken; environmental disclosure represents a key area for such divergence. It must be recognised that whilst companies have 'engaged' with environmental issues in such contexts, they have not uniformly done so in a manner commensurate with general stakeholder expectation, outlined within the template for CGE. The combination of high levels of non-engagement with specific mechanisms, for example, lack of environmental management or disclosure, coupled with the variable adequacy of what has been engaged with, does not portray a collective, engaged business community.

On the evidence of these findings, it is apparent that the response to the challenge of self-regulatory engagement is not that which broadly resonates with the conceptualisation of what CGE should entail in terms of specific mechanisms comprising a template for good governance (FTSE4GOOD). Chapter 6 continues the analysis of the findings, to explore the overarching context for current strategic engagement; whether, despite the adequacy of take-up of specific mechanisms of CGE, there exists an overall desire or ambition on the part of companies to construct what CGE has the potential to

be, and deliver the paradigmatic change which constitutes the central question of this thesis.

# 6

## CORPORATE GOVERNANCE OF THE ENVIRONMENT: STRATEGIC APPROACHES

---

### Introduction

The preceding chapter outlined the nature of business engagement with key components of CGE, the individual elements of good governance which were conceptually argued to be integral to the delivery of effective corporate governance of the environment. The findings showed that considerable disparity existed in terms of how business sought to deliver such elements and the divergence between conceptual ideal and actual reality of corporate practice is evident.

Placing this analysis within the wider context of business engagement, this chapter seeks to move from the specificity of governance to addressing the overarching strategic approaches companies have adopted to governance of the environment, within which such elements are situated. The question this chapter asks is whether, despite the lack of qualitative and quantitative collectivity of response, companies are nonetheless strategically pursuing (effective) environmental engagement, even if as a whole their governance mechanisms would generally appear ill-equipped to deliver it?

Despite the sheer enormity of data which was collated from web and questionnaire research, it was not this that posed the greatest challenge to analysis of the empirical evidence. The major analytical difficulty was, instead, presented by the extent to which corporate responses diverged and the often lack of any congruity in subject-matter or scope. It was, of course, anticipated that disparate business operations and size may inevitably result in differing strategic frameworks being constructed which are both specific to the corporate entity but also cognisant of wider corporate responsibilities. Nonetheless, the degree of disparity was immediately evident and reinforced the perception

which many commentators had noted that the lack of regulatory prescription would result in such diversity (Case, 2000; Gibson, 2000).

Of question to this research, however, is not whether disparity is intrinsically faulted but whether such disparity has given rise to qualitative differences which undermine the objective of engaging the business community in collective pursuit of effective corporate governance of the environment. In seeking to address this diversity of strategic response, it was decided to explore where commonalities could be established between companies, by way of providing an overall context for the nature of corporate response revealed; and answering whether paradigmatic change could yet be said to have been attained.

## **The Terminology**

Arguably the most superficial of such divergence lay in the titles given to such strategising. Box 6.1 highlights the recognition amongst companies themselves, that many divergent titles are used for what is essentially, substantially, the same information. Where companies were adopting an approach that was in substance the same, then such companies were categorised collectively. The categories, as will be noted below, allowed for commonality of approach by grouping titles which achieved the same qualitative approach e.g. 'Sustainability' governance encompassed 'Environment & Community', 'Corporate Citizenship', 'Sustainability/Sustainable Development' and 'CSR'.

***Some companies use the expression corporate social responsibility to describe what they do to help the community, protect the environment and so on. AWG prefers to refer to its commitment to sustainable development instead. But the terms are similar and you will find...mush of the information that in other companies will be labeled corporate social responsibility or CSR***

**Box 6.1: AWG website: Sustainable Development section**

The caveat to this, however, was the finding that companies also used common titles to address very differing qualitative approaches. It was not uncommon for companies to label their strategic approach 'CSR' yet to diverge substantially in the quality of what was encompassed. To address this arguably more significant difference in the nature of corporate response, the decision was taken to categorise the company on the basis of what it was largely trying to

achieve. Companies, therefore, who used the title of 'CSR', yet in reality of what they addressed had only constructed nominal governance, were accordingly grouped as the latter and not the former. This provided a more accurate portrayal of the context for corporate response, in keeping with this research's key aim of addressing what companies are actually undertaking, the qualitative element of examining whether paradigmatic change has actually occurred.

It is important, nonetheless, to acknowledge that significant qualitative differences remain even within such categories, in terms of what companies were or were not constructing in CGE. Far from attempting to mitigate for such divergences, this qualitative disparity appears as one of the central findings of this research and testimony to the reality of current CGE.

### **Section 1: The Classification of Governance Approaches**

---

Given the significant variation in scope within current corporate engagement with governance mechanism, as outlined by the findings of the previous chapter, can any discernible trends be discerned from such engagement? This chapter seeks to address where commonality exists within the CGE being constructed by companies and what this says about the nature of corporate strategising in this context. This analysis draws upon the findings of the previous chapter as context for this wider analytical perspective of focusing on the overarching strategic approaches to CGE.

The principal criteria for assessment of what classification companies belonged to, centred on:

- How the company perceives and labels its own governance approach; this is not taken as definitive, merely a contributory factor.
- Whether the substance of what it encompassed, reflected the label given to it by the company, for example, did a company advocating 'Environmental Management' have a formal or informal EMS?
- How did the approach equate with the template for CGE outlined within Chapter 3; were elements or mechanisms of governance undertaken?

By using the criteria for classification, discernible trends of governance approach emerged from the analysis; it was on the basis of these trends that the classifications were created and into which companies were grouped, with the aim of providing clarity as to nature of strategic approach adopted by respective companies and attenuating disparity with other positions. Overall, eleven key groupings were identified, from which five key over-arching CGE strategies could be designated, encompassing what I discerned as the principal approaches to governance, constituent companies were adopting (Figure 6.1, below).

**Nominal Governance**

- Nothing Discernible
- Community & Social
- Environmental Impact Statements

**Traditional Governance**

- SHE/HSE/EHS
- Environmental Management

**Sustainability Governance**

- Environment & Community/Community and Environment
- Corporate Citizenship
- Sustainability/Sustainable Development/Corporate Sustainability
- Corporate Social Responsibility/Corporate Responsibility

**Commercial Governance**

- Environmental Leadership
- Environmental Services Provider

- The Mix!

**Figure 6.1: Categories of Governance**

These categories are not rigid or perceived as definitive; they are organic descriptions which emerged from the empirical research and which evidenced broad commonalities in approach. In essence, they are an attempt to provide clarity and insight into the multiplicity of governance approaches arising from the analysis. What emerged from the research was a classification of governance approach and scope, (reflected in Figure 6.1 and 6.2), ranked very broadly in terms of qualitative assessment of what these differing approaches could deliver in terms of corporate governance of the environment.

### **Nominal Governance**

- Low corporate priority accorded to addressing environmental issues
- Lack of clear corporate mission or value statement
- Acknowledgement, if at all, of environmental responsibility but not adequate to constitute a policy statement; the one exception being those who provided what could be categorised as environmental impact statements
- No formal EMS
- No disclosure
- No verification or external consultation with stakeholders
- CGE not a corporate governance issue

### **Traditional Governance**

- Perception centres on addressing environmental impacts and management, typically as a regulatory or SHE issue
- Policy provision centring on environmental and/or SHE management
- Formal EMS
- Disclosure in the form of Environmental Management or SHE Report
- Good consultation, in particular, with regulators.
- Verification common through EMS and reporting provision.
- CGE can be viewed as a distinct strategic issue and not embedded within wider governance

### **Sustainability Governance**

- Perception of need to address challenge of sustainability, corporate responsibility and/or CSR; environment typically addressed as one element of wider corporate sustainability strategy
- Policy provision; separate environmental and social policies and/or sustainability policy statement
- EMS sometimes; where EMS is undertaken, this is part of wider management initiative and not demonstrative of all that is being undertaken
- Disclosure: Sustainability reporting
- Consultation with wide range of stakeholders
- Verification not always undertaken for sustainability reporting
- CGE embedded or the potential to be embedded within wider corporate governance

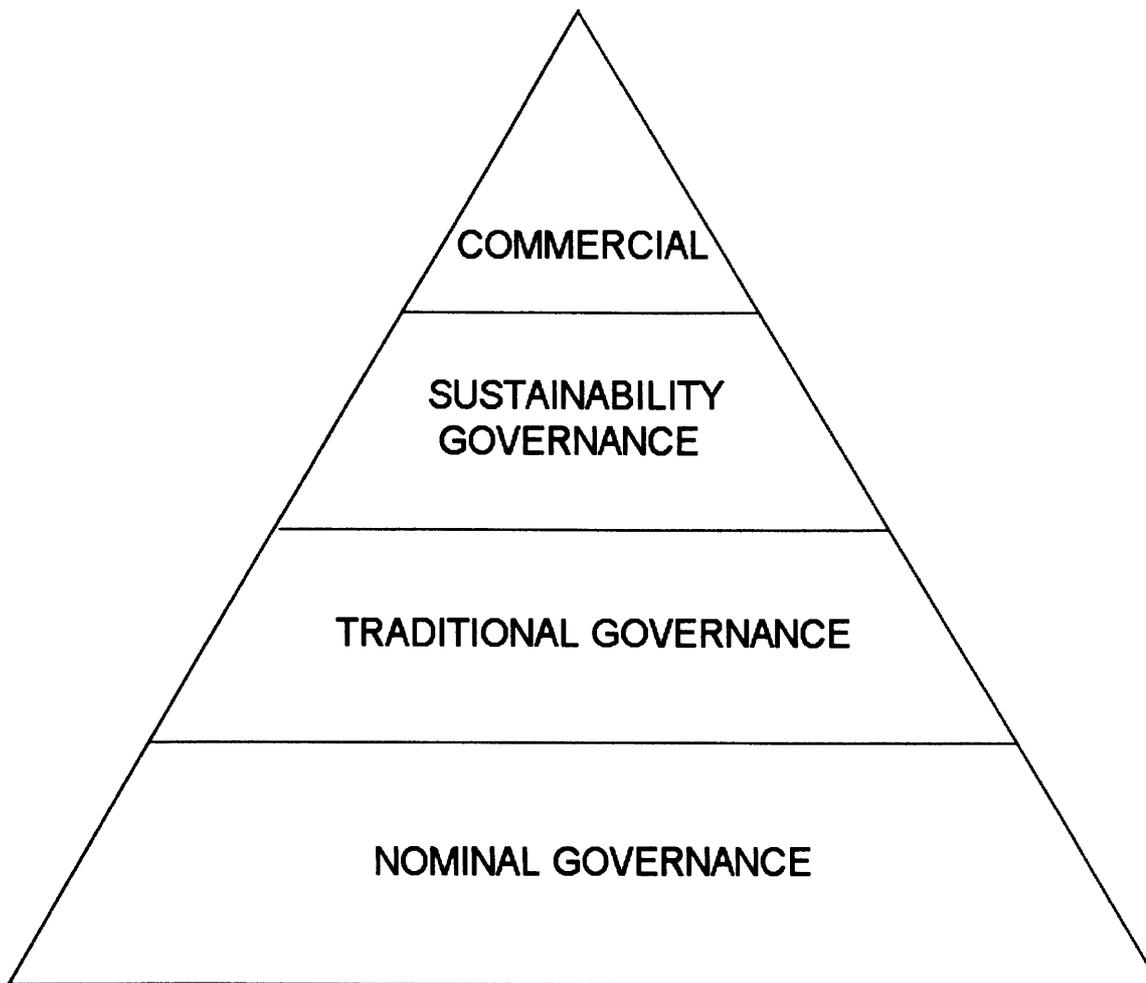
### **Commercial Governance**

- Perception of environment as a commercial / competitive driver for governance
- Policy provision
- EMS
- Disclosure; seeks to make link between commercial performance and sustainability
- Consultation with stakeholders; notably with state and industry counterparts as part of more business focused rationality for governance
- CGE embedded within wider corporate governance

**Figure 6.2: Criteria for Assessment**

The four overarching categories denote varying levels of engagement which the companies within are undertaking; they are in essence a reflection of levels of governance which could be surmised from the measures and framing which companies were using for CGE, using the template of Chapters 3. At the lowest level of engagement in the classification is 'Nominal Governance', which is, as its title denotes, a reflection of the limited scope of governance being undertaken. At the other end of the spectrum is 'Commercial Governance' reflecting the most progressive demonstrations of corporate environmental engagement evidenced through the research. In the middle tiers are Sustainability and Traditional Governance reflecting differing approaches, perhaps levels, of governance (refer to Figure 6.3, below). The relative merits or otherwise of these approaches will be subsequently explored.

It is important to note, however, that whilst there exists a qualitative assessment of each governance approach category, this assessment is a generality of the strategies being constructed. Two key qualifications are made to the governance classifications, outlined in Figure 6.2. Firstly, there exist significant disparities in governance ambition within each approach, with the notable exception of those companies categorised as having 'nominal governance'. Secondly, there are examples within each governance category of those who are demonstrating exemplary practice, in terms of the standard otherwise evidenced within their category. The qualitative structuring of the classifications of governance is, therefore, based on the recognition that there are exceptions to the category 'rule' but that on the whole, the assertions reflect the standard of CGE evidenced by companies.



**Figure 6.3: Classifications of Governance Approaches**

### **The Utility of Classifications**

The classification of strategic approaches to CGE is an attempt to marry the need for more empirically grounded research which Hass, amongst others, have highlighted (1996). In doing so, it used the conceptual discussions of what CGE could, arguably should, incorporate (as outlined within Chapter 3) to inform the assessment of the nature of actual corporate practice; it did not, however seek to impose pre-defined classifications on the basis of this. By using the empirical findings, themselves, to provide the basis for subsequent classification, it, therefore, allowed for a more inductive and critically, empirically robust, assessment which could be aligned with the conceptual arguments for what such findings revealed qualitatively about the reality of current CGE. This approach to analysis sought to avoid, or at least minimise, the difficulties which Hass(1996) highlighted, that pre-defined classifications

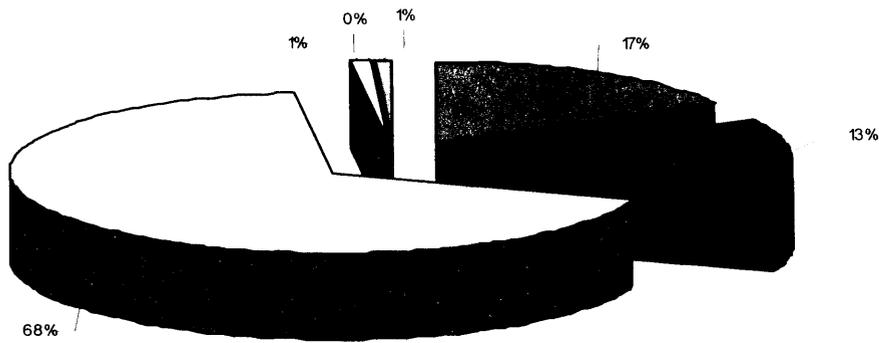
can create a reductionist approach to defining corporate strategy. There remain, however, issues with the attempt to provide any classification system, as the findings will reveal. The complexity of current CGE engagement, the drivers which influence it and the content of what is subsequently constructed, are not easily described by singular classifications; as Schot (1992) himself noted, whilst the classifications may be distinct, the subject being examined, is not so readily defined.

The classifications are a reflection of current CGE strategy; they are an attempt to provide a further contribution to understanding the reality of current corporate practice, from which further analysis can develop. The findings of Chapter 5 highlight clearly, that there are many contextual factors which create divergences in corporate practice, perception and ambition; the sectoral analysis later in this Chapter, also seeks to elaborate upon this. The classifications attempt to include such contextual issues within their overarching categories but as with any form of classification, overlapping can, and does, occur. Classifications are, therefore, used to illuminate the generality of what current CGE encompasses but acknowledge that they are not without conditionality. The importance of such classifications in analysing strategic development within CGE, is subsequently discussed later in the Chapter.

### *Overall*

As can clearly be seen from the table below (Figure 6.4) no single strategic approach dominates in governance terms, there being a multiplicity of self-selected frames for governance by companies. CSR does, however, constitute the single most popular approach but this comprises only 20% of all companies. The second most dominant approach was that of a mixed governance strategy, comprising a combination of two or frequently more governance categories, while the remaining companies evidenced a relatively even adoption of other strategic approaches.

## FTSE100



## FTSE250

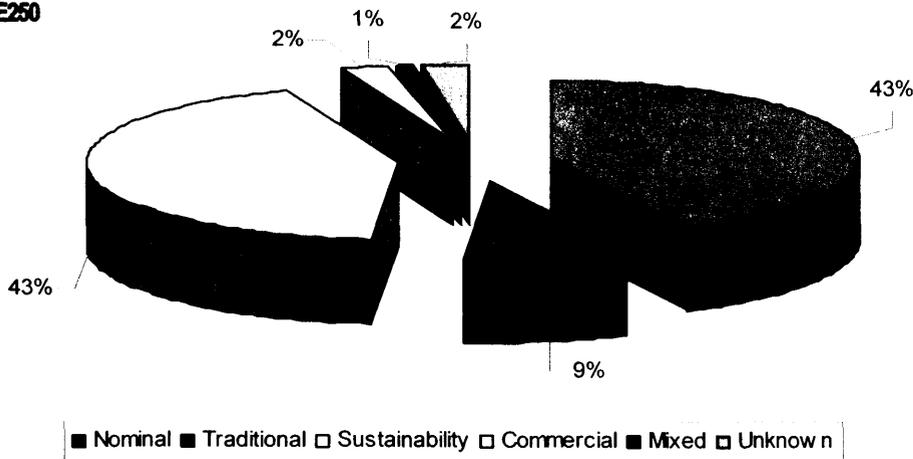


Figure 6.4: Overarching Strategic Approaches

The disparity in approach indicates just how differently framed environmental governance is, as will subsequently be examined. Noteworthy, however within this initial analysis, however, is the fact that 13% of these top indexed companies still have no form of corporate governance of the environment apparent on their websites. In contrast to its 100 counterpart, analysis of the FTSE250 (Figure 6.4) demonstrates a significantly greater percentage of companies – 37% - with no environmental governance profile. In addition 21% have only environmental impact statements (EIS), the minimum in governance strategy as will be subsequently examined. In total therefore, well over half of all FTSE250 companies have minimal, if any, forms of environmental governance, concretely dispelling the perception of widespread corporate environmental engagement. Addressing the categories individually, analysis is made of the utility of such approaches.

## Section 2: Nominal Governance

Addressing what I have categorised as approaches that provide minimal, if any, governance, three key framings of strategic approach were encompassed

within this category: 'Nothing Discernible', 'Community and Social'<sup>61</sup> and 'Environmental Impact Statements'. Overall, 18 companies within the FTSE 100 and 103 companies within the FTSE250 adopted this approach; this comprising of 35% of the total FTSE research sample<sup>62</sup>. Noteworthy is the fact that this approach of non-engagement, is the second most dominant approach in both FTSE100 and FTSE250 Indexed companies; the level of nominal governance is significant when considering that the assumption, prior to this research, had been one of an environmentally-engaged business community.

The characteristics common to these approaches is that they seek to achieve little, if anything, in terms of corporate engagement with environmental issues, in addressing stakeholder expectation in this context. Only one element of the governance template, examined within Chapter 5, is typically encompassed within this approach, typically that of policy provision. Such policy statements are, however, only to be found in those undertaking Environmental Impact Statements and, to a significantly less degree in Community and Social approaches.

### **Nothing Discernible**

This categorisation denotes those companies who, at the time of the research, had no discernible environmental governance profile online. As indicated, a significantly high percentage of companies in both Indexes fell into this group: 13% and 37% of the FTSE100 and FTSE250 respectively<sup>63</sup>. Included within

---

<sup>61</sup> Noting that the focus of this research was that of environmental governance. For the majority of companies this necessarily involved association with social or community based issues. For a small number of companies, however, the strategic decision has been made to address socially based subject-matter but not environmental, hence the categorisation of nominal governance.

<sup>62</sup> Percentages have been rounded up and down to the nearest whole figure. It is also noteworthy that 2% of the total research sample comprised of 2% of companies, whose websites could not be accessed and, therefore, their governance strategy could not be determined.

<sup>63</sup> As a caveat it must be stated that it is possible that the companies in question stored the information in exceedingly inconspicuous portions of their site, surely defeating the purpose of disclosure, or they did not have such strategising. It must be reiterated that it is feasible for

this category were an exceedingly small percentage of companies whose websites were inaccessible due to problems of administration, or the requirement for special authorisation. The latter requirement rendered information indiscernible precisely because the vast majority of people, the researcher included, would not have such authorisation.

### **Community and Social (No Environment Coverage)**

Not all companies are willing to engage in environmental strategising. This category encompasses those companies who have only sought to engage in matters of social responsibility and/or community issues (Table 6.1). Of interest is why companies frame their activities in this area, in terms of 'community', 'social', 'safety and health' and various combinations thereof, yet distance themselves from environmental issues. In environmental governance terms this is akin to no strategic consideration at all.

<b>Company</b>	<b>Sector</b>	<b>Governance</b>	<b>FTSE</b>
Amvescap	Financials	Community	100
Sun Life & Provident	Financials	Community	100
Arcadia Group	Cyclical Services	Ethics	250
Galen Hldgs	Non Cyclical Goods	Health and Safety but no Environment	250
GWR Group	Cyclical Services	Community but no environment	250
Luminar	Cyclical Services	Community but no Environment	250
Nestor Healthcare Group	Non Cyclical Goods	Social and Health	250
Northern Foods	Non Cyclical Goods	Social but not Environmental	250
Northern Rock	Financials	Social but not Environmental	250
Securicor	Cyclical Services	Community but no Environment	250

**Table 6.1: Examples of Indexed Companies Adopting This Approach**

It may be that most of the companies listed in Table 6.1 perceive the needs of the communities in which they operate as social rather than environmental. This is not a distinction that many commentators would advocate; yet, it arguably forms a prevalent rationality in this context. Focusing on the 'social' can also reflect the operational activity of the company. For example, Nestor

---

companies to have such strategising and not advertise it within the website but again the issue must be addressed, what would the corporate motivation be for this?