The CERES Principles: Does Adopting a Voluntary Code of Management Produce Corporate Accountability?

by

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B.A., Environmental Studies
University of California at Santa Cruz, 1992

Submitted to the Department of Urban Studies and Planning
in Partial Fulfillment of the
Requirements for the Degree of

MASTER IN CITY PLANNING
Environmental Policy and Planning
at the

Massachusetts Institute of Technology

June 1995

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JUN 27 1995
THE CERES PRINCIPLES: CORPORATE ACCOUNTABILITY THROUGH A VOLUNTARY CODE OF MANAGEMENT?

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ABSTRACT

This thesis attempts to answer the following question: to what extent does endorsing the CERES Principles increase a corporation’s legitimacy or public acceptance of corporations’ activities? Answering this question depends first upon an analysis of the social theory of corporate legitimacy and current trends in non-regulatory environmental codes of management.

To function in society, corporations require power over resources which they can retain only by maintaining public approval. In the 1970s, the social responsibility movement attempted to use this need for public approval to make corporations both more accountable to the public and more responsive to social concerns. About the same time, environmental groups’ awareness pressured companies to adopt more active roles in their resource use and management strategies. At that time, when dissatisfaction with corporate environmental performance surfaced, regulation increased. Command-and-control and market-based strategies became common tools for controlling corporate activity; however, an alternative has recently evolved, which involves controlling corporate behavior from outside the firm via voluntary environmental codes of management. Although these codes are non-regulatory, market and social pressures can create de facto regulation of corporate activity. CERES is a particularly interesting voluntary code of management because it is promulgated by a non-industry, non-governmental coalition of investor and environmental groups. A company endorsing the Principles commits to continual environmental improvement and to the disclosure of environmental information not required by law.

Environmental groups voice public expectations about environmental behavior. They are thus capable of affecting future legislation and of harming a corporation’s reputation. Interviews with environmental groups reveal that they are both supportive and critical of CERES. Criticism evolves primarily from general concerns with voluntary reporting, auditing, and definitions of environmental responsibility. Interviews also indicate that CERES has affected individual firm behavior but has had an even larger influence on how society at large defines and evaluates corporate environmental responsibility. This result can also be termed as affecting the social construction of environmental legitimacy.

CERES is one of many tools environmental groups utilize in their mission to improve and protect the natural environment. CERES has expanded public expectations by providing a vision of environmental responsibility to corporations and environmental groups. It has attempted to create a shared assessment of environmental values by engaging in dialogue with environmental groups, investors, and corporations. Finally, CERES has been a primary actor in defining and expanding corporate environmental norms.

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ACKNOWLEDGMENTS

I would like to thank my committee for their participation in this effort. I am especially thankful to my thesis advisor, John Ehrenfeld for the time he spent discussing the ideas in this work and for challenging me to stretch myself. His enthusiasm and confidence in my abilities motivated me throughout this research. Thanks to my reader and mentor Paul Levy for the genuine interest he showed in me throughout my studies at MIT, and to Jennifer Nash for her valuable insight into voluntary codes. My thanks are also extended to Henry Jacoby for his pragmatism and for introducing me to corporate environmentalism.

My closest friends, Kelly Corbet, Matthew Ostrower, Jennifer Hill, and Jeremy Weiss, provided constant encouragement and support throughout this process. Many thanks to Kelly and Matt who both contributed detailed and valuable comments on this thesis. My deep appreciation to Kelly for consistently offering me wisdom and balance. To Matt for faithfully motivating me and procrastinating with me. To Jenn for her warmth and contagious laugh. Finally, to Jeremy for his consistent patience and unwavering love.
Chapter One: Introduction and Background

1.1 Introduction

In the 1970s, many believed that a corporation’s profit motive was the only factor that dominated decision-making and that a clear distinction should be drawn between economic activities and societal goals. However, a contrasting view gained acceptance, as indicated by a speech made in 1969 by the Chairman of Common Cause (a socially-responsible business roundtable):

Today it is clear that the terms of the contract between society and business are, in fact, changing in substantial and important ways. Business is being asked to assume broader responsibilities to society . . . than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute more to the quality of American life than just supplying quantities of goods and services. Inasmuch as business exists to serve society, its future will depend on the quality of management’s response to the changing expectations of the public (Ackerman, 1975).

This opinion persists in current debates about the environment. It assumes that corporations do not operate in a vacuum and therefore have an obligation to society. This view was further articulated recently by a chemical company: “We don’t have the absolute right to operate a plant--we have the right to operate because the community permits us to operate” (Rayport and Lodge, 1991).

After 25 years of attempting to regulate companies to meet more closely the expectations of society, industry has emerged as both a prominent contributor to environmental problems and resource for solving them. This new business role has prompted many companies to proclaim the benefits of environmental conservation and management programs. Although the benefits of increased environmental oversight have often been framed in economic efficiency arguments, cost savings from reuse, conservation, and reduced environmental liabilities do not entirely explain increasing corporate adoption of environmental action.

Skeptics think the newly espoused environmental programs are public relations maneuvers or programs which provoke only marginal environmental changes. However, many of the activities corporations are undertaking through voluntary codes of environmental management--environmental auditing, public disclosure, and incorporating an environmental representative on the Board of Directors--are not widely publicized and often expose the firm to increased scrutiny. Why have companies sought to improve
environmental performance if they do not benefit from improved public relations and if savings are not direct? Companies have realized that a variety of stakeholders—from the general public to shareholders—can dramatically affect siting, insurance, purchasing decisions, and regulation. One way companies seek to appease these actors is to improve their environmental credibility, or in other words, to gain social acceptance as a legitimate environmental actor. One mechanism for gaining public respect and confidence is to go “beyond compliance,” or adding a level of accountability through increased disclosure, and commitment to continual environmental improvement. The CERES Principles are one of several voluntary codes of environmental management which companies have begun adopting in order to improve accountability. This thesis asks and answers the question of whether the CERES Principles provide a mechanism by which companies can gain social acceptance and environmental legitimacy.

1.1.1 Theoretical Explanation of Adoption of Voluntary Environmental Management Codes

Environmental organizations have frequently tried to convince firms to improve their environmental performance by making the argument that it is economically beneficial to adopt more extensive environmental management practices. Many companies have publicly affirmed the value added to their operations by doing this. The economic benefits a company can achieve from instituting such practices, however, do not fully explain the increase in corporate expenditures on environmental programs. Economic theories of rational behavior assert that opportunistic decisions will guide the firm to seek cost-effective pollution control efforts at a level which equilibrates marginal benefits of control and marginal costs (Pearce and Turner, 1990). However, as Hoffman demonstrates, historic trends in corporate environmental spending do not follow the shifts in regulatory and related environmental costs for optimum economic efficiency (Hoffman, 1995).

Rational economic theory also implies that companies, in an attempt to limit competitive disadvantage, will adopt environmental management practices only in relative unison. This proposition is consistent with industry’s introduction and adoption of numerous formal industry-wide environmental principles within the same time frame. Corporate environmental management programs like the CERES Principles, GEMI, PERI, Responsible Care, and the Business Charter for Sustainable Development, were all initiated between 1989 and 1991. Economic theory, however, does not explain why an industry under less economic pressure would adopt environmental codes of conduct before an industry facing a more direct economic pressure. Hoffman’s research indicates if industry action was based completely on cost,
it would be more plausible to expect the API (American Petroleum Institute) rather than the CMA (Chemical Manufacturing Association) to have first initiated its industry-wide principles in response to the dramatic increase in costs that they encountered. Or, at the very least, the API should have felt a direct threat to their industry from the sudden increase in costs in 1990 and designed an independent program tailored to their specific needs. Instead, they effectively copied the CMA program verbatim (Hoffman, 1995: p. 30).

Furthermore rational economic theory does not fully explain why industries facing drastically different optimal costs of environmental management would adopt cross-industry initiatives such as the CERES Principles.

Institutional theory suggests the source of corporate environmental reform exists beyond the rational economic model and firm boundaries (Hoffman, 1995). The external pressures on the firm for increased environmental management include competitor behavior, the government, and environmental interest groups. Hoffman notes that as the stakeholders concerned with corporate environmental responsibility have diversified and expanded, corporate structure and strategy has concurrently evolved (Hoffman, 1995). This thesis agrees with such institutional theory explanations of the external pressures which influence corporate environmental behavior. However this thesis submits that legitimacy theory, a subset of institutional theory, is also a predominant factor explaining corporate adoption of environmental management initiatives, particularly the CERES Principles. Legitimacy theory explains this phenomenon by submitting that 1) corporations require legitimacy, or social acceptance of their power, to exist; 2) to retain power and maintain legitimacy, corporations must respond to social pressure and evolving social norms; 3) the expanse of voluntary management initiatives indicates shifts in social expectation about corporate responsibility; 4) corporations respond to environmental initiatives in an attempt to gain environmental legitimacy, or the acceptance by society that the firm is operating in manner consistent with the public’s environmental expectations.

In the United States, environmental groups are the primary conduits of public environmental expectations. The government and corporations have largely accepted interest groups as representing certain constituency viewpoints. Environmental groups have influenced the construction of norms to which the EPA and corporations are responsive.
According to theories on their formation and influence, interest groups emerge from the declining legitimacy associated with power-wielding institutions (Lowi, 1979). An important aspect of interest group activity is that it “helps create the sense that power need not be power at all, control need not be control, and government need not be coercive... The inequality of power [is] always [a] gnawing problem in democratic culture.” This theory also states that interest groups became influential in the US because they could “deal with so many of the realities of power...Large interest groups and large memberships could be taken virtually as popular rule in the modern dress. And it fit the needs of corporate leaders, union leaders, and government officials desperately searching for support as they were losing...attachment to their constituencies” (Lowi, 1979: p. 53).

This thesis uses this explanation of interest group influence to explain why environmental groups are the predominant force influencing environmental norms, and are the major actors determining the ability of CERES to confer legitimacy on corporations.

1.1.2 Assertions and Hypotheses
This thesis asserts that corporations’ legitimacy in society is dependent on an ability to demonstrate congruence with environmental norms which are determined by environmental groups. An extension of this logic is used throughout this thesis: 1) environmental groups influence the construction of social expectations and the environmental norms to which companies must respond; 2) corporations must meet the expectations of constituencies to retain their power and legitimacy; 3) CERES is, in part, comprised of environmental groups and therefore has the capacity to influence environmental norms; 4) CERES has affected the definition and assessment of corporate environmental responsibility. By responding to changing environmental expectations, companies have responded to CERES; 5) CERES has been a instrumental actor in defining environmental responsibility and has influenced the social construction of “environmental legitimacy.”
1.2 Thesis Outline

This thesis is presented in nine chapters which are divided into two sections. The first section is comprised of five chapters and explains the theoretical underpinnings of corporate legitimacy, historical trends in social responsibility, regulatory and non-regulatory frameworks affecting corporate environmental action, and a description of the CERES Principles. The second section consists of four chapters. These chapters present the methodology used to probe the hypothesis, analyze of the results of interviews in which the question “Does adopting the CERES Principles increase corporate legitimacy?” was asked, and place the results in a larger social context.

Part One: Context

Chapter 1. Introduction. The introduction is an initial presentation of the environmental responsibility movement. It also presents the argument that economic rationality and institutional pressure do not fully account for increased corporate environmental action, and adoption of “voluntary” codes of environmental management practice. This thesis acknowledges the presence and influence of economic explanations but builds on social theory to explain the hypothesis that corporations adopt voluntary codes of management in response to changing environmental norms, thereby increasing legitimacy in the eyes of stakeholders.

Chapter 2: Theoretical Development of Corporate Legitimacy. This chapter uses the theories of authors Gordy, Boulding, Mason, Monks, Habermas, Sutton, and Bowie, among others, to explain the derivation of corporate power and the role of social acceptance and norms in defining corporate legitimacy.

Chapter 3: Historical Development of Social Responsibility: This chapter provides historical information about the evolution of the social responsibility movement and its overlap with environmental concerns. It argues that as definitions of social responsibility evolved, society’s environmental expectations of corporations expanded. Because there is no clear definition of social or environmental responsibility, various attempts to define and evaluate corporate environmental responsibility have emerged.

Chapter 4: External Attempts to Influence Corporate Activity: This chapter describes the various mechanisms of compliance with social expectations. Command-and-control regulation and market-based regulation are the most common mechanisms. Recent criticism
of environmental regulations as being economically inefficient and stultifying to innovation may reduce the use of command-and-control mechanisms.

Chapter 5: Trends in Voluntary Corporate Management Initiatives: Non-regulatory codes of environmental management have emerged as an alternative mechanism to influence corporate behavior. They utilize internal corporate pressure to proactively manage environmental impacts and serve as a mechanism for gaining public trust and responding to social norms. Voluntary environmental management codes include ISO 9000/14001 standards, the European Eco-Management and Audit Scheme, EPA voluntary auditing, and industry- and business-sponsored environmental Principles.

Chapter 6: The CERES Principles: CERES is the only set of alternative codes of management which is managed by a non-governmental, non-industry coalition of environmental groups, investors and companies. In addition, CERES promotes accountability through the disclosure of information in its required annual environmental reports.

Part II: Data And Analysis
Chapter 7: Research Methodology. The data used to analyze the impact of the CERES Principles on corporate environmental legitimacy come from several sources: 1) interviews with environmental groups representing various environmental interests; 2) interviews with CERES endorsers and non-endorsers; 3) interviews with investment groups; 4) presentations to the MIT working group on Technology, Business, and Environment; 5) presentations to a symposium on voluntary reporting trends; 6) Journal, trade, business, and popular press articles. Together these sources provide the necessary information to determine the extent the CERES Principles impact corporate legitimacy, or the ability of companies to operate within changing social and environmental norms.

Chapter 8: Analysis of Results. Interviews results indicate that environmental groups are both supportive and critical of the CERES Principles. Criticism mostly arises from general concerns about voluntary reporting, auditing difficulties, and difficulties defining environmental responsibility. Interviews indicate that CERES has had some effects on firm behavior, but have a larger influence on the social construction of “environmental legitimacy”
Chapter 9: Summary and Conclusions. The following conclusions are reached: 1) Research findings show that corporations which endorse the CERES Principles gain some environmental legitimacy as a result of responding to changing social norms. 2) The CERES Principles show mixed results in altering particular firm practices. 3) Determining the extent of CERES's impact on endorsing firms is premature. 4) The CERES Principles are helping define the practical components for corporate accountability through reporting and disclosure requirements. 5) Thus, the level of legitimacy a firm gains by adopting the CERES Principles may be less visible than the institutional influence CERES has by influencing the social construction of corporate environmental legitimacy. 6) CERES is one of many tools environmental groups utilize in their mission to improve and protect the natural environment. 7) CERES has expanded public expectations by providing a vision of environmental responsibility to corporations and environmental groups. 8) By engaging in a dialogue with environmental groups, investors, and corporations, CERES has attempted to create shared values and helped to define social norms. 9) CERES and other voluntary corporate management options are only a small part of the environmental sphere of influence and thus are a peripheral concern of environmental groups operating outside corporate or industry reform.
Chapter 2: Theoretical Development of Corporate Legitimacy

Abstract: Power is legitimate when it is accepted by the public. Institutions therefore need social acceptance to retain power. Corporate power and legitimacy comes from the state, however the modern corporation has risen in power beyond government control. Traditionally, profit maximization was considered in society's best interests. This concept has come under question as social and environmental externalities have arisen. Environmental issues call into question whether corporations are fulfilling the basic tenet of legitimacy—a minimum moral obligation not to harm society.

2.1 The Concept of Legitimacy
While the notion of legitimacy may seem abstract and in some ways counter-intuitive, a fundamental and widespread cornerstone of social theory is the notion that institutions can function only if their power is social accepted. This legitimacy can be retained only by an institution's conformity with societal expectations which are derived from a perception of moral good (Sutton, 1993; Bozeman, 1987; Habermas, 1973; Gordy, 1993). This concept informs us that all relationships are based on authority and power. The family unit, government, international regimes, or economic systems all must fundamentally conform to an accepted set of rules or laws within the political morality defined by groups or individuals. Concepts of legitimacy may also seem abstract to many readers because the term "legitimacy" is not always used when discussing power relationships, even though issues of legitimacy are often the basic crux of a conflict. Labor disputes, facility siting, election results, and policy revision all represent, at some level, a discrepancy between the public's perception of social norms and the validity they assign to an institution's use of its authority.

A spectrum of opinions exists on the impact and conformity of corporate activity to social norms. Social norms are not easily defined, and corporations, as organizations and institutions, have limited flexibility with which to react to every concern regarding their behavior. Although left and right political factions share concern over corporate behavior, these groups have traditionally been adversarial towards each other in their treatment of corporate authority. Furthermore, those who express concern over corporate ability to act on the public's behalf also find themselves in an adversarial position with the business sector. As societal expectations diverge from the traditional mandate of corporations, the legitimacy of the business sector is challenged (Sutton, 1993, and Gordy, 1993).

It is arguable that the concept of legitimacy is inherently understood by wide sectors of the population: the public often has a gut-reaction of outrage and expresses various forms of
protest when it perceives an institution has exceeded its authority. To understand fully the basis for changing expectations and increasing concerns about corporate activity, a more abstract discussion must follow. The following chapter explains the origins of power and authority and describes the historical changes that have resulted in the faltering social acceptance of this modern institution.

Legitimacy is widely understood to emanate from a perception of how power is exercised. Social theorists assert that every system attempts to establish and to cultivate the belief in its legitimacy and that its power is legitimate when accepted by those who are affected. Acceptance of power may be based on an explicit recognition and approval of social arrangements. An institution or individual may be accepted based on purely opportunistic grounds or for reasons of material self-interest. Resigned acceptance may also be borne from fear of or submission to the authority. Compliance with an institution’s power may occur because there is no acceptable alternative. According to Habermas, under any of these circumstances if the exercise of power is treated as “valid,” the authority is legitimate (Habermas, 1973). Tacit or explicit social approval is necessary to retain power. An institution’s legitimacy thus comes into question when those governed in a power system consciously assert a belief that authority should be used or concentrated differently.

When an institution’s power, authority, autonomy, or validity is perceived as illegitimate, the results can range from demonstrations to proxy battles to impeachment to revolutions. If a widespread realization occurs that an existing system threatens a population’s basic values and survival, a challenge to the entire political framework and institutional ideology will ensue (Sutton, 1993).

Legitimacy is not derived from the reality or truth of an institution’s use of power, but is based on social expectations. As Gordy states in Thinking about Corporate Legitimacy, “In the history of philosophical thought the concept of legitimacy has been closely allied with, if not derived from, questions of moral good. An action is legitimate if it is good, if it is right, if it conforms to or embodies some moral principle. If we can understand and agree upon the concept of moral good we can then derive the concept of the ultimate use of power, whether by institutions or by individuals” (Bozeman, 1987: p. 87). While definitions of moral good may vary, the core of the debate still has a common belief that a legitimate power structure has a moral obligation to not harm society.
Throughout most of Western society, a democratically elected government has been determined to best represent societal concerns and provide for the public good. Although the extent of government intervention in the daily functioning of society is a source of debate, the state is considered a legitimate power structure and a necessary component for democratic society.¹ Some contemporary policy-makers, economists, and business people may perceive corporate power as an unchallengeable result of democracy. Corporations however were created by a statute of the government and were considered an extension of the state’s power. The state extended its power to the corporation, the organizational structure for capitalism, because it perceived that a system of economic production where profit is maximized as the most efficient way of achieving public good. Since the corporate organization was perceived to be under the control of a democratically-elected legitimate government, the institutions under its control were by association, legitimate. Essentially, “as long as corporations were perceived to be functioning for the good of the society in which they were based, their legitimacy was not fundamentally in question” (Gordy, 1993: p. 96).

2.2 Analyzing the Assumptions of Corporate Power
The legitimacy of the corporation is based on several assumptions: capitalism achieves public good, corporations are functioning for the good of the society, and corporations are acting as an extension of state power. The scope of this paper prohibits an extensive critique of these concepts, however there are several limitations on these assumptions worthy of comment. A review of these assertions illuminates the basis for the challenge to corporate legitimacy.

In the “Wealth of Nations,” economist Adam Smith recognized that not all interests in society can be achieved simultaneously, but hypothesized that a competitive struggle among individuals for their interests leads to the greatest good for the greatest number.² The capitalist model asserts that a situation in which individuals compete for scarce resources and in which government enforces the rules of the competitive game results in the most efficient allocation and distribution of resources (Bowie, 1982). Some of the basic

¹ Government enforces and sustains the minimum social morality that makes keeps society functioning, business possible. Except for anarchists, even persons holding the most conservative positions on the scope of government authority agree that capitalism and social interactions require a government with sufficient authority and power to maintain a minimum sense of justice, to enforce business contracts, and to serve as an umpire to interpret the rules of the game. “Business activity is not any more possible in an ungoverned society than it is in an unjust society” (Bowie, 1982: p.115).
² One of the assumptions is that men and women are motivated primarily, if not solely, by self-interest. Enlightened egoists are often socially responsible people neither motivated to seek instant gratification nor motivated by selfish impulses (Bowie, 1982).
premises of capitalism rest on certain assumptions about private property, private enterprise, individual initiative, the profit motive, and competition. These elements were necessary in the model of capitalism which suggested that, if allowed to function unfettered, individual, self-interested decisions would lead to the optimum satisfaction of human wants. Current economic literature continues to build on these logical foundations. Some of the basic premises of capitalism rest on certain assumptions—competition, the profit motive, property, and the notion of a contract—conditions many argue are no longer accurate or applicable to current economic organization.

2.2.1 Competition
In his analysis of the invisible hand that governs the competitive process, Bowie suggests four reasons why the competitive process of capitalism would not result in utilitarian results. First, the competitive process by itself is not sufficient to yield the greatest good for the greatest number—the competitive process must be governed by rules enforced by political authority and this requires cooperative behavior. Second, people express their true preferences in bidding for scarce goods and resources, except in cases of “public goods” or goods from which they can gain access or benefit without paying, in which case they understate the good’s value. The invisible hand of capitalism therefore cannot produce public goods like highways, clean air, or military protection (Bowie, 1982; Pearce & Turner, 1990). Third, there are many by-products of business, or externalities, that represent a cost society must bear despite the fact that the cost was produced by business activity itself. Common examples are air and water pollution and excessive noise. Unless these externalities are internalized, the benefits of the competitive firm are overstated. Fourth, a significant portion of American corporate activity is not competitive in the sense that classical economists had in mind. Monopolies can exist as a result of cut-throat and destructive competition and start-up costs can be so prohibitive that entrance into the market is impossible and competition is suppressed. Moreover, as the economy has become more complex and industries more interdependent, society cannot always allow the competitive process to work. The effects of some companies’ bankruptcies would be immense, so the government and society bails them out (Bowie, 1982). The basis for societal approval of the corporation is that its activities will lead to the greatest public good. If the competitive process is not able to provide for the greatest good, the argument for the classical view collapses (Bowie, 1982; Berle and Means, 1933). Furthermore, if the competitive process imposes significant harm on society the fundamental notion of legitimacy is broken.
2.2.2 The Profit Motive

For Adam Smith and his followers, it was possible to separate the desire for personal profit from all the motives driving human economic activity (Berle and Means, 1933). By Smith’s reasoning, where true private enterprise existed, personal profit was an effective and socially motivating force. However in the modern corporation, those people working on behalf of the company are not directly motivated by profit. Their decisions can be motivated by many factors other than the best interests of society. Profits go to shareholders, the owners of the corporations, and shareholders’ decisions are not necessarily driven by longer term social good either. Personal profits today do not directly equate with a deeper self-interested goal; often they represent a short-term desire for profit. The motivating force for profit is disjoined from those who are socially affected (Berle and Means, 1933).

2.2.3 Private Property

Private property during Adam Smith’s lifetime assumed ownership and control of a possession. When Adam Smith talked of “enterprise” he had in mind an individual or a few partners actively engaged and relying in large part on their own labor or their immediate direction. Today’s organization, however, is comprised of managers and thousands of employees working for an enterprise they neither control nor own; at most they have stock in the company. However, Smith strongly rejected the stock corporation as a business mechanism, holding that dispersed ownership made efficient operation impossible. He believed “The directors of such companies, being the managers rather of other people’s money than their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private company frequently watch over their own (Berle and Means, 1933: p. 106).”

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3 Today, in the modern corporation, there are often thousands of owners who passively own shares of stock or bonds in an enterprise. The owners of the business have an interest in its success but have practically no responsibility, control, or decision-making power over it. The actual firm is controlled by managers who typically have only minor ownership in it. Rather than the classical economists’ conception of private property as combined ownership and responsibility, today’s share of stock in a company offers remote, if any, influence on the instruments of production (Berle and Means, 1993; Mason, 1993).
2.2.4 The Contract Notion

According to social theory, corporations can exist only if society perceives that they are functioning on its behalf. In this regard, a social contract exists between business and society. The initial contract with society was to maximize profits thereby allocating scarce resources optimally. Some theorists have suggested that because business activity requires stable contracts over time, society broke its contract by demanding more than profit maximization (Bowie, 1982).

Several general conditions must exist for a contract to be legitimate. Classical economists state that because capitalism was encouraged by the representatives of society in government and enforced in courts of law, the contract was not made under duress. They also claim all parties' members affected by the contract were party to it since the affected society is a representative democracy.

Other theorists counter this accusation by stating that society’s norms change are in response to businesses’ inability to satisfactorily provide goods (such as public goods) and the undesirable consequences resulting from imperfect markets (Antal, 1992; Berle and Means, 1933; Gordy, 1993; and Sutton, 1993). Furthermore, since legitimacy depends on the social acceptance of an institution, it follows that corporations, to retain legitimacy, must be able to meet society’s changing needs. They would claim that the contract between corporations and society did not meet the criteria for a legitimate contract because imperfections in representative democracy have prevented adequate representation of the marginalized groups. These groups have not been represented adequately in the contract’s evolutionary interpretation and suffer a disproportionate burden of externalities (environmental, urban blight, etc.) (Bowie, 1982; Mason, 1959). There are problems with the assumption that a social contract agreed on by one generation binds the next, especially given the extent of externalities (Bozeman, 1987). Society recognized that corporations have misused the environment and endangered members of society, and their willingness to pay for what many businesses have considered the external costs of production is declining (Garret, 1986). Implied in this social contract between business and the environment is the

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4 Perhaps the best way to respond to proponents of the classical view is to consider the more generic notion of promise keeping. Usually we do have a duty to keep our promises, even when keeping them works out to our disadvantage. The underlying principle is that one can violate one’s duty to keep a promise on the basis of some higher or overriding moral obligation, for example, saving a human life. It is important to note that the breaking of the promise must be made on moral grounds; it cannot be done on the basis of convenience or mere self-interest. Hence, to respond effectively to proponents of the classical view, one must argue that the demands of society to rewrite the social contract with businesses are made on the basis of moral obligations that override the contract itself (Bowie, 1982).
notion that the vast natural resources of society have been entrusted to business in order that the overall welfare of society should be preserved (Garret, 1986). Social theorists state that, if the behavior of the corporation is harmful, even if the corporations were ignorant of these effects, there may be “a moral basis for arguing that the classical definition of the contract that business has with society should be changed” (Bowie, 1982: p. 31).

2.3 From Theory to the Modern Corporation

When corporations operated predominantly within the US only exported their products, concerns about the use of power existed. However it was assumed that the state could control corporate power though anti-trust regulation and labor agreements. In the last decade, because corporations found it profitable to export capital and set up production facilities in other countries, issues of corporate power have escalated. Companies can avoid taxation by the movement of capital oversees. Similarly, corporations can pressure the state for reduced labor concessions and environmental protection by threatening to move factories abroad. The acceptance of corporate profit-making was based on the notion that corporate activity was subject to control by the state and that maximizing profit was for the good of society as a whole. But once it became evident that large corporations could escape societal and state control by becoming multi-national, corporate legitimacy began disintegrating (Gordy, 1993; Monks, 1990). The concern with increased, unchecked power however, is not an isolated concern reserved for corporate activity or even restricted to recent multi-national events. The decreased legitimacy companies face is occurring within a larger context where of all forms of power in the US are facing pressure for increased accountability and changing social expectations.5

The declining social acceptance and waning of the current corporate system is “directly related to perceived inconsistencies between the way firms do business and the changing goals and priorities of people in society. It is, in other words, a questioning of corporate

5 A tremendous amount of literature exists describing the dissatisfaction society feels towards the government. While it is difficult to pinpoint the source of this dissatisfaction, a dominant characteristics of US politics includes special interest groups whose various voices challenge dominant beliefs. Although there is a dissonance in the concerns these emerging groups and the general public, these voices commonly question whether representative democracy actually represents their interests. They express concern about the ability of government agencies to efficiently function. Much of this loss of legitimacy became prominent in the 1960’s as Americans questioned the government’s handling of the Vietnam War. Government corruption was publicized in the Watergate scandal. Since then the public has become more aware of government accountability issues: publicized Pentagon spending sprees, the S&L scandal and continuing publicity of government corruption. One could argue that the recent Congressional election, which ended 40 years of the Democratic control of Congress reflect the extent of the government’s legitimacy problems. The existence of the government and corporations is not under question; the public questions the ability of these institutions to provide their services in a manner consistent with changing social expectations.
power and authority, and of how that authority is being used” (Sutton, 1993: p. 3). Corporations were created by the state, authorized to use the most efficient combination of capital, labor and management. Governments were traditionally capable of forcing them to act in the public interest. Laws, however have not adequately bound them to do so. As private enterprises become predominantly multi-national in character, corporations are now eclipsing government in reach and power. Factors other than law have been used to make corporate activity more accountable to society: in Japan it is national culture, in Germany it is concentrated stock ownership, and in Italy it is national ownership that has been moderately successful in controlling corporate activity. However in the US these options do not exist (Monks, 1990).

The average multi-national corporation can have operations in 60 countries, employ hundreds of thousands of people, control sums of wealth greater than many nations’ GDP, and command vast amounts of resources. The multi-national however, is not the only corporation with vast authority. In the United States, the large corporation undertakes a substantial part of total economic activity. While it is neither desirable nor justifiable to expect industry to shape the future of societies according to solely its own needs, corporations will continue to both impact and rely on the well-being of society and the natural environment. Business leaders are being summoned to address a significant number of challenges that were previously either duties of the public sector or had not yet reached the scope of today’s challenges. While individual business executives may not consider themselves as power-wielding, the sheer scale of corporate activity indicates otherwise. The problem of corporate legitimacy is that substantial power is accessible to corporate entities whose authority is real but whose responsibilities are vague.
Chapter Three: Historical Development of Social Responsibility

Abstract: Traditionally, classical economists have viewed corporate responsibility exclusively from within a laissez-faire, capitalist framework. This view holds that individuals and groups express their preferences through their purchasing decisions. The model reasons that by responding to market demands a company has acted on society’s preferences and has therefore fulfilled its responsibility to society. The impact of business activities has resulted in undesirable social and environmental consequences. There is a history of discontent with corporations based on a public perception of distant management and lack of accountability. Pressure from individuals and environmental groups has increased on management to respond to the public’s changing expectations of corporate responsibility. The definition of corporate responsibility continues to evolve, which has included corporations’ recent “justification” of environmental responsibility. The criteria for an environmentally responsible company remain unclear.

3.1 Background of Corporate Responsibility

In the United States and Europe since the 1960s, society as a whole, and managers in particular, have expressed practical and philosophical concerns regarding negative impacts of business activities on the natural and social environment. Until recent decades, the singular corporate goal of pursuing profits went largely unchallenged, and the corporation was perceived as fulfilling its purpose well. However societal values have changed immensely and the acceptance of short-term financial gain at the expense of resources, the environment, and the “quality of life” in general is no longer accorded the legitimacy granted to it previously (Sutton, 1993). Growing recognition of the externalities from the strictly profit-maximization approach has resulted in a multitude of attempts to control business activity. The primary goal of such efforts was to make business more responsive to societal concerns. Concerns mounted with the recognition that dimensions of problems in society are exceeding the capacity of public agencies to cope with them and that corporate activity may contribute to or aggravate these social problems. Finally, interest in controlling business activity emerged from widespread recognition that corporations wield a great amount of power with very little accountability.

The two decade trend of holding managers within corporations accountable for socially damaging policies has been called corporate social responsibility. This term specifically describes the increasing interaction and negotiations occurring between the corporation and their “stakeholders.”

Stakeholders are individuals or groups who have interests at stake in a corporation. Considering the scale and scope of corporate influence, this could include virtually
everyone. These stakeholders include the individual and pension shareholders, owners, employees, customers or clients, suppliers, and the community within which the corporation conducts business. While stakeholders' interests are diverse, they all share a concern about the role which business plays in society and the need for companies to develop new ways to accommodate emerging social needs. Many corporate managers have accepted increasing social stipulations as part of the new business environment and have begun pursuing strategies to reconcile stakeholder demands with their own business interests (Sutton, 1993; Neubauer and Demb, 1993; Center for Social Management, 1994).

3.1.1 Traditional View of Corporate Responsibility

Perhaps the best known view on the function of the corporation was asserted by Milton Friedman in 1962. He states that the function of the corporation is to maximize profits for the shareholders. In the classical view, a corporation is legitimate when its activities seek to maximize profits and is socially irresponsible when it does not (Bowie, 1982; Antal, 1992; Center for Social Management, 1994). The reasons for this narrow definition of a corporation's function is based on the power yielded from the state to corporations in an attempt to provide the optimal distribution of resources for society through competition

This definition had also been established as a precedent in law. Initially, the courts interpreted “maximize profits” in a very narrow sense. In the famous case of Dodge v. Ford Motor Co. (1919), the court required Henry Ford to increase the dividends he paid to his stockholders despite Ford's belief that society would benefit more from reduced output. The court overturned management decisions made by Ford on the grounds that stockholder rights had been violated by not strictly maximizing profit (Bowie, 1982). The precedent of Dodge v. Ford Motor Co. was later overruled in the famous A. P. Smith Manufacturing Co. v. Barlow (1953) case when the court permitted charitable donations to Princeton University. A. P. Smith is widely regarded as revolutionizing the flexibility of

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6 The record, and especially the testimony of Mr. Ford, creates the impression "that he thinks the Ford Motor Company has made too much money, has had too large profits, and that although large profits might still be earned, a sharing of them with the public by reducing the price of the output of the company, ought to be undertaken.... There should be no confusion (of which there is evidence) of the duties which Mr. Ford conceives that he and the stockholders owe to the general public and the duties which in law he and his co-directors owe to protesting, minority stockholders" (Bowie, 1982).

7 The Court decided: "A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end and does not extend to a change in the end itself, to the reduction of profits or to the nondistribution of profits among stockholders in order to devote them to other purposes" (Bowie, 1982).
corporate managers and boards to seek ends beyond profits. The presiding judge still accepted the view that the function of a corporation was to maximize profits, but it was long-run profits rather than immediate profits that should count. This decision was appealed and upheld thereby providing a legal prior basis for a broader view of corporate responsibility (Bowie, 1982).

While this legal precedent provided a basis for corporate activity beyond short-term maximization of profits, it did not clarify the extent to which corporations should consider societal demands in their business activities. The classical definition which Friedman submitted was that corporate responsibility entails making "as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom." This definition translates into a classical economic assertion that societal preferences are expressed through market behavior: societal pressures will manifest in consumer preferences to which the market will respond via changes in the supply and demand of goods and services. According to this logic, society's approval of a company would be evident in a company's profits.

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8 Judge Stein's opinion is worth quoting at length:
"I cannot conceive of any greater benefit to corporations in this country than to build, and continue to build, respect for and adherence to a system of free enterprise and democratic government, the serious impairment of either of which may well spell the destruction of all corporate enterprise. Nothing that aids or promotes the growth and service of the American university or college in respect of the matter here discussed can possibly be anything short of direct benefit to every corporation in the land. The college-trained men and women are a ready reservoir from which industry may draw to satisfy its need for scientific or executive talent. It is no answer to say that a company is not as benefited unless such need is immediate. A long-range view must be taken of the matter. A small company today might be under no imperative requirement to engage the services of a research chemist or other scientist, but its growth in a few years may be such that it must have available an ample pool from which it may obtain the needed service" (Bowie, 1982).

9 Since this decision, corporations have moved with increasing boldness into activities that clearly reduce profits in the short run. However, the law requires that corporations be prepared to show that any activity enhances long-term profits (Bowie, 1982).
3.1.2 Responses to the Classical Definition of Corporate Responsibility

Critics counter that the existence of evident externalities, changing ethical customs, and substantive influence and decision-making of non-governmental shareholders negate the view that corporate profit is indicative of level of corporate responsibility. Criticisms emphasize the significant divergence between the intent and the actuality of the liberal market system. Some economists and policy analysts have noted that when the market operates uncontrolled, undesirable social results follow. They suggest that the short-term individual actions of firms typical in a competitive market culminate in activity which does not reflect consumer and citizen concerns. Critics also suggest the cumulative market behavior aggravates or creates undesirable outcomes. The most prominent social problems critics attribute to aggregate individual calculations are environmental problems typified by the tragedy of the commons.\(^\text{10}\)

Critics also challenge the underlying assumptions of the laissez-faire model (as discussed in Chapter Two). Volumes of social and economic analysis have described the externalities created in the market by economic and policy distortions.\(^\text{11}\)

Critics also point to the liberal market model’s unrealistic view that the basic rules of society are static. The social problems and scope of corporate influence have increased in the past two decades. When one recognizes that the laws and ethical customs which Friedman describes have changed dramatically since his assessment, it is clear that the strategies employed by a company to earn profits and the responsibilities of companies also have changed. Friedman suggests a company should follow only its fiduciary duty and maintain a clear distinction between economic action and the social realm; however no such separation exists. When a company actively contributes to campaigns, influences legislation, or funds research, a clear distinction between a company’s economic and social

\(^{10}\) The tragedy of the commons is a terms coined by Garrett Hardin in his article of the same title. It refers to the inevitable destruction of resources when people do not recognize the cumulative effect of their individual actions on a public resource.

\(^{11}\) Basic economic conditions can give misleading signals that an environmental resource is very inexpensive thereby creating a situation where it is economically efficient to make excessive use of it. Subsidies, restrictive regulations, and other interventions undermine the capacity for companies to be truly competitive and prevent companies from internalizing costs of production. Prices do not therefore represent the true costs of a product or process to society. Critics maintain that the widespread distortions and externalities within the model (caused by ill-defined property rights, absent markets, high transaction costs, free riders, local monopolies, short planning horizons, high discount rates, and irreversible outcomes) reduce the ability for companies to easily equate profits with social preference. Pearce and Tumer describe common externalities and distortions associated with a market laissez-faire model in their 1990 book, Economics of Natural Resources in the Environment. A further description of market and policy failures which have lead to environmental degradation can be found in Chapter Two and Three of Panayotou’s Green Markets.
activity has blurred. In addition, recent corporate experiences have shown that it is not appropriate to categorize issues based on "social" or "economical" value since issues that might seem strictly social and peripheral today often become factors central to the economic success of corporations in the future (Antal, 1992).12

Finally, the liberal capitalist model is challenged as unrealistic because it does not sufficiently account for the real influence and decision-making behavior of individuals and organizations in societies today (Antal, 1992). Membership in and quantities of non-governmental organizations have increased dramatically since the 1960s, indicative of the public's recognition and commitment to social issues. This recognition has translated into the sizable increases in charitable donations to large environmental lobbying groups and growing popularity of more radical environmental ideologies and organizations.13 These groups seek to influence the types of products produced the environmental policies companies adopt.14 When companies make excessive or wasteful use of an environmental resource others view as more valuable, a company or entire industry of firms may be criticized by a large number of stakeholders: neighbors, shareholders, banks, employees, regulators, environmental pressure groups, etc. (Bavaria and Dodson, 1992). Companies that lack public approval may now find a shareholder resolution on their proxy statement, their products boycotted, or their stock screened by socially conscious investment firms. All of these activities are an attempt to produce a level of social responsibility which the companies have not fulfilled.

12 The introduction of environmentally sound production processes has increased efficiency and has motivated managers towards environmental management. Ecologically sound business behavior that concentrates on cost savings (waste management, lower purchasing costs due to more economical handling of materials, savings in packaging, lower insurance costs) have had both social and economic value (Muller and Koechlin, 1992).

13 In 1988, Greenpeace's membership had increased 50 percent; membership in The Natural Resources Defense Council has almost doubled since the early 1980s; and since 1985 the World Wildlife Fund's role has increased from 212, 200 to 667,000 members (Thomas, 1992). EPA lost 29 percent of its budget and a quarter of its staff during the first two years of the Reagan Administration, and in the same time period environmental legislation ground to a halt. This spawned a counter-reaction, not only in the form of sizable increases in charitable donations to large environmental lobbying groups (e.g., Sierra Club, Audubon Society, and National Wildlife Federation), but also in the growing popularity of more radical environmental ideologies and organizations (e.g., deep ecology, bioregionalism, and Earth First!) (Orts, 1995).

14 Stakeholders are also seeking influence through direct purchasing power: recent market surveys conducted by Gallop and Harris indicate that consumers are willing to pay more for "environmentally correct" products (Smith, 1991; Amicus, 1994).
3.2 The Evolution of Dissatisfaction

Corporations emerged in the late nineteenth century and have since evolved and grown into multi-billion dollar organizations. Initially, the owners, or shareholders, of corporations were entrepreneurs and managers. They were intimately involved with product processes, their employees, and their community. In the 1950's corporations in the United States became "public." Shares of the company were sold as a way of institutionalizing the companies and providing an atmosphere in which corporations could be viewed as permanent, legitimate areas for investment, distinct from speculation. (Bavaria, 1986).

Corporations expanded and sold their shares to pensions and individuals. In contrast to the founders of the corporation, shareholders typically use their ownership position to give them a certain return on their investment. They are not involved in the day-to-day management of their companies, do not feel any particular pride in corporate activity, nor feel a connection to the community in which production takes place. Rather the operation concerns of these corporations are the responsibility of professional managers trained in business. Their responsibility and expertise is strictly in finance and "return on equity" or acquisition management. The management has traditionally been concerned with economic results, not the macro social results of the corporate behavior (Bavaria, 1986).

However the macro social results of corporate activity are rarely disputed. Corporations are often the single employer in a town or county. They are an economic force which can radically affect whole regions as they expand or lay off employees. They provide the physical and natural environment for consumers and non-consumers on a national or international scale in which their employees live and work. The development of substances with toxic or carcinogenic implications can affect the safety and quality of life for national and international populations (Bavaria, 1986). Social pressure demanding that power be used for the public benefit is observable throughout the world in varying degrees of intensity. As the strength of the corporation increases and its power is concentrated in a few hands, the possessor of power is more easily located, and the demand accountability becomes increasingly direct (Berle and Means, 1933).

The shift in the definition and expectations of corporate social responsibility is based on the concern regarding unchallenged power to aggravate or induce externalities which extend beyond public approval. The desire for more corporate accountability begins when a gap develops between the actual performance of a corporation and public expectations of its responsibilities. Public acceptance of the externalities associated with corporate
performance, environmental degradation, segregation, “urban blight,” and compromised safety has declined. These concerns and the scope of multi-national corporations’ influence, places an increased emphasis on the responsibility associated with corporate power and the extent to which social concerns are represented in corporate actions.

While the exact definition of the cultural norm or right is unclear, in the United States societal expectations often become a political issue which drives legislation and future litigation. However a variety of other forms of pressure including boycotts, motions at shareholders’ meetings, and media campaigns are also used to influence business behavior. It has been argued that the pressure exerted from public authorities and political groups increasingly drive managers to develop solutions for concerns which originate from diverse and informal stakeholders (Aylzac and Gordy, 1993).\(^{15}\)

While corporations had previously differed in conviction from “economic isolationists” to “social interventionists” it became

clarify that the terms of the contract between society and business are, in fact, changing in substantial and important ways. Business is being asked to assume broader responsibilities to society . . . than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute more to the quality of American life than just supplying quantities of goods and services. Inasmuch as business exists to serve society, its future will depend on the quality of management’s response to the changing expectations of the public” (Ackerman, 1975: p. 8).

Acceptance is a crucial production factor: a firm must be acceptable to its stakeholders if it is to continue its existence, for it is the stakeholders that supply the company with the resources it needs. Only the company that can recruit good staff, obtain planning permissions, and introduce new technologies has a long-term basis for efficient business operations. If society no longer accepts a firm, if the bank will no longer make credit available; if the motivation of the workforce flags, or if a product is viewed negatively, the consequences for the firm are disastrous (Muller and Koechlin, 1992). The notion of legitimacy dictates that for a corporation to exist, it must have the acceptance of society.

This idea is formally asserted in Keith Davis’ well known article, “Five Propositions for

\(^{15}\) Corporations have not made it clear how divergent interests will be reconciled. Inevitably they assign different weights to the “votes” of various constituencies. Although corporations are concerned with the consumer public, because of lack of organization consumers have limited market influence. The market pressure individual consumers exert is small compared to the pressure of regulators, stockholders, and organized interests (Mason, 1993).
Social Responsibility" which states that “In the long run, those who do not use power in a manner which society considers responsible will tend to lose it.” 16

3.3 Corporate Response to Social Pressure
Like many of the institutions under scrutiny in the mid and late 1960s, business was also troubled by popular discontent and loss of public confidence on a scale it had never before experienced. From 1945 to 1968, polls indicated an uninterrupted rise in favorable responses to the statement: “Business achieves a good balance between profits and service to the public.” A decline in public respect for business and confidence in the corporation became evident when the 70 percent favorability in 1968 declined to only 32 percent in 1972. Beginning in 1968 the public’s interest in the social consequences of business decisions increased, manifesting itself in concern over product safety and protests against nuclear power plants, the production of anti-personnel weapons, discriminatory employment practices, and investment in South Africa (Ackerman, 1975). In an attempt to control business activity and its impact on society, the state turned to regulation. From 1966 through 1973, Congress passed 28 pieces of legislation affecting consumer rights alone (Ackerman, 1975).

The Chairman of Common Cause summed up the sentiment of the public: “There are, as we all know, areas in which business can demonstrate its capacity to act responsibly. And when businessmen approach these areas, it’s of critical importance that they understand the nature of the public dissatisfaction. They are facing something intangible but potentially explosive—the unanalyzed dissatisfaction of the bulk of the American people. That dissatisfaction is not a neat, paragraphed and numbered indictment. It is more like a huge charge of electricity ready to discharge itself” (Ackerman, 1975: p. 7).

Corporations responded to the call to solve social problems for which they had not been previously held directly responsible in a variety of ways. In the 1960s, over a hundred major corporations joined the National Alliance of Businessmen, a program designed to train and later secure employment for the “hard-core unemployed.” Others became

Davis’ propositions for social responsibility include a company taking the true costs of business activity into account. His other propositions contends that "social responsibility arises from social power." Because business has tremendous social power, it has very extensive social responsibilities as well. Furthermore, businesses have a responsibility to provide disclosure about the effects of its operations on the public. The final proposition contend that business institutions have responsibilities for social involvement in areas of their competence where major social needs exist.
associated with Keep America Beautiful, established subsidiaries in ghetto areas, supported minority enterprises, and entered the low-cost housing field (Ackerman, 1975). However as concerns grew over the direct impacts of corporate activity, these attempts were insufficient to meet public expectation. Businesses of all sizes were questioned about their ability to provide quality and reliability in the services and products offered. The public wanted more truthfulness and completeness in labeling or advertising about the services or products provided (Corson and Steiner, 1974). In addition, the public wanted more disclosure about impending plant closures, toxic chemicals use and transportation, and health risks to employees. Disclosure of this information has been, and remains, the most difficult aspect of social responsibility for companies.

During the last twenty years, misguided approaches in communication have destroyed a great deal of trust between the public and industry. Generally only favorable features of corporate activity were highlighted and adverse ones were passed over in silence or their existence was even denied (Muller and Koechlin, 1992). Having lost the confidence of the public by withholding or avoiding relevant information, the public now wants evidence with which to measure the positive or negative contribution of business to society (Corson and Steiner, 1974).

Regulators require more data, and legislation like SARA Title III has allowed public access to some corporate information. Citizen action groups and environmental pressure groups continue to seek more information on the impacts of corporate behavior. The increasingly professional non-governmental organizations (with highly educated members and staff experts) keep abreast on developments in business and industry. Many also calculate and distribute assessments on how business firms perform in areas of hiring advancement practices, resource utilization (including types and quality of resources used), and the reliability and safety of the products sold. However there is no consensus on what is meant by the social actions of business, what social responsibilities it shall be expected to support, or how its performance will be evaluated. The means by which the corporation and others have striven to appraise the impact of their actions on the society and its acceptance or refusal of social responsibilities have generally been described as a social audit (Corson and Steiner, 1974). Pressure for environmental auditing is also accelerating.

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17 Lack of a precise definition of social responsibility may be viewed as a benefit to some environmental groups and regulators. If a clear definition existed, then when a company met the definition or criteria, then environmental groups and regulators would be pressured to approve the actions of corporations. Some environmental groups and regulators may utilize a strategy of not explicitly stating their demands because then they can have more flexibility in the demands they place on corporate behavior.
However the method of appraisal or audit, by whom the appraisal or social/environmental audit will be made, or to whom the findings shall be reported is still under serious debate.

3.4 Defining Corporate Responsibilities
Over the 30 years, several ways of distinguishing between the numerous kinds of responsibilities that companies may have in society have been suggested.

In 1971, the Committee for Economic Development (CED) defined corporate responsiveness to social and environmental issues in the framework of three concentric circles of responsibility. The inner circle represents traditional corporate responsibilities for basic economic functions. The intermediate circle “encompasses a responsibility to exercise this economic function with a sensitive awareness of changing social values and priorities.” The outer circle refers to an area of rising public expectations for business to help society with some of its unresolved environmental problems (Antal, 1992; Eckel, Fisher & Russell, 1992).

In 1975 George Steiner suggested a similar set of categories distributed along a continuum ranging from “traditional economic production,” a “government dictated area,” and a “voluntary area” to “expectations beyond reality.” In that same year, Preston and Post attempted to clarify the concept of corporate responsibility by distinguishing between primary and secondary areas of corporate involvement. They suggested that the primary area of involvement covers behaviors and activities that “arise directly from the firm’s specialized functional role” and that secondary involvement refers to “impacts and effects not intrinsic to the character of the organization but generated by its primary involvement activities.” In 1979, Carrol submitted the construct of a pillar consisting of four categories of social responsibility. At the bottom of the pillar the magnitude of economic responsibilities, the largest category, is represented. Legal responsibilities represent a slightly smaller category, after which the somewhat smaller category of ethical responsibilities follows. The smallest section of the pillar is the category of “discretionary responsibilities” (Antal, 1992: p. 24).

Each of these models submits that a primary responsibility of business is, as the Council on Economic Development stated, the “efficient execution of the economic function—products, jobs, economic growth.” Furthermore the models assert that meeting legal requirements is an absolute minimum and that “social responsibility begins where the law ends (Antal, 1992: p. 25). These models however still do not clarify the “ethical” or “discretionary”
responsibilities of firms. Society does not send clear, consistent messages about these requirements; hence these additional responsibilities remain "ill defined and consequently among the most difficult for business to deal with" (Antal, 1992: p. 25).

"Ethical" and "discretionary" components are the precise concepts that distinguish the traditional, narrow definitions of the role of business in society from those firms acting "responsibly." Thus the models remain descriptive and do not provide insight to the requirements of corporate social responsibility. Through the late 1970s and throughout the 1980s, more understanding about corporate social responsibility was gained by observing the process of the "greening" of corporations.

3.4.1 Corporate Social Responsibility Gains Respectability

In the 1980's, a broad group of middle-class people in industrialized countries became environmentally sensitive.\(^\text{18}\) In recent years, this concern became evident through the purchase of green products, since these not only seem to be reminiscent of rural tranquillity, but also illustrate that the consumer is not greedy, vulgar, or at all blameworthy (Ford (a), 1992).

We have already examined the argument that it is the social and economic duty of competitive companies to maximize their profits. While not all of society would agree that environmentally sensitive (or "green") firms are any more moral or socially beneficial than "ungreen" ones, there is a strong belief among most average consumers that environmentally sensitive companies are better in virtually all respects (Ford (b), 1992).\(^\text{19}\) The public's sense of green moral superiority requires a company make a profit while acting environmentally responsible. The duties of companies have thus expanded: all

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\(^{18}\) This was based on their perception that rural areas were physically, spiritually and morally superior to urban areas. It was also a conscious rebellion against how they perceived "grasping capitalism." Being environmentally sensitive, or green, thus became a "signal of distancing oneself from uncaring and socially irresponsible behavior" (Ford (a), 1992).

\(^{19}\) This line of reasoning would state that by concentrating their efforts on keeping in line with, but not exceeding, government environmental regulations, ungreen companies are able to devote themselves to business efficiency, their economic justification for existence (Ford (b), 1992).

\(^{20}\) While these aspects of hyperactive companies seem consistent with some of the larger concerns voiced by consumers, hyperactive companies are criticized as "fundamentally anti-capitalistic, denying as they do the primacy of the profit motive or the role of the stockmarket. They are also arrogant, in that they go beyond what is required of them by government regulations or customer requirements in the belief that they know better than the government or their customers. They stimulate and provoke all companies to take more cognizance of environmental and other moral issues than they, but implicit in their approach to business at all times is a profound distaste for capitalism and a holier-than-thou attitude to all other companies, not merely their direct competitors. Hyperactive green companies in the economic system are like the pieces of grit in oysters which stimulate the production of pearls, but they are not necessarily pearls themselves" (Ford (b), 1992).
companies must compete to sell their goods while also competing to upgrade their processes and decrease their impact on the environment.

3.4.2 The Justifications for Corporate Environmental Responsibility
For those people who consider themselves environmentally sensitive, a company which demonstrates an environmental commitment may be capable of distancing itself from what its stakeholders may view as large or otherwise ‘unacceptable’ profits. “Profit” remains, if not a dirty word, then at least a highly ambivalent one through much of the industrialized nations. As already discussed, profit is the motivating factor in a competitive market and, some would argue, the moral duty of business people. However, a large segment of the population is still skeptical of or overtly disagrees with this notion (Ford (b), 1992). Evidence of large profits can leave a company open to criticism or demands from politicians, regulators, consumer groups, and other stakeholders. However “a strong stated commitment to the environment can make a company’s profits seem much cleaner, much more deserved, because they come as a result of green objectives, not as an end in themselves”(Ford (b), 1992: p. 162).

Corporate environmentalism can thus be perceived by some stakeholders as “a means of atoning for profits.” This is an especially important purpose in countries like the United Kingdom, “with profound middle-class antipathy towards business and making money. Where capitalism, with its talk of competition and profit, seems harsh and selfish, being publicly green can allay the fears and misgivings of an educated, cogent and influential part of the population”(Ford (b), 1992: p. 162).

A manager’s desire to be viewed as environmentally sensitive is a critical factor in the implementation of a company’s environmental policies. Some managers have a deep-seated belief about environmental issues which they combine with the loyalty they have to their company. They promote environmental issues because it is consistent with their own ideology and their perception that it is in the long-term interests of their company. Other managers feel a connection with their local community, feel a responsibility to it, and want to command respect from its residents. At a presentation on voluntary environmental initiatives, a manager of a chemical firm stated that after a local newspaper associated his name and a chemical his firm produced with Adolf Hitler, he faced community scorn. He stated that one of the reasons he promotes stronger corporate policies is because he doesn’t want himself or his family perceived as introducing danger into the community (Pasko, 1995).
More abstractly, other managers find that being perceived as environmentally sensitive brings them a social status which they could otherwise not achieve within the prominent anti-business attitudes conspicuous in Europe and the USA. Whether based on naiveté about how capitalism works or derived solely from the entrenched cynicism about the condition of the ordinary citizen, a strong popular view exists that the interests of businesses are inconsistent with the interests of society as a whole (Ford (b), 1992). Essentially, some business people know that “the rest of the population doesn’t really understand, trust or even like them. Under these circumstances, there is a strong temptation to use environmental issues to show that they have social responsibility and trustworthiness—qualities which they feel are otherwise denied to them” (Ford (b), 1992: p. 164). Therefore some of the emphases which business people place on environmental issues may derive from simply a personal need to gain respect from the rest of society.

Managers, however, also have some practical reasons for attempting to gain acceptance and support from society. As already mentioned, acceptance from stakeholders is necessary for businesses to get bank loans, insurance, please shareholders, attract employees, obtain permits, and gain market shares. Given the variety of justifications and desires which motivate managers’ environmentally conscious behavior, it is not surprising that there is spectrum of ways which different companies cope with pressures for environmental responsibility. The final section of this chapter will explore a variety of views analysts have on the elements necessary to be an environmentally responsible company.

3.5 Criteria for an Environmentally Responsible Company
Prominent social theorists, like Joly and Ford, explain several of the more popular frameworks for understanding environmentally responsible corporate behavior. Joly’s model for corporate responsibility suggests that companies can be categorized as “core,” “expanded,” and “sustainable” as a method for describing and determining a company’s commitment to environmentally responsible behavior (Joly, 1992).

Joly defines core responsibility as a company whose primary business is pollution control. The company profits are from making, selling, installing or operating air, water and soil pollution control equipment or services in industrial and governmental installations. These services are considered positive screening criteria although no social or otherwise ethical criteria are considered (Joly, 1992). This definition does not account for those companies in the pollution control business which have come under social and ethical scrutiny.
Joly’s expanded definition incorporates the positive screening criteria built into the core definition plus negative screening criteria. The negative criteria evaluating unacceptable corporate social and ethical policies include the company’s employee policies, hiring and compensation practices, relations with certain countries (South Africa being the most notable example), compliance with environmental regulations, and the company’s environmental practices (Joly, 1992).

The final definition Joly describes is the sustainable criteria. Sustainable criteria includes screening for the company’s investment, long-term understanding of, and care for, the natural, built and cultural environments. This care should extend the decision-making horizon beyond the present generation and beyond the CEO’s term, with the intent of increasing equity both inter- and intra- generationally (Center for Social Management, 1994).

Ford’s view of corporate responsibility suggests that companies fall on a spectrum between those firms which have never thought about the environment in any way to those firms for which improving the environment is the sole justification for being in business (Ford (b), 1992). Such extremes would rarely be encountered in reality. However the spectrum can help to determine the extent of a firm’s environmental awareness and activity.

| Environment is sole goal | Environment is non-existent |

In Ford’s model, furthest to the right on this spectrum are those companies which ignore all public sentiments regarding environmental responsibility. They can be considered inactive with respect to their environmental policies. Further to the left on the spectrum are those companies which respond to clear changes in market activity or regulation, but do not actively shape these changes. They can be considered reactive with respect to the environment (Ford (b), 1992).

On the left portion of this spectrum are companies which try to anticipate consumer preferences or governmental changes and are proactive about the environment. Furthest to the left are companies seek to provoke changes in the market and legislation; companies which some analysts consider environmentally hyperactive (Ford (b), 1992). A chart depicting this model of environmental responsiveness appears as follows:
Within inactive companies, the directors do not feel that it is responsible for them to devote money and energy to environmental objectives which have not been prescribed for them either formally by the government or informally by the market place (Ford (b), 1992).

Reactive companies, in Ford’s model are entirely non-strategic in their approach to environmental issues. They see each legislative addition and each change in their customer demand as an ad hoc problem. They do not strive to predict market demands or regulatory action, and take no action to influence them. Proactive competitors are thus at an advantage to the more vulnerable reactive companies who simply react to the rules of production which others create (Ford (b), 1992).

The benefits of this reactive approach is that companies invest only in environmental technology and expertise required of them. They avoid the risks associated with proactive technology or policies which may not be embraced by regulators or customers. Some analysts suggest the reluctance of reactive companies to invest proactively in environmental policies, products and processes keeps costs down and can provide some flexibility in an economic slump (Ford (b), 1992). Other analysts suggest that the reactive company does not recognize the growing importance of the environment to its customers, distributors, the government’s electorate, or their employees. These analysts submit the reactive company is insensitive and arrogant towards change and the opportunities change can bring. Moreover, this insensitivity and arrogance carries through to their treatment of employees, their attitudes to the communities in which they operate, and every other element of the philosophy and policies whereby they do business...[furthermore] the absence of vision which bedevils their environmental strategies (which are non-strategies) also blights their market analysis, their setting of objectives, their quality programs, and everything else they do. A company’s directors might themselves choose not to care about the environment - that is, after all, their personal prerogative. But if they are unaware or unconcerned that other people do care about the environment, that is bad management, because it means that they are unable to understand, much less to control, factors that critically affect their business (Ford (b), 1992: p. 168).

Proactive companies, according to Ford, seek to anticipate and respond to future changes in customer requirements and government regulations. This strategy of staying ahead of
environmental change gives them a competitive advantage over more inactive and reactive companies. Proactive companies are led by dominant managers, who may have a personal stake in company’s environmental policies. They have a top-down approach to environmental policies and maintain a defensible record on environmental issues at all times. They would not pursue profits when unacceptable environmental consequences followed, even if their actions were legal. They consider their actions within the parameters of staff and community health and welfare, the cradle-to-grave environmental impact of their own and their suppliers’ products and processes, and the maintenance of high, ‘first world’ standards in their third world operations. At the same time, they judge their success within conventional mechanisms, such as profits and stockmarket capitalization. Proactive companies are empowered by being both visionaries and pragmatists (Ford (b), 1992).

The company furthest left on Ford’s spectrum is the most controversial of the environmentally responsible actors. Many analysts feel that because these companies operate outside the capitalist model their criteria cannot be applied to conventional companies. These companies, called “hyperactive companies”, assume that their own environmental standards are superior to those dictated by regulation or market forces. Their system of environmental morality transcends government and marker requirements. Proactive companies are managed by environmentally committed leaders, who are often publicly well-known for pushing the environment-business frontier. They try to distance themselves from ‘normal’ business practice by framing business goals in a moral, social and environmental framework and not a profit perspective. Although profit is never pursued for its own sake, hyperactive organizations are not unprofitable (Ford (b), 1992).

Their objectives are not growth, market share or profits, but the maintenance and communication of what amounts to a system of beliefs and ethics; their attitudes to workers are those of a community of like-minded individuals; and they see profit as a means of sustaining the values of the company, not a goal in itself. In other words...[these] companies seem to be more like profit-generating charities than conventional companies (Ford (b), 1992: p. 170).

While some economists and executives may attack the unconventional attitudes of the hyperactive companies, many large, familiar companies like Patagonia, Ben & Jerry’s, and Newman’s Own have now adopted some of their attributes. Hyperactive companies have influenced many mainstream companies to issue annual reports and other corporate communications which include a mission statement or overriding vision for the company
based on community values, a distancing of the company away from "unacceptable" profit, and an educated perspective towards workers and the environment (Ford (b), 1992).20

These models still assume that an accepted definition exists between what is socially and environmentally responsible. One could argue that an extractive industry (like oil or timber products) is inherently environmentally destructive and defined by the model as "inactive." However, one could also have the view that a responsibly managed industry, which is proactive in worker safety, its recycling of waste, and is technologically innovative is a "proactive" company. Debate also surrounds those industries whose purpose is the manufacture of pollution control technology or remediation techniques. To some, these practices may appear environmentally beneficial, while to others, such practices seem to profit from and thereby promote the environmentally destructive behavior. Thus while these models give a basis for analyzing corporate responsibility, they are still overly simplistic and rely on the easy categorization of corporate activity. In determining the level of company responsibility one must evaluate production processes, management policies and practices, areas of the company's activities which may contradict environmental goals, and environmental goals which contradict themselves. As yet, there is no clear criteria for the determination of the exact components which comprise an environmentally conscious corporation. As demands from stakeholders are more clearly articulated, the requirements for corporate environmental responsibility will likely evolve.
Chapter Four: External Attempts to Influence Corporate Activity

Abstract: Government is universally recognized as having the authority to interpret and enforce the rules of business activity. Government regulation, an outside force on corporations, is intended to protect the general public from undesirable corporate practices. There are several reasons why attempts to restrain corporate environmental activity have not succeeded entirely. However, government-imposed standards enable companies to take socially desirable actions without necessarily incurring serious competitive disadvantages and have generally improved the natural environment. The results of command-and-control and market-based regulation are improvements in environment. Neither strategy promotes proactive, comprehensive environmental management.

4.1 Why Government Regulation?
The first instances of government regulation grew out of the unanimously recognized authority of government to interpret and enforce the rules of competition. In its initial phase, government regulation was designed to protect both business and the public from anti-competitive practices. Later, this regulatory task was expanded to protect the public from unfair competitive practices. Still later, government regulation expanded to focus on fraud, deception, and dishonesty (Bowie, 1982). It is important to emphasize that when conducted fairly and efficiently, this type of government regulation supports the rules of business activity itself (Bowie, 1982).21

The expansion of government regulation to include environmental issues is the result of at least three factors. First, it results from the universally recognized authority of government to interpret and enforce the rules of business activity. Second, it arises from appeals of proactive companies that need government-imposed standards to allow them to take environmentally beneficial actions without incurring serious competitive disadvantages.22 Third, it emanates from the demands of the general public that it be shielded from a increasing list undesirable results of corporate practices (Bowie, 1982).23

21 Practices that undermine competition either through monopoly or deceit cut away at a central tenet of business practice. From a market perspective, failure to support attempts to control and thwart such anti-competitive practices would be self-defeating (Bowie, 1982).
22 In a competitive system, a costly activity done on behalf of the public good, like installing technology to remove emissions, could put an individual firm at a competitive disadvantage. In such situations government regulation assists businesses to act on behalf of the public and in a way they previously could not because of the competitive disadvantage they would face (Bowie, 1982).
23 Another advantage of government regulation is that it forces indifferent or maleficent corporations to adhere to the minimum requirements of corporate social responsibility. Society has broadened its notion of corporate social responsibility, and hence it has increased its demand for government protection. The public demands government regulation as a check on corporate misbehavior while simultaneously expanding its list of business activities that it finds ethically inappropriate. Most recently, however, the public has pulled back from this course. Concern with declining productivity and the cost of regulation have brought about a shift in attitude. Nonetheless
Thomas Schelling has described government regulation as necessary "when the firm may lack the discipline, the information, the incentives, or the moral authority to command performance or restraint on the part of everyone whose cooperation is needed" (Schelling, 1979: p.218).

4.1.1 External Mechanisms of Environmental Control

Numerous laws exist which attempt to regulate the environmental effects of contaminants. These laws range from specific controls on media emissions, to laws dictating technology, to retroactive laws attempting to remediate contamination sites, to laws dictating the release of information. The scope of this paper prevents examination of each of these laws and their impact on the environment, but improvements in air, water, soil, occupation health and safety are uncontested. It is widely accepted that these laws have had a positive impact on the environment. However, under serious contention is whether existing regulations are appropriate or necessary given the progress that has been made since the laws were enacted.

Economists, business managers, and environmental researchers and advocates are familiar with the concept of diminishing returns: large quantities of emissions/contamination may be reduced/ remediated with an initial investment. However the removal of the last, say 10%, may cost as much as removing the initial 90%. Business leaders and many environmental researchers and advocates also recognize that environmental issues are increasingly complex, and extend beyond the scope of traditional regulation. Most modern environmental regulations seek to prescribe specific technologies or performance standards to control pollution. Command-and-control regulations have been severely criticized as economically inefficient and ineffective in addressing the moving targets of many environmental problems (Orts, 1995). This mutual recognition of decreasing benefit to strict command-and control regulation, however, does not translate to an agreement on the direction that environmental laws should be taken. The following chapter will briefly discuss the limitations of command and control regulation and trends in market-based regulation. The diminishing confidence in regulatory mechanisms to restrict corporate protection against corporate irresponsibility (e.g., chemical dumping) is still a public goal (Bowie, 1982).

As Bruce Babbitt stated in The Future Environmental Agenda for the United States, "The victories we have won in such areas as air and water pollution and natural area protection will, in hindsight, seem relatively easy. The next generation of environmental challenges will be more intractable, more difficult problems that fundamentally relate to how we live on the land and on the planet...[I]n the next generation, we will have ... [to look] at how we run an industrial society, and at how to make the kinds of changes in the structure of this society, in the organization of our economy and our culture, and in our personal habits, to avoid the possibility of environmental catastrophe" (Orts, 1995).
impacts on the environment effects society’s perception of corporate environmental responsibility and legitimate environmental actors.

4.2 Trends in Environmental Regulation
A multitude of legal requirements and voluntary programs has resulted from the desire to balance public concerns and industrial and economic growth. Twenty-five years ago, Congress created the Environmental Protection Agency as a response to increasing concerns about industrial pollution. Two decades later, the vast majority of US corporations are spending considerable money and effort to comply with environmental laws. Currently citizens, industry, and government spend more than $100 billion each year on pollution control (Thomas, 1992). The EPA estimates that $160-200 billion (approximately 3 percent of the nation’s GNP) will be spent on pollution control by the year 2000 (Post, 1991). Traditionally, regulatory action has been command-and-control legislation: prescribing standards on specific operations and limits on particular effluents, emissions, and waste at the point of discharge. While the level of emissions has been reduced in many media, command-and-control regulation controls waste primarily on an effluent by effluent basis or through product bans and cannot accommodate community concerns regarding increasing total contaminants in particular waste streams (Wright, 1994).

Command-and-control assumes even if private businesses provide some solutions to environmental problems, they cannot be left to police themselves. The main reason for this skepticism is that corporate goals and environmental improvements appear contradictory. A corporation’s primary objective is economic profit, often from short-term investment. Competition often involves lowest cost production and since pollution prevention may direct costs to the firm, such programs are not often adopted voluntarily. Thus, corporations often have been viewed as unable to have the long-term thinking necessary for proactive environmental programs. This perception traditionally led regulators to determine how pollution would be reduced on a contaminant-by-contaminant basis. Recently however, corporations have been recognized by regulators as valuable contributors to formulation of environmental statutes. Given the opportunity, firms can use their vast experience in innovating technology and finding creative ways to meet newer standards.

Much of industry’s willingness to participate in policy formulation is based on the knowledge that the laws will be made with or without its consent. Regulators want to set standards which can be met and are increasingly soliciting industries to make known the
limits of their preventive capabilities. This recent industry and regulator collaboration may be in both parties' best interest. Industry's involvement in Superfund legislation provided a more satisfying outcome for both parties that may have otherwise occurred. There continues to be however, a wide schism between what environmentalists, consumers and other stakeholders think should be the extent of corporate involvement in formulating new laws.

Limitations on legislative approaches to achieve a balance between business behavior and the norms by which the larger social system operates occur for several reasons. Stone makes several arguments that suggest the nature of law itself prevents it from being a sufficient condition for achieving corporate responsibility. First, laws are often the reaction to events and are limited by the available scientific and technical knowledge of the time. Uniform statutes are not easily adapted to changing social circumstances. Laws face a time lag problem, are often passed only after the damage has been done, and the damage is frequently severe (Stone, 1975). Second, corporations often play a very large role in formulating the law that governs them. This is not necessarily the result of corporate bribery or intimidation to attain influence. Rather, corporations have an interest in reasonable regulations and are often willing to supply relevant data to help determine standards, technology, or timelines. Third, society oftentimes attempts to create legislation to apply to situations lacking consensus on cause, and effect, and outcome. In these circumstances, laws tend to be vague, cumbersome, and inconsistent, and may not even address the problem. While societal expectations are continually changing and contradictory over time, law is more formal and requires some consensus and general level of consistency. Finally, the law is generally an expensive means for regulating corporate behavior (Stone, 1975). It works reasonably well when it seeks to address minimum standards for corporate conduct but falters when it tries to establish ideals. Attempts to legislate beyond a minimal level generally results in high costs of implementation and enforcement (Stone, 1975).

25 Upon foreseeing potentially stringent regulations, the chemical industry formulated its own program in an attempt to change the public's negative impression and avoid more legal requirements. The CMA knew that without a change in public opinion based on real improvements, siting facilities, operating in a community, and regulatory compliance would become increasingly difficult and costly (Heller, 1991). CMA's input was very influential in the drafting of the Superfund Amendment and Reauthorization Act (SARA) and the Community Right-to-Know Act (Title III) in 1986. EPA's Chemical Emergency Preparedness Program (part of Title III), was an almost identical version of an element of CMA's Responsible Care Program. The Program obligates its members to make health and environmental considerations an integral part of business planning. Although that segment of Title III was never written into law, it taught CMA that if it addressed a problem legislators wanted to solve, the law might be written based on mutually agreed upon and industry acceptable standards, thereby benefiting both parties (Heller, 1991).
4.2.1 Command-and-Control

In the early 1970's, the United States and Europe adopted the first major environmental statutes, mostly command-and-control. This traditional form of regulation requires top-down enforcement. It seeks to control pollution through two mechanisms. The first is by issuing permits to industrial firms and other pollution sources. The permits allow pollution emission based on societal acceptability and technical capabilities. The second mechanism for controlling pollution is the requirement of uniform technology to control pollution at the end of the production process. The penalties for violations of either performance-based or technology-based regulations are civil fines and, to a more limited extent, criminal prosecutions. Economists, analysts, and environmental advocates have heavily criticized command-and-control approaches to environmental regulation. Economic studies have repeatedly shown that performance-based or technology-based regulations are often extremely inefficient. Uniform requirements may achieve some significant environmental successes, however they require heavy governmental oversight, do not maximize the resources devoted to improving environmental quality or encourage technological innovations and investment. Command-and-control allows standards to be applied to all polluters equally, however critics contend such statutes are blunt instruments for achieving environmental goals.

As environmental regulations have been promulgated, they have become increasingly difficult for companies to meet. A 1993 survey of corporate attorneys found that less than a third of those responding believed that full compliance with the array of U.S. and state environmental laws was even possible (Orts, 1995). As requirements of the command-and-control approach become more detailed and encompassing, the burden on the legal and administrative systems become burdensome to the extent of "break(ing) down under its own weight" (Orts, 1995: p.19).
4.2.2 Market-Based Environmental Regulation

A recent alternative to command-and-control regulation is market-based environmental regulation. The intention of this approach is to force polluters to internalize the harmful environmental effects of their economic activities. If economists are able artificially to structure the market to include externalities, the market will yield an optimal level of environmental pollution at the least economic cost. There are three conventional economic approaches to environmental regulation. The first is a Pigouvian tax on activities that cause negative environmental consequences. Environmental benefit occurs only if the government is able to estimate the optimal environmental harm and rates which deter pollution. Thus the tax is not really driven by market forces, but is set by government.

A second conventional economic approach to environmental problems is based on the Coase Theorem arguing that the failure to allocate property rights prevents the environment from being accurately valued. Clearly defined property rights to land, streams, endangered species, and air, the Coase theory suggests, give environmental resources value. This provides an incentive for preservation and protection. Putting aside the practical and moral difficulties to assigning property value to the environment, creating such a system would presumably require government regulation required to administer the new property rights systems and methods of enforcing the new property rights.

A third approach to managing resource degradation and pollution is tradable permits. In this option, pollution permits are traded on the market, thereby forcing the worst polluters to either improve technology for reducing pollution, go out of business, or buy the right to pollute from a less polluting firm. The government is required to set up a system to keep track of trades and to set a ceiling for total pollution. This alternative is being applied to an acid rain and smog program in the United States (New York Times, 3/30/95). This approach is an option in conditions where a few, large polluters can be identified, however it is not possible for environmental degradation caused by many, anonymous polluters, like the millions of automobile users or household waste producers.

A fourth type of market-based regulation strives to capture the environmental consciences of consumers to support environmentally friendly business activities. This alternative requires regulation to create a credible system to aid consumer identification of environmentally responsible products (Orts, 1995). Environmental labeling efforts are a formidable option already underway. The European Union’s Eco-label Award Scheme, is one example of a procedure for government certification of environmentally friendly
products. Similar national sponsored environmental labels exist in Germany (Blue Angel), Canada (Environmental Choice), Japan (Eco-Mark) and Nordic countries (White Swan). The general principle is that the label is awarded only to products that satisfy ecological criteria. At this point technological and trade issues complicate a national labeling option. Environmental impacts of the product and technology used to make the product are difficult to assess. In addition, different requirements for each labeling program pose problems for multi-national firms. Within the United States, there are two non-governmental organizations promulgating eco-labels: Green Seal and Scientific Certification Systems. Eco-labeling places some responsibility on the consumer, rather than solely targeting producer behavior. Not surprising, neither US labeling programs has gained widespread consumer or industry interest.

At this time, market-based environmental regulation is in its infancy. Pigouvian tax systems and reallocation of property are distant options, government-sponsored labeling efforts are non-existent in the US government, and tradable permits only recently have been adopted for limited application. An analysis of these options is thus premature, except to say greater efficiency is not assured with these options and government enforcement and oversight are still requisites. Most environmental statutes that relied on end-of-pipe controls have pushed companies towards pollution prevention due to sheer costs of non-compliance. However the legislation and regulations themselves are incapable of keeping up with the tremendous increase in the number and volume of chemicals, waste, and pollution.

4.3 The Lesson
The lesson learned, as thousands of in-practice laws accrue, is that it is impractical to regulate all of the activities affecting the environment. For many corporations, environmental goals are still based on meeting federal and state regulations. Since companies are required to disclose only very limited records of compliance, the public cannot determine how well corporations are meeting environmental laws. Even if this information were available, environmental regulations generally set the minimum legal standards and many environmental groups and concerned citizens do not believe that a record void of violations warrants approval of environmental responsibility.

Despite the corporate belief that standards are too stringent and costly, US citizens increasingly feel that industries are under-regulated (Heller, 1991). The desire for more corporate oversight and accountability combined with the public pressure on politicians and
companies to move away from relying on compliance, have resulted in a press for change in the fundamental values of business. A strategy is necessary which avoids cumbersome and inflexible mechanisms yet promotes proactive, comprehensive environmental management.
Chapter Five: Trends in Voluntary Corporate Management

Abstract: Compliance with government-imposed environmental standards has not provided assurance to the stakeholders who are concerned with corporate activity. Non-regulatory codes of environmental management utilize internal corporate pressure to proactively manage environmental impacts and as a mechanism for gaining public trust and institutional legitimacy. Credibility and public acceptance increase by re-establishing the rules by which the institution will be governed. Non-regulatory, alternative management codes are intended to establish codes governing environmental decision-making. Accountability, a key element of legitimacy, has required the corporation to provide information about its activities to the public. This has made some firms worry about a competitive disadvantage. Disclosing information has also been disconcerting for companies who want to act and be perceived as environmentally committed, but are unsure of the factors on which they will be evaluated and how their information will be interpreted. This chapter notes the advancing European voluntary codes of practice including ISO 9000/14001, EMAS and EPA voluntary codes of practice. Several examples of current private voluntary codes of management exist, CERES being the most unique.

Environmental intervention historically has come from non-governmental organizations concerned with activities they view as harmful to the environment and from governments imposing command-and-control regulations. Increasingly however, companies are utilizing non-regulatory, alternative guidelines (henceforth called voluntary codes\textsuperscript{26}) to proactively manage their environmental impacts to gain public trust and institutional legitimacy. Several different voluntary corporate standards have been created. All have similar goals: to introduce the idea of an environmental ethic to business and design a framework for information generation and evaluation. The codes of management are not "regulatory" in nature and do not dictate standards or methods by which goals are met. The voluntary environmental codes are general recommendations intended to guide companies to the important environmental issues thereby allowing each industry and company to tailor its environmental programs as appropriate. The adoption of voluntary management codes is on the rise both domestically and internationally. Based on legitimacy theory and trends in both the social responsibility and environmental movements one could assert that by committing to such guidelines, corporations are striving to change public perception, increase their credibility, and gain approval to act on society's behalf.

\textsuperscript{26} The word "voluntary" indicates criteria which are not legislated but are adopted by corporations. They are an alternative to the regulatory options which currently exist.
5.1 A Corporate Advantage?
Pressure groups have castigated companies they deem environmentally unfriendly and regulators must enforce an increasing number of statutory requirements on environment, health and safety issues (as discussed in the preceding chapter). Business leaders have expressed concern that regulation increases business costs, prohibits profitable activity, and limits corporate independence. In addition, mandated standards have been viewed as “bureaucrats substituting their judgments for those of the market.” Why would corporations be willing to adopt a voluntary codes of management?

Voluntary standards have short-term and long-term benefits. Environmental management often results in improvements to the bottom line through direct cost reductions. Voluntary standards enable companies to hurdle regulation thus reducing the need for more environmental mandates. In minimizing the risk of future regulatory demands, companies reduce litigation and remediation costs (Fri, 1992). If business leaders ignore environmental initiatives until they show up on an official agenda, they find that they are subject to demands they could have anticipated and incorporated into management practices already (Fri, 1992; Wright, 1994). If voluntary standards become compulsory, companies that have an environmental management and reporting framework would have a competitive advantage in the race to stay ahead of regulations and public concerns (Skinner, 1993).\(^{27}\)

Promoting a standard can provide stability for a company. Standards allow corporations to create a context for environmental actions, by utilizing a single system of audits and accounting, and employ consistency in production processes. A voluntary standard translates amorphous demands from stakeholders into a program for consistent improvement in all stages of corporate activity. Thus, an equilibrium in expectation and regulation allows companies to make confident investments in long-term environmental improvement which will not be undermined if the political climate changes (Susskind, 1992).

Voluntary standards, if promulgated fully, also have the benefit of improving a corporation’s reputation. If the reputation of a corporate institution is questionable, or no longer accepted, the firm eventually will lose public approval. Corporations which face a loss in credibility which generates concern for their ability to provide material needs while

\(^{27}\) Voluntary standards can provide a competitive edge for companies facing pressure from stakeholders and other companies for quality products and services within a context of excellence in environmental management.
managing the environment must develop institutional mechanisms “for the production and maintenance of impersonal trust” (Simmons and Wynne, 1993: p. 203). One mechanism for reducing uncertainty is by establishing the rules under which the institution will be governed. By establishing “diffuse relations of trust based on the shared expectations about the social rules that govern a particular activity or situation” corporations can achieve increased credibility that they are acting on the public’s behalf (Simmons and Wynne, 1993: p. 202).

Creating impersonal trust through voluntary codes of a management helps corporations meet the proactive environmental stance stakeholders increasingly expect. A strong environmental reputation has a positive effect on a corporation’s immediate products and for recruiting scientists and researchers who develop competitive, quality products. Recently, market surveys conducted by Gallop and Harris indicate that consumers are willing to pay more for environmentally sensitive products and 70 to 80 percent of consumers have indicated that environmental policies affect their purchasing decisions (Smith, 1991). Going beyond compliance to preserve one’s reputation can reduce short-term profitability. However, efforts to maintain a good relationship with key stakeholders and preserve a good reputation in the market are a sound practices (Fri, 1992).

5.2 The Concept of Voluntary Codes of Management
Companies initially responded to increasing stakeholder pressure by including environmental information in their annual reports and other public materials. The information provided has ranged from one sentence about “environmental friendliness” or “sustainable development” to lengthy documents discussing production techniques, emission levels, compliance records, and waste disposal techniques. Thus, while there is a trend towards increased availability of information, the wide disparity in information provided has not allowed an easy analysis of companies’ environmental commitment and long-term management strategies. Disclosing information has also been disconcerting for companies that want to act and be perceived as environmentally committed, but are unsure of the factors on which they will be evaluated and how their information will be interpreted.

Compliance with government-imposed environmental standards has not provided assurance to the stakeholders (banks, insurance companies, employees, investors, individual consumers, citizen groups, environmental non-governmental organizations, government agencies, regulators) who are concerned with corporate activity. As global markets expand, so does the public’s awareness of multi-national activity. Stakeholders are no longer
convinced the disposal methods, energy consumption, and pollution caused by corporate activity are necessary for the goods they desire. Society has come to demand that businesses take on more responsibility for the effects of their activities on the environment and on human health. Fueled by the view that companies see the environment as waste sink and businesses have the capacity and opportunity to cause significant change in the environment, the public has come to question companies’ current practices. Instead, pressure groups are looking for ways to create less rigid regulation which use the market and social pressure to impose change on corporate activities.

5.3 European Voluntary Codes of Practice
National standards setting bodies have been in competition to develop a definitive environmental management system (EMS) standard. The British Standards Institute was the first organization to submit a draft EMS standard, BS 7750. The British Standard 7750 (See Appendix A) suggests defining, documenting, and communicating environmental policy, defining responsibility, setting specific environmental objectives, maintaining documentation and management records, and conducting audits. The guidelines do not suggest external audits, specify the disclosure of records or records form audits, or require continual improvement. Shortly after BS 7750 was submitted, AFNOR, the French standards body submitted its own EMS standard. Spain and Ireland followed this trend. In October, 1994, the European standards body (CEN) accepted a formal mandate from the European Commission to establish a European-level EMS standard. Meanwhile the International Organization for Standardization, is currently drafting an international standard, ISO 14001 (Orts, 1995).

A very recent development in voluntary environmental codes is the ISO 14001 environmental standards. Its goal is to influence companies to create measurable environmental management systems. In the summer of 1993, negotiations began between the International Organization of Standardization, environmental ministries, and corporations in an attempt to incorporate an environmental component into existing, internationally accepted ISO 9000 quality standards. ISO 14001 is expected be ready for adoption in late 1996 but several more years will pass before it is in widespread use.28 ISO

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28 Since issuance in 1987, ISO 9000 has gained rapid acceptance and is de facto requirement for doing business. Over 40,000 companies have been certified although ISO 9000 certification is less rapid (about 10%) in the United States (Orts, 1995).
29 ISO 9000 certification requires documentation that the product meets the quality of purchaser, extends assurance to all inputs in a product, and requires suppliers for products to also meet the standards.
9000 certification\textsuperscript{29} is now required for sale of products throughout Europe\textsuperscript{30} and proponents are suggesting the ISO 14001 will also be a de facto requirement for production, distribution, and supply of products throughout the European Union (Oppenheimer, Wolff, & Donnelly, 1995; Orts, 1995; \textit{EWWE}, 1994).

The appeal for creating the ISO 14001 code in the image of ISO 9000 is that pressure would increase for companies to consider the environment in their decision-making. The argument is that environmental aspects affect a company’s productivity and ability to provide quality services, therefore environmental policies within a company should be recognized as part of the quality of a company. The current draft of ISO 14001 would require businesses to establish and document environmental management systems. Some of the key concepts not included in the ISO 14001 draft standard are auditing against continual improvement standards and a public environmental statement summarizing the results of the audit (\textit{EWWE}, 1994). Similar to concerns with ISO 9000, it is possible for a company to produce a well-documented system without achieving the desired effect of environmental benefit. ISO 14001 has the potential for significantly affecting corporate environmental performance providing the internal environmental policies companies adopt provide direction to particular improvements in production and management processes. At this time the precise guidelines have not yet been determined.

A similar attempt to affect corporate behavior through voluntary mechanisms and which could also have widespread and international implication is the European Eco-Management and Audit Scheme (EMAS) (See Appendix B).\textsuperscript{31} Although the European standards body

\textsuperscript{29} US business are currently seeking to comply with ISO 9000 because of real or perceived market forces. Customers in Europe are demanding ISO 9000 registration in contracts; ISO 9000 registered suppliers are treated preferentially; if a company is not accredited, competitors have advantage of product differentiation by being registered; and European divisions already have registration and are putting pressure on US branches or subsidiary companies for internal consistency. In the US, companies must have an approved quality system and ISO 9000 is the only one accepted in EEA countries (the EC and the 7 countries within the European Free Trade Association). In addition, AT&T, Dupont, and other large companies will likely require their suppliers to be ISO 9000 certified.

\textsuperscript{30} It is likely that market and social forces will make EMAS in effect mandatory. Representatives of European banks and insurance companies are contemplating requiring businesses which need an extension on a loans or need insurance to participate in the EMAS since loans and insurance policies often involve
has decided that ISO 14001 is compatible with EMAS and intends to use ISO 14001 as the European standard, EMAS is influencing ISO discussions. The EMAS program was submitted by the European Union Commission, a government agency. The program is very similar to the ISO 14001; however it requires an environmental statement illustrating a systematic approach to environmental protection. EMAS also requires an audit every three years, whereas ISO 14001 does not specify audit frequency. EMAS requires evaluation of the effects of current and past operations and activities (Oppenheimer, Wolff, & Donnelly, 1995). In both programs, companies must undertake an initial environmental review, from which environmental programs and management systems for registered sites are established. However EMAS requires the adoption of a corporate environmental policy and public disclosure of the results of periodic environmental audits (internal auditors chosen by the company) of the management systems and environmental performance. These statements are verified by accredited environmental specialists who register with designated regulatory bodies (Orts, 1995).

5.4 United States Government-Generated Voluntary Codes of Practice
Nothing near the level of EMAS or ISO 14001 has yet been promulgated seriously in the United States. The EPA is under pressure to regulate with a less heavy hand and to make directives based on voluntary participation.

environmental risks. Like ISO 9000, companies that participate in EMAS may pressure their suppliers and distributors also to participate. Last, the European Parliament may make EMAS participation a eligibility requirement for any company seeking government contracts or involvement in any Community program (Orts, 1995)
5.4.1 The "33/50" Program

The EPA recently established several voluntary environmental programs. The Pollution Prevention Act of 1990 required the EPA to institute a number of voluntary programs aimed to promote pollution prevention. The more popular program, the "33/50" program, solicited companies to voluntarily participate in the reduction of seventeen toxic chemicals. Based on the baseline data from the 1988 Toxics Release Inventory, the companies were asked reduce emissions by thirty-three percent by 1992 and fifty percent by 1995. Participation in the program is 1,200 American corporations, and although those companies participating have reduced their use of toxic chemicals, the program has been met with mixed reviews.\textsuperscript{32} A recent study by an environmental public interest group claims that eighty-three percent of participating companies had already begun pollution-reduction programs before agreeing to join the program (Orts, 1995). Furthermore, environmental groups claim that a pollution reduction program with only a fifteen percent rate of participation demonstrates the weakness of volunteer programs. Companies do not blame the voluntary aspect of the program for the lack of corporate participation but feel it is a piecemeal approach to environmental management which has been used for political purposes by the EPA (Orts, 1995).

5.4.2 Audits

In response to the massive chemical accident in Bhopal, India, SARA Title III legislation was passed establishing formal “right-to-know” procedures and requiring publication of inventories of toxic compounds. The information was intended to increase corporate accountability and inform communities about the risk of plants on surrounding communities. Since enactment of federal legislation, many states and localities have also passed complementary legislation. Many companies feel that it is just a matter of time before some variation of the “community right-to-know” policy will become law in most countries (Rappaport and Flaherty, 1992). As already indicated, trends in European standards are indicating increasing disclosure requirements.

SARA legislation allows environmental advocates, residents, and regulators to compare how much of certain chemical emissions a company releases annually, beginning the first year the information was required, 1988. Since that time, companies have been under

\textsuperscript{32} Of the six hundred large companies EPA solicited for participation (which were identified by amounts of emissions reported) less than three hundred volunteered, and even fewer affirmed their commitments with quantified data. The EPA then invited several thousand more companies, however less than five hundred more companies signed on, with only half of them supplying quantified data. As of March 1994, EPA had invited over 8,000 companies, 1,200 have agreed to participate.
increasing pressure by environmental advocates, citizen groups, and regulators to provide more information. Stakeholders want to know releases at individual facilities, management systems, environmental policies, and a multitude of other information about a company’s environmental responsibility. Much as a financial audit forces a company to take account of its revenue, sales, costs, and liabilities, advocates of environmental audits assert an environmental audit would determine if the appropriate and necessary management systems are in place and functioning (Friedman, 1992). An internal audit is likely a useful tool for managers—this information is also useful to stakeholders. Not only do stakeholders want more disclosure in an environmental audit, some stakeholders would like an external auditor verify the information provided.

In 1989 the International Chamber of Commerce (ICC) Working Party defined an environmental audit as “a management tool comprising a systematic, documented, periodic, and objective evaluations of how well environmental organization, management, and equipment are performing with the aim of helping to safeguard the environment.” The ICC described the auditing process as a mechanism for facilitating management control of environmental practices and assessing compliance with company policies and meeting regulatory requirements (Eckel, Fisher & Russell, 1992).

An external audit combined with public statements of commitment and intent, create a powerful incentive for corporations and for companies to make a considerable investment in their environmental performance. In addition, an external audit formalizes informal practices of self-regulation. Such an auditing scheme allows the public to expect the same information from all companies and sites (Burke and Hill, 1990; Simmons and Wynne, 1993).

An externally conducted and accredited evaluation is likely to carry more weight with the public than internally constructed and produced internal self-regulation. The public historically has perceived punitive sanctions as proof that the government takes environmental performance seriously. If companies hope to avoid more regulation and benefit from non-command-and-control regulation they must be able to convince shareholders that the mechanisms of control such internal audits, policy reformulation and external accreditation work. Informal control mechanisms are invisible to outsiders and lack

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33 An audit reveals if adequate resources are provided to assure they system’s continuation and effectiveness, whether appropriate measures are in place to measure environmental performance, whether the corporation has included in its environmental policy the means to meet future challenges, and the extent to which environmental polices are integrated into business decision making (Friedman, 1992).
credibility to stakeholders regardless how they work (Simmons and Wynne, 1993). Avoiding transparency is equated with lack of accountability.\textsuperscript{34}

In 1986, the EPA adopted an Environmental Auditing Policy to encourage the adoption of environmental auditing programs. Their stated objective to help ensure "the adequacy of internal systems to achieve, maintain and monitor compliance...[and] establish sound environmental management practices to improve environmental performance." The incentive the EPA provides is a more mitigating view in its enforcement responses, providing the firm makes an authentic effort to correct violations and underlying environmental problems in a timely manner. This incentive, however, is countered by EPA's authority to use the provided information for further inspections, liability, enforcement of laws, or criminal prosecution. If a company performs an environmental audit, and then neglects to fix the problems, an auditing system may provide the Office of Criminal Enforcement adequate reason to open a criminal investigation. Thus while the EPA and DOJ encourage companies to complete internal audits to adopt proactive environmental auditing and management systems, they simultaneously retain the power to use the audits to pursue enforcement actions against a company (Orts, 1995). However on March 31, 1995 the EPA adopted a new policy on environmental audits. The new policy offers facilities that voluntarily disclose and correct violations identified through the audits significantly reduced penalties and protection from criminal referrals.\textsuperscript{35} The new policy is an attempt to provide the "regulated community predictability and to reward

\textsuperscript{34} The belief that companies are hiding information is not so farfetched considering the information stakeholders are typically provided. A 1992 survey found 80% of corporate respondents conduct environmental auditing -- only 6% release summaries to shareholders and then only on special request. A common reporting situation is one in which reports on environmental activities do not include the amount waste stored or the cost associated with this. Reports may include required SARA data, but do not indicate the total releases per plant and specific types of chemicals the company released as a whole, or specific chemicals per plant. This data are important for communities who live near plants and want to feel safe in their surroundings. Generally when stakeholders are presented information which is not helpful or they are denied the information they deem necessary for confidence in the activities of the company, this advances the idea of industries as untrustworthy (Aeppl, 1992). Information on these concerns based on internal audits and unverified information prevent companies' policies from being challenged as inaccurate or incomplete based on different stakeholders varying definitions and criteria. Several voluntary options are in place to encourage the environmental audits.

\textsuperscript{35} If most of the seven conditions firms must fulfill under the EIA's new environmental auditing and self-disclosure program are met, fines may be reduced up to 75%. EPA can still demand payment of a fine assessed on the economic benefit derived from non-compliance. The seven conditions which must be met are: 1) The violation must be discovered voluntarily; 2) Disclosure of the violation must be immediate and voluntary; 3) The violation must be corrected within 60 days, unless it can be shown more time is needed for complete correction; 4) Any violation creating an imminent danger must be remedied immediately; 5) The firm must implement measures to prevent recurrence of the violation and to correct any environmental harm occurring because of it; 6) The violation must not be the result of a firm's failure to correct a violation it knew about and took no measures to prevent; 7) The firm must fully cooperate with EPA and provide all requested documents and access to employees for any future investigation (C&EN, 1995: p.6).
environmentally responsible actions, without unduly limiting vigorous enforcement of ... environmental laws or the public's right to know" (EPA, 1995).

5.5 Private Voluntary Codes of Management
In addition to the upcoming ISO 14001, EMAS, and BS 7750, several other voluntary standards have been promoted for use by US corporations: the Business Charter for Sustainable Development, Global Environmental Management Initiative, Responsible Care, and the CERES Principles. These guidelines range from broad, non-binding agreements to more specific actions that must be annually reviewed in a report and audit. They have been created by international business organizations, industry groups, and non-governmental organizations. The standards also call for a varying level of public accountability and disclosure of information.

5.5.1 Examples of Programs
In April, 1991, The International Chamber of Commerce organized a second World Industry Conference on Environmental Management (WICEM II). At the conference, an effort was made to assess progress on environmental issues since the first WICEM and to create momentum for elevating environmental interest (Rappaport and Flaherty, 1992). Industry participants were encouraged to sign ICC's Business Charter for Sustainable Development (See Appendix C). The ICC's guidelines suggest that a company which adopts the Principles establish policies, programs and practices for conducting operations in an environmentally sound manner and that "each company’s management should promote among its employees at all levels an individual sense of environmental responsibility and should educate and encourage them to be alert to potential sources of pollution and to sound resource conservation measures within their operations" (Rappaport and Flaherty, 1992: p.10). The guidelines suggest a recognition of the environment as a top priority, continuous improvement of performance, reduction of environmental impacts, measuring and reporting compliance, but do not provide guidelines or a format for reporting or require either internal or external audits.

The Global Environmental Management Initiative (GEMI), formulated by a group of US multi-nationals is designed to: (1) stimulate, assemble, and promote worldwide critical thinking on environmental management; (2) improve the environmental performance of businesses worldwide through example and leadership; (3) promote a worldwide business ethic for environmental management and sustainable development; (4) enhance the dialogue between business and its interested publics such as non-governmental organizations,
governments, and academia; and (5) forge partnerships around the world to encourage similar efforts in other countries (Rappaport and Flaherty, 1992).

In 1985 considerable media attention focused on Union Carbide's second accidental chemical release. Chemical Manufacturer's Association (CMA) realized its proactive involvement in legislation was not enough to prevent chemical accidents and lost credibility. It felt the chemical industry could not survive another blow to its credibility. In 1990, in response to its low ratings, the (CMA) introduced the Responsible Care program, an environmental management program designed to regain public's trust. Companies must pledge to operate according to the "Guiding Principles for Responsible Care of Chemicals," as a condition of membership in the CMA, which are embraced by most of the chemical industry worldwide (Rayport & Lodge, 1991). The standard is comprised of eleven guidelines which call for a collective improvement in health, safety, and environment performance (See Appendix D). The evaluation of a participant's performance involves a firm reporting in non-specific terms its progress in the implementing of individual management practices. Performance in relation to the codes is

36 In 1980 CMA recognized the necessity to address public concern. Its favorability ratings had steadily declined since 1978 when the chemical industry poll began. Since then, favorability has declined, reaching only 36% in 1994 (Chemical Week, 1994). The chemical industry overall favorability ratings placed it below the computer industry (86%), Food industry (59%), Lumber/Paper industry (53%), Automobile industry (50%), Plastics industry (49%), Airline industry (42%), Oil industry (38%), Pharmaceutical industry (36%), and Organized labor (29%). In comparison the Chemical industry received favorability of 24%, ratings lower than the Nuclear power industry (25%) and higher only than the least favorable industry, the Tobacco industry (10%). In addition, all industries sampled except the chemical industry had an equal or higher favorability rating in the plant community (Chemical Week, 1994).

37 CMA initially opposed Superfund legislation, expecting Congress not to pass it. Instead Congress passed Superfund and mandated cleanup requirements which were stringent and made many chemical industries liable for site remediation. When Superfund was up for reauthorization CMA recognized that if perceived as responsible, the chemical industry would be subject to more punitive legislation to punish and solve the problem (Rayport and Lodge, 1991). During CMA's joint effort with the government to reauthorize Superfund, a Union Carbide plant chemical leak killed 3000 local residents. Union Carbide was considered a responsible company, and the accident reinforcing the idea in the industry that spills can happen to even careful plants and that such spill can effect the entire industry's reputation. In response, the CMA proactively drafted the Community Awareness and Emergency Response program, provided potentially damaging information to environmental groups, persuaded the EPA that they were sincere about changing industry practices, and changed the performance of local plant managers. When Superfund was reauthorized, SARA Title III contained elements of CMA's Community Awareness and Emergency Response (Rayport and Lodge, 1991). The chemical industry generally attributes the decline in favorability to the frustration Americans feel toward the overall performance of politicians, CEOs, and professionals who have failed to solve a multitude of national problems-- including the environmental damage caused by corporate activity.

38 The resistance to providing the information that the public wants in a form it can scrutinize perpetuates mistrust of the chemical industry and perpetuates the public's belief that they have no control or access to industry operations (Simmons and Wynne, 1993). Evidence of this sentiment is apparent in the comments of a 1992 report about Responsible Care by The Public Interest Research Groups (PIRGs), a state-based nonprofit research and lobbying group for environmental and consumer issues." Now they're back. With a $10 million public relations campaign touting their new open door policy--with two page advertisements in every magazine from Businessweek to People sharing the motto: 'We want you to know.' At the same
not independently validated, and the codes are designed and enforced strictly by the CMA.\textsuperscript{39} Despite improvements in waste management, safer transportation, and public participation programs, spurred by the Responsible Care standard, the chemical industry continues to face low ratings and has been unable to extract itself from a faceless, nameless, corporate power perceived as being part of the "big, bad them."\textsuperscript{40}

The Canadian National Round Table on the Environment and the Economy, Japanese Federation of Economic Organizations (Keidanren) (See Appendix E), and petroleum industry associations also have proposed voluntary environmental management codes. The trend in sponsoring voluntary initiatives has been led primarily by forward-thinking business groups.

The CERES Principles are the only voluntary codes of management promulgated by a non-governmental, non-industry, non-profit organization. In 1989, The Coalition for Environmentally Responsible Economies developed 10 principles for improved environmental management, including a disclosure requirement and requiring internal audits. Unlike industry sponsored plans, the CERES Principles outline the major corporate environmental responsibilities which then must be reported to CERES, a non-industry, non-profit, independent organization comprised of various environmental groups, the investment community, and other at-large organizations. CERES's distinguishing feature of public accountability includes reporting criteria. CERES requires each endorser to submit an annual environmental report which is intended to provide the public with information not required by law and generally not provided by US companies. CERES claims that by adhering to its Principles, a company consistently makes changes in

time, they are working behind closed doors to make sure our constituents don't know about the increasing risks of toxic chemical use\textsuperscript{e} (Hartmann, 1992). The standard does not establish absolute requirements for environmental performance beyond commitment to continual improvement and compliance with applicable regulations. Some skeptical stakeholders suggest Responsible Care thus requires a firm only to commit itself in the policy document to obey the law and trying to improve. Responsible Care does not require compliance now or in the future thus stakeholders suggest such a program requires only what should be expected of a company bound by the law. Responsible Care does require that the firm catalogue all of its significant environmental fluxes and impacts and monitor these. This component is beyond US law media-specific requirements.

\textsuperscript{39} Some groups feel the standard is industry specific, too insular, and doesn't include outside people in the formulation or review of firm management practices. Other groups feel that reforming an industry from the inside is easier, and CMA is thus taking the right step by using an industry specific and self-regulating approach (Rayport and Lodge, 1991).

\textsuperscript{40} When survey respondents were asked what comes to mind when they hear the word "chemicals," 15% of the public referred to the dangers associated with chemicals, double the response of the 1993 survey. 76% stated they have reduced their use and exposure to chemicals, a 60% increase from 1989. The chemical industry's favorability, both nationally and in plant communities, remains low compared to other industries despite concrete attempts to improve their image through voluntary standards(Chemical Week, 1994).
environmental policies and procedures which result in increased environmental sustainability. In addition, the required report, which indicates the progress a company has made in attaining the Principles provides the stakeholders with consistent, comparable, and widely disseminated information, thereby facilitating evaluation of environmental performance.

Appendix F compares the reporting and disclosing requirements in the more popular US company-adopted voluntary management codes. Perceptions of voluntary codes in general have been met with both applause and skepticism. Some environmental groups, consumers, government officials and regulators believe the guidelines are only a public relations strategy because signing the guidelines does not necessarily result in improved environmental programs or increased available data. Some stakeholders have expressed concern that the standards are too broad and do not require companies to state the specific environmental policies and programs they are undertaking. Others have complained that voluntary standards do not require an external audit, and without such verification stakeholders cannot be assured the appropriate and necessary management and monitoring systems are in place, functioning, and are integrated into business decision-making, thus assuring the system’s continual effectiveness.

Proponents of voluntary codes of management suggest the codes provide flexibility and an environment more receptive to investment and capital expenditure in alternative manufacturing practices. They counter that command and control regulation hinder environmental programs. They also think that voluntary codes reduce the adversarial relationships between corporations and environmental advocates thereby promoting collaborative solutions and exchange of important environmental data.
Chapter Six: The CERES Principles

Abstract: The CERES Principles are a new code of environmental management. While much has been written about the CERES Principles in the press, very little is known about the impact of the Principles on public trust or the extent to which the CERES Principles can help companies achieve greater legitimacy. The CERES Principles, while similar to other codes of management, are unique in several respects, thereby making an analysis of its impact more complex. CERES is an independent, third-party group; its goals are more encompassing than other voluntary codes of environmental management, and a publicly available report, reviewed by CERES is required of companies who endorse the code.

6.1 The Origin of CERES
The CERES movement began when a group of social investment professionals, frustrated because they lacked the information needed to evaluate the environmental performances of companies, reached out to environmental professionals to see if this gap could be closed. Initially informal meetings led in 1989 to the formation of the Coalition for Environmentally Responsible Economies (CERES), which brought together many of the nation's prominent environmental organizations and socially responsible investment groups (Bavaria and Dodson, 1992). The CERES organization seeks to embrace overlapping concerns regarding corporate legitimacy. It is essentially a coalition of environmental and advocacy groups concerned with the social and environmental externalities created by the corporate strategy of resource use and profit-maximization.41

The Exxon spill in Prince William Sound, Alaska served as a catalyst for further action and Board members of many of the social investors, environmental and public interest groups, religious organizations and municipal pension funds, joined in the CERES coalition. These included well known organizations such as Sierra Club, Friends of the Earth, National Audubon Society, Natural Resources Defense Council, Good Neighbor Project for Sustainable Industries, Humane Society of the United States, U.S. PIRG, National Ministries, American Baptist Churches USA, Franklin Research & Development Corporation, Green Century Funds, United States Trust Company of Boston, Calvert Social Investment Fund and Foundation, AFL-CIO Industrial Union Department, Interfaith Center on Corporate Responsibility, New York City Comptroller's Office and Department of Finance, just to name a few (CERES Guide, 1995).

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41 The efficient use of limited resources, potential liability from environmental accidents, and regulatory fines are deciding factors in the future profitability of a company, thus shareholders are becoming rightfully concerned about corporate behavior surrounding these and other environmental issues.
Unlike industry sponsored plans, the CERES Principles outline major corporate environmental responsibilities of companies, the fulfillment of which must be reported to CERES, a non-industry, independent evaluator. CERES argues that industry efforts while commendable, do not go far enough and will not be regarded as very objective or reliable measures of corporate environmental performance by a skeptical public. CERES, on the other hand, involves environmental organizations, church-based and public employee Pension funds—all entities that enjoy a higher standing in the public than do many corporations or their trade associations (Doyle, 1990: p. 38).

The Principles are not "regulatory" in nature. They do not dictate how certain goals are met. They are instead general recommendations intended to guide corporate behavior on important environmental issues, while allowing members to customize their environmental programs to suit unique needs. The 10 Principles offer guidelines on waste reduction, responsible use of resources, product safety, environmental commitment in the selection of Board members, internal auditing, and a publicly available annual report of an endorser’s environmental progress.

The Principles are intended to provide stakeholders with consistent information on corporate conduct, thereby enabling evaluation of the extent to which a corporation is accountable to societal demands. CERES claims the primary benefit of endorsing the Principles is "the strong signal of environmental commitment... conveyed to the growing ranks of concerned consumers, employees, investors, and regulators" (CERES, 1994). The CERES Principles are intended to direct corporations toward environmentally sound practices by offering guidelines which represent various stakeholder’s perceptions of environmentally responsible behavior.

CERES’s purpose is twofold: to introduce environmental ethics to business and "to design a framework for information and evaluation against both the historical context of a business entity and community norms" (Bavaria and Dodson, 1992). CERES reporting criteria include approximately 90 questions. Although the number of questions asked to

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42 Corporations and industry associations "pursue their own interests, whether in defending against legal challenges or in seeking a competitive edge over others. Their self-interest usually takes precedence over concern for the community as a whole. Consequently the public remains skeptical when industry asserts its own claims for environmental excellence but does not renders itself accountable to external oversight" (Smith, 1993: p. 312).

43 The number varies each year as questions are added or removed based on relevance.

44 "The CERES report is ahead of the curve in terms of requiring upstream information, source reduction, and other indicators. Every year the report is different from the past. What gets included is worked out
signatories varies, from year to year, each signatory answers the same set of questions in the same format. To answer the report's questions, corporations must gather information on adherence to all the Principles. By gathering the information, companies assess their emergency response and public disclosure policies, relationship with suppliers, energy use, and environmental auditing programs (Smith, 1993). However, the CERES Board does not attempt to produce a comprehensive corporate environmental reporting format on its own. CERES looks to its endorsing companies for feedback and input on the content, substance and reporting format of the CERES Report. In the CERES process, "members are working closely with corporations to establish permanent criteria for the improvement of corporate environmental performance over time" (CERES Guide, 1995: p. 4). Although financial information about corporations is generally available and somewhat comparable, corporate environmental policies and strategies for environmental management have not been consistently reported and widely disseminated. The reports are intended to provide the public with information beyond that required by law and generally not disclosed by companies. It is the Coalition's intent that through this process standardized reporting will become a reality in all sectors of the economy (CERES Guide, 1995: p. 4).

with endorsing companies.. CERES is about collaboration and shared solutions. We bring companies to the table to talk about what should be reported" (CERES, March 7, 1995). The report is broken down into several sections. The report's Company Profile, Section I, includes 12 questions about significant changes in sectors/product lines during the last five years and number of full-time equivalent employees assigned to environmental management. Section II: Environmental Policies, Organization and Management includes 18 questions about worldwide application of environmental policies, publications of environmental policies, policies as compared to changing technologies and emerging concerns, and management responsibility. Section III, is comprised of questions related to conservation, reduction, reuse, and recycling policy. Releases to the Environment, Section IV, asks for reporting on production and use of ozone-depleting chemicals, greenhouse gases, and hazardous materials. Section V is a request for information about workplace hazards. Questions surround workplace health and safety auditing program and OSHA performance. Section VI: Emergency Response and Public Disclosure requests data on handling chemical emergencies, community involvement. Section VII discusses hazardous waste management and generation. Section VIII: Use of Energy requests information on energy commitment and conservation opportunities. Section IX includes questions about Product Stewardship and the evaluation of products and process in terms of environment, health, and safety. Supplier Relations, Section X asks questions about the selection of suppliers and their commitment to environmental responsibilities. Section XI discusses audits in terms of worldwide application, outside audits, and frequency of audits. The last Section asks for reporting on compliance, penalties and violations, and spills (Sun Co., 1992).
6.2 Investor Initiatives

CERES did not invent the first socially conscious Principles designed to guide business decisions. However its Valdez Principles were unique in their goal of “focus[ing] the pressure of socially conscious investor in order to improve the environmental conduct of publicly-owned corporations” (Environmental Forum, 1990: p.30). Previously, in 1977, the Sullivan Principles attempted to use investor resolutions to end through corporate divestment. In addition, the McBride Principles intended to convince companies through investor resolutions to support a non-discrimination code for Catholics in Northern Ireland.

As South Africa eliminated apartheid, the environment emerged as the new focus of shareholder activity and activism (Hansell, 1991). Although investors shared interest in the environmental as early as 1981, increased awareness about dirty beaches, Bhopal, and Chernobyl, and the 1989 Exxon-Valdez spill heightened shareholders environmental concern. The Valdez spill was described as “a tragedy that moved a cause” (Bavaria, 1994). In the months following the spill, six environmental shareholder proposals made it onto Exxon’s proxy ballots. Exxon was under extreme public pressure and was forced to add an environmentalist to its board. In that same year in annual meetings elsewhere, a record 50 environmental proposals were submitted to 38 companies across the nation (Erwin, 1990). These proposals ranged from nuclear power studies at General Electric Co. to eliminating Styrofoam packaging at McDonald’s Corporation.

CERES was able to utilize this growth in environmental concern to create a partnership between socially responsible investors and the environmental groups:

   In the most narrow sense, SRI advisors are concerned that environmentally unsound practices will undermine the economic health of corporations, and therefore reduce the risk-adjusted return of investment in that firm. Simultaneously, environmental groups are looking for ways to convince

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45 In the mid 1980s there was a dramatic growth in socially responsible investing (SRI). By 1987, 23 states and 91 cities and counties in the United States had placed social screens on total assets of $257.9 billion, $70 billion of which was from the Californian State pension fund. Anti-apartheid campaigning and public attention to social injustice led to dramatic divestment in South Africa, with an average of $1 billion per month being divested during 1985 alone. 140 universities and colleges had taken divestment actions affecting $81.2 billion in institutional assets. Chernobyl’s nuclear accident (Domini and Kinder, 1984) lighted concerns over environmental issues for the conscious investors with substantial capital influence. Public interest in SRI continues to grow, with state and local government placing social screens around their investments. In San Francisco, companies with involvement in South Africa will not be considered for government contracts. In Newark, city investment policy includes issues such as equal opportunities and racial equality. In 1992 there was over $400 billion in securities invested with some type of social screen (Miller, 1992).
corporations of the necessity of environmentally sound behavior. Obviously, in a broader sense, both SRI advisors and environmental groups share a need for creating a safe and healthy world. Both need access to information, skills, and potential allies (CERES, April 14, 1989).

Environmental and investor groups joined forces at CERES to utilize the extensive institutional investor involvement in corporations. In 1991 pension and retirement funds had $2.5 trillion in assets and owned 40 percent of American common stock (Kleiner, 1992 and Smith, 1991). Institutional investors' large size allows them to use their power to demand greater environmental management commitment and impose accountability as a legitimate investment issue. Ten years ago, shareholder resolutions generated only about 5 percent voting support. In recent years, environmental resolutions won 8-10% support and some resolutions have won as much as 15 to 25% support (Thomas, 1992 and Gannett News Service, 1990). Stockholder concerns for what environmental accountability is also becoming more widespread. In 1990, 43 of the 234 resolutions on social issues that stockholders brought before annual meetings dealt with environmental responsibility, twenty-three of which were initiatives to sign the Valdez Principles. In 1991, more than 50 environmental resolutions were proposed and 31 put to a shareholder vote. (See Appendix G: Shareholder Voting Results on the Valdez Principles). These resolutions were sponsored predominantly by religious groups working through the New York based, Interfaith Center on Corporate Responsibility. In addition, three large pension funds also voted in favor of the Principles: the New York City Retirement Systems, the California

46 In 1934, Congress created the Securities Exchange Commission (SEC) and stated that "fair corporate suffrage is an important right that should be attached to every equity security bought on a public exchange." In 1942 the SEC held that shareholder suffrage requires companies to publish shareholder resolutions in their proxy statements. In 1972, The Project on Corporate Responsibility, a Ralph Nader organization, targeted General Motors because it was then the largest industrial corporation in America. Nader's efforts, showed that these resolutions could include social issues (Domini and Kinder, 1984).

47 Of those twenty-three resolutions, seven were directed at chemical companies and nine were directed at oil companies: Allied Signal, Dow, DuPont, Eastman Kodak, Ethyl, Imperial and Union Carbide. Amoco, ARCO, Chevron, Exxon, Mobil, Occidental, Philips, Sun and Texaco (Hoffman, 1995).

48 Other than civil or criminal litigation, the only institutionalized mechanism for affecting corporate awareness is the proxy, the power to vote with corporate stock. By law, every corporation must hold an annual meeting of its shareholders. Each owner is entitled to one vote on corporate policy and for directors who manage the corporation on their behalf. In a large corporation, with tens of thousands of shareholders holding half a billion share of stock, the proxy acts as an effective means of tallying votes. The law requires the corporation to notify shareholders in advance of the annual meeting of its date, time, and place, and the issues upon which will be voted. Accompanying the proxy statement is the proxy card which is tallied and instructs the corporation on the shareholder's wishes (Domini and Kinder, 1984).

First, the avoidance approach: you refuse to invest in companies you dislike—companies that make products you don't support or whose services offend you or whose way of doing business seems wrong to you. Second, the positive choice approach: you actively invest in companies with products or services or ways of doing business that you do like. Third, the activist approach: you invest in companies you want to change and exercise your ownership rights to make those changes (Domini and Kinder, 1984).
Public Employee’s Retirement System and the California State Teacher’s Retirement System. After 1991, however, investor initiated Valdez resolutions, “remained steady over time... [eventually] succumbing to the pressures of the institutional field which it was trying to change” (Hoffman, 1995: p. 274).

6.3 Public Reaction and Discussions

On September 7, 1989, CERES publicly announced the Valdez Principles attracting extensive media coverage. Immediately after the first press conference, over 200 requests for copies of the principles were received (Hoffman, 1995). Two months later CERES presented the Principles to seven corporations they considered exceptional in the area of environmental controls, including Polaroid and H.B. Fuller. Several of the targeted companies expressed an interest in the Principles and wanted to help CERES in developing them. CERES hoped these companies would help “find pitfalls and unfair clauses, [but wanted to] make sure that we retain the integrity, or toughness of the principles” (Hoffman, 1995: p. 273). CERES also wanted to “cite exemplary corporate performance in each of [the 10 Principle’s] categories, hoping to ‘raise all boats’ to improved levels of operation” (Doyle, 1990: p. 37). One month later, in December 1989, a second meeting to gather corporate feedback was attended by thirty-two people, representing fifteen invited corporations. Three months after launching the Principles, CERES heard from over sixty companies and felt “that a great deal of discussion is going on between companies about how to respond” (Hoffman, 1995: p. 274). Despite this initial interest, three years later, CERES still had no large companies as signatories.

Overall only smaller companies who were already publicly viewed as environmentally responsible or who were generally viewed as a lower impact industry had signed the Valdez Principles. These signators’ reactions were positive. Aveda, for example, reported that the “Principles have given us a systematic way to measure the effectiveness of our environmental problems.” The Environmental affairs coordinator of Domino’s Pizza Distribution, another early endorser said that signing the principles resulted in “congratulations and encouragement from our employees, suppliers, and customers.”

Harrowed Products said

49 California has been one of the leading states having an influence on socially responsible investing. The two largest pension funds in the USA, the California State Teachers’ Fund and the California Public Employees’ Fund, decided as long ago as 1979 to adopt a social policy of divestment in South Africa and companies failing to demonstrate equal opportunities (Miller, 1992: p.243)
What changed for us after we signed the Valdez Principles was that we were given a framework to work within, which in a way made our job easier. On the other hand, the public scrutiny we put ourselves under forced us to put out a great deal of effort on what we were doing to make sure nothing fell through the cracks. This effort to be accountable resulted in better reporting in everything we do (Bavaria and Dodson, 1992).

Bonneville Power Administration said

since endorsing the Valdez Principles, BPA has reorganized to establish the vice-presidential level position described in the ninth principle... BPA is currently leading a multi-agency effort to rebuild salmon and steelhead runs in the Columbia River and its tributaries... and since 1990 we have tripled the number of environmental positions working in support of our power system operations, and doubled the size of our environmental policy, planning, and evaluation staff (Bavaria and Dodson, 1992).

Critics of the Principles were abundant. The manager for resources policy at the U.S. Chamber of Commerce had the view that the Principles show CERES is “naive” about the way companies operate and that the Principles propose a “litmus test in which a company... says ‘yes’ or ‘no.’ It’s not that easy.” Exxon felt that the Principles “fail to recognize the need to balance environmental protection with a healthy economy and an adequate energy supply” (Snow, 1990). Exxon also found the Principles ambiguous on the issue of environmental standards, and described the requirement for an environmental audit “impractical.” Armstrong World Industries opposed the concept of an environmental director. From the company’s perspective, “directors should consider environmental goals applied within the framework of a policy adopted specifically by the company in keeping with their fiduciary duty to act in its best interests” (Minow and Deal, 1991). Many companies feared that signing the Principles would be an admission of poor environmental performance and other cautious business leaders were scared by rhetoric contained in the Principles (Oil and Gas Journal, 1990). Corporate executives also feared that producing annual audits of progress on environmental issues or publicly disclosing health and safety operations might result in the release of proprietary information (Hinden, 1990).

Companies also feared potential legal liabilities associated with what they considered vague and open-ended obligations (CERES, 1994). Finally, some investment firms felt that “because certification appears ‘scientific’ and authoritative, such a code may actually encourage investors to make investment decisions on the basis of necessarily simplistic and therefore inaccurate assessments of a company’s compliance with the Principles” (Berz, 1990: p 34).
6.4 A Revision of the Valdez Principles

In 1992 partly in response to concerns from corporate lawyers and industry representatives CERES reformed and renamed the Valdez Principles. The new name, "The CERES Principles," removed the negative connotation of the Valdez spill. Most companies did not want to associate themselves or their environmental programs with an environmental catastrophe. The initial Valdez Principles included guidelines on the protection of the biosphere, use of energy and natural resources, reduction and disposal of wastes, risk reduction, marketing of safe products and services, damage compensation, disclosure, appointing environmental directors and managers, and assessment and annual audits.

Since rewording the Valdez Principles and allowing mutual endorsement, CERES has received a more favorable industry response and has attracted more signatories. The Valdez Principle's attracted 30 signatories in 3 years and in the 2 years since that time another 48 companies signed, including three Fortune 500 companies. As of Spring 1995, approximately 82 companies were signatories ranging from well-known "environmental" companies such as The Body Shop, Tom's of Maine, and Smith & Hawken to multinational Fortune 500 companies such as Sun Oil Company, the twelfth largest oil company in the United States (CERES, August 18, 1994) (See Appendix H).

The CERES Principles are less absolute in content and language, as a result of the group's desire to appeal to more signatories (See Appendix I). The subtle language changes of the newer CERES Principles shows that the organization recognized the legal problems associated with the more stringent language. The CERES Principles added a disclaimer, explicitly stating that signing the principles in no way constituted a legally bound commitment. This was an attempt to provide companies the legal protection they needed to feel comfortable with becoming a signatory. The new language allows companies to "attempt", "strive", and "reduce" instead of "eliminate", "every effort", and "minimize" and avoided words like "invest", "disclose" and "compensate." The amended wording is more likely to attract endorsers because gives credit for attempts, rather than simply results. Changes in the CERES Principles content include energy conservation and efficiency of internal operations rather than wise use of safe energy sources and energy efficiency in production. In addition, the new CERES Principles call for environmental restoration rather than damage compensation. This means asking companies to correct and redress environmental injuries, rather than to take full responsibility for all harm caused to the environment. Additionally, the amended version no longer calls for the creation of a board level environmental committee, the appointment of an environmentalist director, or the goal
of creating an independent environmental auditing procedure. As Gordon Davidson, then executive director of CERES stated, “CERES will ask signatories to make a report every year on environmental impact and policies, and CERES will establish some form of independent verification to ensure compliance” (Brown, 1990). In contrast, the newer Principles call for an annual self-assessment, support of the timely creation of generally accepted environmental audit procedure, and annual completion the CERES Report, which will be made available to the public.”

6.4.1 The Controversy Over Negotiations and Mutual Endorsement
According to Joen Bavaria, co-founder of CERES,

When we first drafted the Principles, we wanted to discuss them with corporations, and adjust them to be reasonable and practical...but we also recognized that if the Principles became so watered down and acceptable that a huge number of companies could sign them, then they weren’t right. We want companies to have to stretch to sign up, even the most environmentally sensitive ones. (Snow, 1990).

She later added: “We want companies on the cutting edge of environmental technologies that are sincerely interested in preserving the Principles. We don’t want to negotiate away the integrity of the Principles (Waste-To-Energy Report, 1989). CERES feels that the wording of the Principles is not their crucial aspect. Bavaria confirms this by stating: “Many of the codes get at the same things, but in terms of the relationships that are developed through the CERES coalition and the reporting, [now] there is greater potential for long-term change” (CERES, March 7, 1995).

In 1990 project director of CERES, David Sand, stated that, “Corporations will voluntarily sign the principles and then work with CERES and others in defining and refining standards of applicability” (Sand, 1990: p. 33). However, by 1993, CERES was still unable to gain any large companies and began to move even further away from their initial strict non-negotiable position. Instead, through negotiations, the organization sought to establish a mutual endorsement process. This had a strong effect on membership. The Valdez Principles attracted 30 signatories in three years. In the two years following the release of the CERES Principles, 48 companies signed including three Fortune 500 companies. In August 1994, two more Fortune 500 companies endorsed the CERES Principles. Arizona Public Service Company and Polaroid Corporation brought the total number to five Fortune 500 companies, representing the refining, chemical, manufacturing, utility, and photo/imaging industry.
When Sun's oil company joined CERES in 1993, its agreement was to endorse, not sign the principles. By mutually endorsing each other's Principles, Sun recognized the CERES principles as being complementary to its own. In return, CERES recognized that Sun's principles were consistent with the CERES Principles. Following Sun's "endorsement", all subsequent investor resolutions proposed that companies "endorse" the CERES Principles. By 1994, "signing" the principles was no longer required of any company (Hoffman, 1995). Sun, Fuller, and General Motors have all "mutually endorsed" the Principles, meaning that they support the CERES Principles as a generic code of conduct applicable to their operations, but do not cede their own environmental principles. CERES insists there is no practical difference between being a endorser and "mutually endorsing" the Principles. The organization believes that all endorsers are required to report their challenges and progress toward the goal of continual environmental progress.

CERES states that there are six synonyms (sign, endorse, adopt, etc.) for support of the CERES Principles. Use of synonyms is an attempt to avoid the legal ramifications some companies perceive of "signing" Principles. CERES concedes that mutual endorsement is different from simple endorsement, but maintains that the requirements for all participants are identical. CERES and the mutually endorsing companies feel it is not necessary for companies to cede their own Principles in favor of CERES. According to CERES, mutual endorsement limits the "confusion in the minds of employees and shareholders who thought the company had a good set of Principles just last week which they lived by" (Kuszewski, March 28, 1995).

Some argue that the differences between mutual endorser and endorser are subtle and unimportant if the company's spirit or objectives lead to improved environmental policies. Some argue that a mutual endorsement process served the practical goals of maintaining environmental management standards while attracting new signatories. This, they argue, serves a greater good by making the standard acceptable to a larger audience. Some stakeholder, however, believe allowing mutual endorsement is simply a face-saving

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50 In a statement made by Joan Bavaria co-chair of CERES, "the CERES Board affirms the positive contribution of the Sun Company in endorsing the CERES Principles while developing its own Principles of Health, Environment & Safety to adapt the CERES Principles to its specific business and industry. The CERES Board recognizes that these Sun Principles are consistent with the goals of the CERES Principles." Robert Campbell, CEO of Sun company stated that "Sun company endorses the CERES Principles as a generic code of conduct applicable to business throughout the world. Sun has adopted its own set of Health, Environment & Safety Principles as consistent with the goals of the CERES Principles".

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technique\textsuperscript{51} which allows more large companies to endorse the Principles.\textsuperscript{52} Other CERES members, many of whom are environmental groups and support the need for environmental management standards, wonder if CERES has compromised itself by allowing companies such as like GM and Sun, with highly questionable practices to mutually endorse the CERES Principles.

In describing the negotiation process, Bavaria explains, that

We've learned to understand the language barriers and the perspective issues. We have conceded on certain points but we've tried to be adjustable. Throughout, we have made a major effort to retain our integrity. We understand better that we are not a legislative body. What we're after is culture change and forging relationships. Our goal is not to become an institution but to be part of the process. CERES is not a certification program. Its value is the formation of relationships (Hoffman, 1995: p. 294).

Furthermore CERES states “there’s not anyone in CERES who would say the language of the principles is not important. But language shouldn't be an obstacle to companies that are otherwise interested (CERES, March 7, 1995).

6.4.2 Examples of Mutual Endorsers
An examination of the mutually endorsed Principles of Sun, H.B. Fuller, and GM, indicate how the negotiation process has impacted the internal environmental principles that the initial Fortune 500 endorsers adopted.

\textsuperscript{51} General Motors and CERES also mutually endorsed each others’ Principles as consistent goals. CERES feels that GM’s environmental principles are broad and vague, so “since the GM Principles don’t say anything, CERES could accept them” (Colloquium, 1994). CERES claims that GM kept its original principles as a “face-saving” maneuver so it wouldn’t have to admit that its internal environmental goals were scant or inadequate. CERES also states that as a conciliatory act, to protect GM, it endorsed GM’s “functionally equivalent” Principles (Kuszewski, 1994 and Bavaria, 1994)

\textsuperscript{52} The President of Green Century Capital Management, Inc. stated “I have no doubt that GM’s endorsement of the CERES Principles will break the logjam and open the way for other corporate leaders to consider the Principles and prepare reports that will provide environmentalists, community members and investors with information on the company’s environmental performance on a year to year basis” (CERES News Release, 1994).
**Sun’s Mutual Endorsement**

Other oil companies perceived Sun's agreement to endorse, instead of signing the Principles, as a statement that CERES recognized the constraints of the oil business (Hoffman, 1995). Sun’s Principles appear consistent, though not identical to the CERES Principles. CERES insists that Sun has not used its internal Principles for the last three years because it has become more involved in the CERES process and states that “the difference between their own Principles and CERES Principles is completely academic at this point.” (Kuszewski, March 28, 1995]. However the Director of Environmental Affairs for Sun company made clear that while negotiations and discussions with CERES provided “exposure to preemptive actions” and have helped guide Sun in the right direction, “Sun can only be held accountable for its actions regarding its own Principles of Health, Environment & Safety” (Grabowski, 1994).

A comparison of the CERES Principles and Sun’s internal environmental policy indicates several differences. Sun’s statement of purpose is more detailed than CERES’s and establishes some of its own parameters. Its strategy emphasizes “maintaining our competitive position...challenging unreasonable laws and regulations...[and] seeking practical solutions which are based on sound, scientific principles.” Sun’s statements about protection of the biosphere emphasize a reduction in emissions but do not highlight CERES’s call to eliminate emissions. Sun’s Principles expand on CERES's call for risk reduction and specify meeting the goal through “sound maintenance and work practices, safety conscious design, employee training, and incident investigations” (See Appendix J). Several critics are less worried about Sun’s “adaptations” of the CERES than about how Sun will meet the Principle calling for “reduc[tion] and continual progress toward eliminating the release of any substance that may cause environmental damage to the air, water, or the earth or its inhabitants.” They see this as impossible given that the burning of Sun’s gasoline emits carbon dioxide, contributing to global warming (Wald, 1993).
H.B. Fuller's Mutual Endorsement

Fuller's Worldwide Environment Health and Safety Principles also represent an adaptation of the CERES Principles. The company manufactures industrial materials, and was the second Fortune 500 company to "affirm the CERES Principles as a generic environmental code of conduct applicable to business entities throughout the world." Fuller's negotiated Principles are the least divergent from the CERES Principles, containing only a few content changes. The most significant of these are based on the adoption of less specific language: "minimizing adverse impact" instead of "protect", "efficient use" instead of "sustainable use", and "strive to minimize" instead of "reduce." (See Appendix K)

General Motor's Mutual Endorsement

General Motors, an industrial producer of motor vehicles and parts and was the third Fortune 500 company and the first major manufacturing company to endorse the Principles. CERES's agreement with GM is a large departure from the previous agreements with Sun and H.B. Fuller. GM did not issue a new set of company environmental principles modeled after the CERES code. Instead, the mutual endorsement process established that GM's six environmental principles were consistent with the CERES Principles.

General Motor's Environmental Principles "provide guidance to General Motors personnel worldwide in the conduct of their daily business practices." The text of GM's internal Environmental Principles are substantially less specific than the CERES Principles, calling for minimizing only pollutants, recycling, assessing the impact of plant processes on the environment, preserving the environment, and educating public. GM's internal Principles do not discuss sustainable use of natural resources, energy conservation, safe products and services, or management commitment (See Appendix L).

Not surprisingly, GM's endorsement of the Principles has been controversial. Critics worry that by not even promulgating a new set of company environmental principles, GM will not meet CERES goal of striving for continuous improvement. CERES feels that GM and CERES will benefit from their relationship: CERES has engaged GM in dialogue surrounding CAFE standards and both have tried to determine which issues are serious, persistent, or politically motivated (Kuszewski, March 28, 1995). Furthermore CERES feels that unlike some of the companies that have built their reputation around a myth of social responsibility or a false environmental image, in reality, GM (and other large companies) has a true commitment to tight, high level management of overseeing environmental issues (Kuszewski, March 28, 1995).
Chapter 7: Methodology

7.1 Assumptions
According to theories on their formation and influence, interest groups and large memberships can be taken virtually as popular rule in the modern dress (Lowi, 1979). Extending this theory, environmental groups act as a proxy for the public's interest and concerns about environmental issues. The initial goal in the research process was to interview an equal number of large, prominent non-governmental national environmental groups and small regional and local groups. By asking diverse environmental groups their impressions of CERES, one may determine the legitimacy they ascribe to CERES and CERES endorsers.

7.2 Primary Sources
Several environmental groups are widely considered the most prominent in the US based on influence, membership, and operating budget. In alphabetical order these include: Conservation International, Defenders of Wildlife, Environmental Defense Fund, Greenpeace USA, National Audubon Society, National Wildlife Federation, National Resource Defense Council, The Nature Conservancy, Sierra Club, Sierra Club Legal Defense Fund, the Wilderness Society, and World Wildlife Fund (Martel and Holman, 1994). The goal was to interview representatives in 50%, or six, of the larger, prominent environmental groups.

The large environmental groups interviewed for this research were initially chosen in an attempt to represent various constituents and viewpoints (those oriented toward and utilizing various tools to pursue preservation, conservation, restoration, regulatory reform, recreation, environmental education, working with government, operating outside government, corporate-friendly, and corporate-adversarial). All of the large, prominent environmental groups were contacted. Ultimately, five large environmental groups were interviewed: Environmental Defense Fund, National Audubon Society, National Wildlife Federation, National Resource Defense Council, and World Wildlife Fund. Interviews with the remaining organizations did not proceed because 1) the organization did not have intimate knowledge of CERES 2) the organization declined requests for interviews or 3)

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53 The large, prominent environmental groups are characterized by having budgets between approximately $5.5 million and $217 million and membership between 12,000 and 1.6 million people. Smaller environmental groups typically have less than 10 staff members and between a $15,000 and $300,000 budget (Martel and Holman, 1994).
prohibitive scheduling conflicts. Ultimately interviewing several representatives of the five large environmental groups provided adequate since patterns in their response emerged early in the interview process.

An environmental representative suggested obtaining the perspective of the World Watch Institute, one of the larger, environmental research organizations and authors of the popular book *State of the World*. Another research organization, Council on Economic Priorities, was also recommended as an organization to interview.

Initially, the goal was to interview between eight and ten regional or local organizations located throughout the US. By contacting smaller environmental groups a more regional or grassroots viewpoint could be obtained since regional or local environmental groups typically have more immediate knowledge about the facilities, companies, and environmental issues in their area. Using the *Encyclopedia of Associations* and the *Environmental Resource Handbook*, smaller environmental organizations were chosen at random within categories of environmental activity most likely to have knowledge of CERES. These categories included groups working with the issues of air, water, energy and industry, research, law, and conservation. After these groups were contacted (somewhat unsuccessfully), the search broadened to include additional environmental groups with interests outside the initial categories. A more informal method, the recommendations of environmental groups from colleagues, was also utilized.

Finding eight smaller environmental groups who had a knowledge of CERES enough to provide an interview was not possible. Of the 42 smaller environmental groups contacted, only three granted interviews. The other 39 either did not return telephone calls and messages, had not heard of CERES, or did not have enough familiarity with CERES to make any analytic comments on it. Obviously there are more than 42 smaller environmental groups that could have been contacted and might have known about CERES, however when 39 environmental groups either had not heard of or could not comments upon CERES (NO), or were not responsive (N/R) to calls and messages, the search for smaller environmental groups acquainted with CERES ended. (See Table 1.0).
<table>
<thead>
<tr>
<th>Environmental Organization/ Association</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water resource preservation:</td>
<td></td>
</tr>
<tr>
<td>1. Center for Marine Conservation</td>
<td>NO</td>
</tr>
<tr>
<td>2. Great Lakes United</td>
<td>NO</td>
</tr>
<tr>
<td>3. League to Save Lake Tahoe</td>
<td>NO</td>
</tr>
<tr>
<td>4. American Shore and Beach Preservation Association</td>
<td>NO</td>
</tr>
<tr>
<td>5. Friends of the River</td>
<td>NO</td>
</tr>
<tr>
<td>6. Great Lakes United</td>
<td>N/R</td>
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<tr>
<td>7. Water Environment Foundation</td>
<td>N/R</td>
</tr>
<tr>
<td>8. National Watershed Congress</td>
<td>N/R</td>
</tr>
<tr>
<td>Law, Research and other:</td>
<td></td>
</tr>
<tr>
<td>9. Center for Science in the Public Interest</td>
<td>N/R</td>
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<tr>
<td>10. Negative Population Growth, Inc.</td>
<td>N/R</td>
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<tr>
<td>11. Global Tomorrow Coalition</td>
<td>N/R</td>
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<tr>
<td>12. Association of Environmental and Resource Economists</td>
<td>N/R</td>
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<tr>
<td>13. Southern Environmental Law Center</td>
<td>NO</td>
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<td>14. Northwest Resources Information Center</td>
<td>NO</td>
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<td>15. Institute for Environmental Negotiation</td>
<td>NO</td>
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<td>16. World Environment Center</td>
<td>NO</td>
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<tr>
<td>Energy and Industry issues:</td>
<td></td>
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<tr>
<td>17. Environmental and Energy Study Institute</td>
<td>NO</td>
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<tr>
<td>18. Alliance to Save Energy</td>
<td>NO</td>
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<tr>
<td>19. American Council for And Energy Efficient Economy</td>
<td>NO</td>
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<tr>
<td>20. Institute for Energy and Environmental Research</td>
<td>N/R</td>
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<tr>
<td>Conservation and Wildlife Conservation</td>
<td></td>
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<tr>
<td>22. Greater Yellowstone Coalition</td>
<td>YES</td>
</tr>
<tr>
<td>23. Predator Project</td>
<td>NO</td>
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<tr>
<td>24. International Association of Fish and Wildlife Agencies</td>
<td>NO</td>
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<tr>
<td>25. Fish and Wildlife Reference Service</td>
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<tr>
<td>26. Chesapeake Bay Foundation</td>
<td>NO</td>
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<tr>
<td>27. Alaska Conservation Foundation</td>
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<tr>
<td>28. Alaska Center for the Environment</td>
<td>N/R</td>
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<tr>
<td>29. Association of Conservation Engineers</td>
<td>N/R</td>
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<tr>
<td>30. Association for Conservation Information</td>
<td>N/R</td>
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<tr>
<td>31. Friends of the Everglades</td>
<td>N/R</td>
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<tr>
<td>32. Association of State Wetland Managers</td>
<td>N/R</td>
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<tr>
<td>33. American Conservation Association</td>
<td>N/R</td>
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<tr>
<td>34. Fish America Foundation</td>
<td>N/R</td>
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<tr>
<td>Air:</td>
<td></td>
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<tr>
<td>35. Clean Air Council</td>
<td>YES</td>
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<td>36. INHALE</td>
<td>N/R</td>
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<tr>
<td>Forestry:</td>
<td></td>
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<tr>
<td>37. Native Forest Council</td>
<td>N/R</td>
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<tr>
<td>38. Forestry, Conservation Communications Association</td>
<td>N/R</td>
</tr>
<tr>
<td>39. RESTORE the North Woods</td>
<td>NO</td>
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<tr>
<td>Hazardous Waste:</td>
<td></td>
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<td>40. Citizen’s Clearinghouse on Hazardous Waste</td>
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</tr>
<tr>
<td>41. Hazardous Materials Control Resources Institute</td>
<td>N/R</td>
</tr>
<tr>
<td>42. Georgia Environmental Policy Institute</td>
<td>NO</td>
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</tbody>
</table>
The three environmental groups which had enough knowledge of CERES to have an analytic opinion were interviewed. These included The Greater Yellowstone Coalition, a environmental group dedicated to the conservation and preservation of Yellowstone National Park, whose knowledge of CERES came from a previous working relationship with a CERES Board member; Clean Air Council, whose knowledge of CERES was based on experience with an endorsing company; and the Citizen’s Clearinghouse on Hazardous Waste, which participated in a demonstration against a CERES endorser.

If one eliminates from the total number of organizations contacted the smaller groups who did not respond to inquiries, phone calls, and phone messages (N/R), there were only 3 of 21 environmental groups who had enough knowledge to offer comment on CERES. This seems to reflect a general lack of knowledge about CERES in the small, regional environmental groups. The lack of familiarity with CERES is likely because many regional or local groups are concerned with the facilities which effect them directly or a resource immediately jeopardized and therefore have less interest in a national corporate initiative. In addition, one of the primary goals of CERES, standardized environmental reporting, is a fringe issue for many local groups. Many smaller environmental groups are targeting resources towards state agencies, consumers, the public, or public utilities and are not immediately concerned with the actions of national corporations. Finally this lack of acquaintance may be because smaller organizations may not have the resources to keep informed about voluntary codes of environmental management when their mission is a focused conservation or effort of a particular resource.

Ultimately, 12 environmental groups were interviewed. These included the seven larger environmental groups and research organizations (NRDC, EDF, WWF, NWF, National Audubon Society, WWI, CEP); several smaller organizations: Citizen’s Clearinghouse on Hazardous Waste, Clean Air Council, the Greater Yellowstone Coalition, and the Environmental Lobby of Massachusetts.

In addition, two investment funds: Global Environment Fund and Hambrecht & Quist were interviewed.

To gain the perspective of companies’ perspectives of CERES and voluntary environmental management initiatives, both CERES and non-CERES endorsers were interviewed. A database was established indicating 1) companies targeted for a Valdez/CERES resolution 2) companies that had previously engaged in dialogue with CERES or were CERES
endorsers 3) companies considered environmental laggards or highly improved by the Center for Environmental Priorities, Fortune Magazine, and/or periodicals reviewing environmental performance. Companies meeting these criteria were selected and then categorized by primary industry, sales, and overall press characterization of environmental performance. A list of eight companies diverse in these categories (and alternatives, should the company decline the interview) were selected and contacted. Many of the initial companies contacted declined requests for interviews. Ultimately the eight companies interviewed included Amoco, Aveda, Domino's Pizza Distribution, GM, H.B. Fuller, Kodak, Polaroid, and Sun. While these companies are predominantly CERES signatories, non-endorser's views were often available in journal, trade, investment, and popular press articles.

Primary source data on impressions of CERES and voluntary reporting initiatives from environmental groups and companies was also collected from speakers heard at MIT's colloquium series "Working Group on Business and the Environment" in 1994 and 1995, and a 1995 Environmental Law Institute Seminar, "Corporate Voluntary Reporting Trends".

7.3 Purpose
Interviews with environmental groups, corporations, and CERES were designed to determine:

(1) Characteristics unique to the CERES coalition, (2) what companies and corporations hope to gain by participating with CERES or why they do not endorse the Principles (3) whether different definitions of corporate responsibility exist among stakeholders and the impact of any divergence on impressions of the CERES Principles or annual report (4) the environmental group, corporate, and CERES perception of endorsers' capacity to meet CERES goals (4) how much credibility environmental groups and companies assigning to CERES. Appendix M indicates the typical interview questions asked.
Chapter 8: Analysis of Results

This thesis concentrates on the perceptions companies and environmental groups have of CERES as an approach to increasing corporate legitimacy. This thesis does not assess the CERES reports for accuracy and does not critique the benefits or extent of changes within a corporation that adopts the CERES Principles. The research included here evaluates CERES's ability to provide increased "legitimacy," or acceptance, among companies concerned with environmental responsibility. This analysis of CERES's ability to confer legitimacy on endorsers is based on an assessment of the extent of CERES influence on the endorsing firms; the perception of CERES by environmental groups; and the extent to which CERES has influenced the social construction of what constitutes "environmental legitimacy."

The results of the interviews indicate that environmental groups, institutional investors, and CERES members agree there is a need for more publicly disclosed information, oversight by a non-governmental, non-industry, independent group, and a need for some direct effort by the environmental community to work with businesses to advance environmental issues. CERES claims that companies which endorse the Principles disclose previously unreported information in their annual CERES report, interact more directly with stakeholders through the collaborative process, and make continual environmental improvements in their operations and management. Interviews with the companies and with CERES representatives indicate that endorsers of the CERES Principles have undergone extensive discussions with CERES about their operations and future environmental challenges and goals. Environmental and investment groups interviewed show overall

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54 Overall, environmental groups feel that businesses are key groups to target for improved environmental practices. Mainstream environmental groups believe that companies need to be worked with, and included in dialogue if real improvements are to occur. Some "radical" advocacy environmental groups disagree with corporate-environmental interaction entirely and prefer to see companies remain outside discussions. This opinion is typified by the view that: "corporations are a source of the problem; Giant Multinationals roam the globe, polluting community after community, [are] plundering the Earth and destroying resources on which life depends. They are largely unregulated, having spent billions of dollars on PAC contributions, lobbyists, public relations firms, and outright bribes. They concoct and fund the so-called "Wise Use" groups to falsely portray themselves as a populist uprising. They work to deny the existence of environmental problems and to destroy the credibility of environmental activists and organizations. And they attempt to shift the focus away from the their polluting practices and criminal behavior by putting the blame on individual citizens and their lifestyle choices (Inerfeld and Manski, 1995). More radical environmental groups often feel an adversarial relationship is inevitable and perhaps necessary. They prefer that companies be regulated, and object to the collaborative and non-regulatory process that voluntary codes of management, including CERES require. These groups were ideologically opposed to CERES and their interviews did not provide a critical analysis of CERES. Their views specifically on CERES are excluded from the results of this paper. Their comments on more general issues of reporting, disclosure, and environmental responsibility are included however.
support for the CERES process and annual report but retain some skepticism about the actual changes in the companies since having endorsed the Principles. However companies, environmental groups, and investment firms feel CERES has made an impact beyond the endorsing firms by influencing public expectations and norms of what constitutes environmentally responsible behavior.

8.1 CERES’s Influence on the Endorsing Firms
The endorsing corporations and environmental groups interviewed described many positive motives for adopting the CERES Principles, and found many of the characteristics of CERES unique and appealing. Companies indicated a range of changes in their operations and management since adopting the CERES Principles.

Unique characteristics and benefits most noted by CERES endorsers are the foresight and vision CERES provides about reporting, accountability, and environmental management improvements. “CERES offers a vision of the future that will help shape Polaroid’s program. All the signatories want to embark in this ambitious area, but have limited resources. By joining CERES companies make a serious commitment to improve and CERES provides a clear road map where to go.” Another company stated that “In the year preceding our endorsement, we thought that it makes sense to talk to some of the people that might have a little bit different perspective and see if there is a way we could gain some insight. The Principles are a good way of focusing on the areas that are important. We are using them—we have accountability in certain sectors and we want continuous improvement in those areas.”

8.1.1 Collaboration and Dialogue
CERES describes its collaboration and dialogue process with member firms in the following fashion:

The CERES Board talks to the company and determines what the particular environmental issues are for that company and what CERES might expect from a relationship with the company. Then dialogue sessions are arranged between CERES and the company which last from six months to one year. Then there is discussion about what the company can expect from the CERES relationship, what CERES will be looking at in the future, how CERES might broker issues with their various publics, and how CERES might expect the company’s performance to improve in the future (CERES, 1995).

The coalition was viewed by some environmental groups as the more meaningful aspect of the CERES Principles. Several environmental groups see “CERES as having more impact
than an industry initiative or voluntary program with regulator oversight. CERES is a
different magnitude [of commitment]...because a company is choosing to work with a
broad base of citizens, investors, and religions groups, and is therefore looking at what is
important for the whole society.”

Companies reinforced this statement: “All voluntary principles are good, but...the CERES
Principles...are unique--they are the only ones with independent, third-party oversight
composed of environmentalists and socially responsible investors. Companies need that
third party analysis and perspective.”

The companies stated that dialogue with CERES has been one of the more useful aspects of
the Principles. Companies have incorporated CERES in a range of its own activities,
which included CERES in drafting its internal performance standards, 55 to GM which “set
up a formal dialogue...to make sure [it] had economic growth while ensuring that [it was not] harming the environment.” 56

The investment groups represented in the coalition were considered particularly important
by most environmental groups and all endorsers. The value of the investor group’s
perspective was clearly articulated by an environmental representative who said the
CERES coalition is a “powerful and significant expression of shareholder expectation for
corporate performance. There is an obligation and duty by the corporation that goes beyond
simply returning maximum profit [that] needs to be exercised to achieve corporate
responsibility. To some extent, shareholders have to take responsibility for this and not rely
on government regulation as the vehicle for doing that.” Several environmental groups
noted another valuable aspect of the investor group’s participation in CERES: “CERES
creates pressure from an investment angle: Social investors are pension funds--they don’t
want a bankrupt company. They... recognize [that] a company has to make money, and a
good return.” Many companies agreed that “particularly intriguing about CERES was the
investment community. We had already worked with environmental groups and found
common ground. We liked the national attempt to add the investment community and

55 When drafting its performance standards Sun asked Jack Doyle, an ardent critic of oil industry (author of
Crude Awakening) for his input. Sun found “engag[ing] in dialogue and incorporat[ing] CERES
comments into performance standards to be one of the benefit of CERES” (Sun, 1995).
56 CERES makes an effort to include knowledgeable stakeholders in CERES-company dialogue. These
environmental and citizen groups have either a history of involvement with the particular company or have
experience with an industry cohort. PIRG has a long history of socially and environmentally responsible
issues with GM (including Ralph Nader’s fight to get seatbelts in GM automobiles) and was included in
the GM- CERES dialogue.
structure dialogue. To get three forces--corporate, environmental, and investors--together in a free market offers the opportunity to solve problems in a totally different way.”

8.1.2 Public Reporting
Companies and environmental groups agreed that the reporting element was another significant aspect of CERES. Companies stated that “the important part of the CERES Principles... and what pushed us... was the public accountability aspect and the publication of our environmental report. That’s the key factor that mutual endorsement of the CERES Principles brought us.” Another firm stated that it “thinks CERES is unique because of the annual report and its basic reporting requirements. That doesn’t mean the other codes of management are not important, just that the CERES Principles go further by combining [these elements] with third-party oversight.”

Environmental groups and companies shared a mutual interest in CERES’s attempt to advance standardized environmental accounting principles. Many of the corporations stated that they perceived reporting as important to their credibility and that CERES provided them an opportunity to present their data. Endorsing companies felt the annual report allows them to “gain accountability by presenting accurate data, rather than having someone decide if Sun is good or bad based on vague and unreported activity.” Polaroid noted that “public disclosure and community outreach is a stated goal of Polaroid. When it attempted to do this in its 1988 annual report, Polaroid found it impossible to have its data audited because there are no generally accepted environmental auditing criteria. [However Polaroid believes] public reporting is not going to go away; there is a need for some way of having comparable data from company to company.”

“Even though the data [in the CERES report] is not rigidly identical, CERES is a positive development in the reporting process.” Another company agreed that the “most significant thing about CERES is public accountability and reporting... Our CEO thinks by end of the century, standardized environmental accounting and reports will be as common as financial accounting. A big part of CERES is reporting. CERES wants companies to fill out [the annual report] so that social investors, institutional investors and the public at large can look at a particular question and see how every company answered that question--the CERES report is a type of standardized environmental reporting.” Companies agreed that general environmental accounting principles “would allow performance debated rather than data debated because all companies would be keeping score by similar means. “CERES
offers a good opportunity in a non-governmental non-adversarial manner to further this goal.”

Although environmental groups expressed concern that not all endorsers had submitted annual reports, environmental groups widely expressed appreciation for the challenges and benefits of environmental reporting. The environmental groups interviewed commented on the steep learning curve companies face when completing the CERES report. They suggested that companies are seriously wrestling and grappling with the issues in the CERES report and that some companies have been more successful than the others in their reporting efforts. This perception is reflected in the comment that “the companies that have signed are trying. The less successful reports do not reflect a lack of trying, but a learning curve. Public reporting, whether or not connected to CERES Principles, is an area of learning: companies and the public are learning what is useful, in what format, frequency, and detail.”

The annual report has varying levels of impact on companies. Some companies have found the report motivates internal planning and other have found that the report validates the procedures already in place.

In one company the “Environment, Health, and Safety program was complete and we were already engaged in reporting. CERES redefined some concerns. We already linked (salary) bonuses to pollution prevention. We were already far along in our formalized community programs, but CERES helped improve these. Polaroid already is over the hurdle of disclosing information, but CERES has helped define relevant subject matter.” H.B. Fuller stated that it was “simple for [us] to sign because we already had HES Principles in place. We just revamped the wording to comport along with CERES. [We recognize there are] competing options like CMA Responsible Care, ICC Business Charter, and CERES. We could support all of them because basically they are heading in same direction, but what was missing from the others was some commitment to public accountability or some reporting card. The reporting element of CERES allows Fuller to prove it can ‘walk the talk’.”

57 Although CERES acknowledges that some companies are not turning in the required reports, the “laggards are the smaller companies that do not have the resources to devote to report [writing]” (CERES, 1995). Since 1994-95 was first the year that report deadlines have been implemented, CERES had difficulties receiving reports in a timely fashion. However, it expects that 1994 will be the last year that this problem exists (CERES, 1995). Although not all endorsers submitted reports in past years, all endorsers that intend to continue participating in CERES must submit an annual report next year. CERES states, however, that it has received reports from all of the major companies.
Sun found that the “CERES report asks questions about formal programs, like waste minimization and product stewardship which it had done before, but not in a formal way. The report has focused attention on those programs from year to year. The public accountability creates internal pressure and a professional pride to show progress.”

Aveda found the CERES Principles “easy to implement because Aveda was always committed to being environmentally responsible and philosophically there is no challenge. Aveda did not have many difficulties implementing the Principles, except for documentation. Now Aveda is doing its first eco-audit.”

CERES feel the changes that have come about in companies as a result of affiliating with CERES are manifested in the “greater sensitivity in stakeholder relations. At this point, CERES can’t point to changes in products. That’s long-term, and requires management and mechanical overhauls. What we are seeing are soft, incremental changes” (CERES, March 7, 1995). CERES asserts that endorsers (and the environment) benefit from “environmental group representatives critique[ing] company environmental reports” and the relationships that develop among coalition members. “Informal relationships develop among coalition members through board meetings and collegiality develops over time. So it becomes a natural thing to say ‘I have this problem’” (CERES, March 7, 1995).

“Sun... said that it would never have conceived of having a Friends of the Earth staff person observe safety drills at the company before [its involvement with] CERES. In addition, Sun has now had an environmental person look at its supplier relationships. Bob Banks (VP HES of Sun) says that the process of making plans to implement the Principles can be an exercise in self-examination. Sun has become sensitive to a large array of issues that have to do with external relationships” (CERES, 1995). Sun thinks it is “much further along with community outreach in Philadelphia than a year before. This is in part because of CERES, but also because of a lot of external pressures: demonstrations, challenged

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Sun is “currently engaged in a process to take the Principles and design specific performance standards and integrate and adopt them through the organization. Sun developed a performance standard for pollution prevention and waste minimization with the specifics a facility would have to do in order to implement the standards in marketing, refining, and pipeline activities. Each major source facility must develop and implement a pollution prevention program. It needs to do an inventory of its emissions and develop a certain way of reducing emissions. A living document for each facility must be implemented which starts with management and then ultimately is a part of compensation. This year, each facility must do a baseline assessment of where it stands with respect to the 14-15 baseline standards by April 1. Then by October 1 each facility must have implementation plans for 1996-99. Those two benchmarks are part of the performance factors put into a determination of whether a business line gets a bonus. These changes are not totally because of CERES, but CERES a big part. People in HES feel strongly that CERES started a cultural change in the organization” (Sun, 1995).
consent decrees, or from people who take formal action upon themselves. We pay 
attention to those situations and have a mind-set now that we didn’t have before CERES.”

CERES admits that a company like Polaroid may not gain as much from completing the 
CERES report “because the people there have been thinking about these things for a long 
time, longer than we have. But Polaroid is a rare example.” However, CERES states that 
even companies perceived as environmentally responsible gain from completing the annual 
report: “Ben and Jerry’s is a company many people think of as ‘green.’ Ben and Jerry’s 
was not excited about completing the CERES report, but they were not tracking energy 
until they started reporting through [CERES]” (CERES, March 7, 1995). However, 
CERES is most interested in companies which are not traditionally considered 
environmentally responsible “like GM, because they have the most to gain” (CERES, 
March 7, 1995).

CERES has clearly created corporate dialogue with stakeholders and discussions among 
participants. It requires reporting and is beginning to enforce submission deadlines. The 
extent to which individual firms have changed since endorsing the Principles, however, is 
difficult to assess and beyond the scope of this research. Many of the companies assert that 
substantial improvements are sometimes slow due to technical and capital limitations. 
Changing corporate behavior, they assert, involves retraining tens of thousands of 
employees at hundreds of facilities. CERES accepts that long-term change may require 
slow, incremental improvements. Determining if CERES has made companies more 
environmentally responsible is difficult at this point because only short-term, initial changes 
are detectable in CERES signatories. The real test of CERES’s impact on firms will be its 
effect on the long-term operations. Environmental groups, however, are not as patient and 
confident—they all expressed that without meaningful, evident progress, they would not 
believe that CERES endorsers were becoming more environmentally responsible.

8.1.3 Difficulties Measuring Environmental Change
Determining whether a company has improved environmentally since adopting the CERES 
Principles is extremely difficult for environmental groups and policy analysts. There is no 
agreed upon criteria for determining whether the activity a company is changing or the time 
frame of change under which a company is operating is environmentally responsible.

CERES does not take the approach of creating deadlines for becoming environmentally 
responsible. Several environmental groups commended this choice: “changes in a facility
are made in major leaps. A company can’t replace a facility all at once, but when it comes to do so—there is a great leap forward. In the interim a company may not be able to do much because cost is overwhelming. Companies improve in fits and starts...All the companies who sign on to the Principles are trying to be green, but this must be done in a realistic time frame. A company can’t go broke doing it, the rate of change must take economics into consideration.” Another environmental group concurred: “It is hard to move a company quickly. But [by endorsing the CERES Principles] the wheels are in motion. The negative direction has stopped and companies are changing the inertia in a positive direction.”

Several companies stated that CERES’s acknowledgment of corporate constraints showed an insight into the situation that many companies face. They suggested that Principles and reports that required proof of continual improvement—but were flexible—show an understanding of the time it may take companies to revise their practices and meet continual improvement goals. The following statement exemplifies this sentiment: “after endorsing CERES there is not a bright-line ‘bang!’ now we act 180 degree different. CERES give us formalized Principles which remind the company what to do, but we are trying to change 100 years of operating practice and mentality. The Principles are taking hold now, but we have 6 refineries and 15,000 employees. The Principles will have an effect, but it will take time.” Several environmental groups concurred: “CERES has helped inform which companies are [environmentally] acceptable and which are not. These companies are making progress...and it will be years before they are there...but in the meantime, the more companies in the reporting process the better.”

Environmental groups as a whole, however, do not accept comfort in the long time horizon CERES and the companies assert they need for significant change. In discussing Sun Oil, an environmental representative said she

 does not think the middle management or any non-VP staff have changed their thinking or practices. CERES may have impacted some of the indirect corporate practices, but the extraction and emission processes remain unaffected. I recognize the difficulty in changing corporate practices and think they may plan on changing some indirect (non-extractive) practices, but the larger system is not environmentally responsible because of the extraction, emissions, and lack of community outreach.

The negative response many environmental groups expressed regarding Sun’s lobbying efforts, non-compliance, and limited interaction with local environmental groups indicates to some environmental groups that CERES has had limited impact on Sun’s environmental
performance. However, determining Sun, or any other large company’s level of commitment is complicated and probably premature.

There is no agreed upon time horizon by which a company should operate to undergo substantive change. There also is no agreement on the exact behavior that constitutes positive environmental behavior. Although Sun is accused of frequently being out of compliance with air emissions and lobbying against some popular environmental legislation, compared to its competitors, Sun may be one of the more environmentally responsible oil extraction and refining firms.\(^{59}\) For example, it is selling off coal leasing units, is focusing on its domestic refining, and has ceased exploration activities everywhere but Canada (Hoover’s Handbook Database, 1994).

The difficulties in determining a company’s level of environmental commitment extend beyond the context of CERES. Virtually all large companies face conflicting pressures on environmental performance. A company that uses cradle-to-grave analysis for its decision-making may actually create more pollution locally.\(^{60}\) A company with a good overall waste disposal, recycling, energy efficiency, and restoration record may have a poor emissions record. A major emitter of pollution may have the most innovative solutions and spend substantial resources on research and development for less environmentally harmful products. There is no algorithm for weighing these activities against each other to determine a net positive or negative change. No single measurement system can accommodate these individual characteristics.

Complexities in assessing environmental improvements in firms are experiences by CERES endorsers as well. All endorsers of the CERES Principles inevitably cause some environmental damage while simultaneously committing to continuous improvement and disclosure. Without any agreement on the acceptable behavior or acceptable time frame to institute environmentally responsible behavior, determining the impact of CERES on any endorser involves making somewhat arbitrary and determinations.

\(^{59}\)Several environmental groups commented on the lobbying efforts of a particular endorser. These groups expressed that an environmentally responsible company should “be lobbying in good faith” (Thomas, 1995) and should not “lobby against a known environmental problem. If there are known environmental problems acknowledged by consensus throughout the industry, an environmentally responsible company would work to resolve that throughout the industry not just to say ‘We can deal with it on own’” (Epstein, 1995, EDF).

\(^{60}\)For example, if the company determines a plastic item is easier to recycle at the end of its lifetime and is therefore a more environmentally sound long-term choice, emissions or waste at a local plant may increase in the plastic production. Hence the local facility may be worse-off environmentally, but the overall company product may be more environmentally responsible.
8.2 Environmental Group Perception of CERES

The environmental groups interviewed acknowledged the need for greater accountability and more independent verification of corporate activity. Generally, representatives from environmental groups agreed that disclosure of more environmental information adds credibility to a corporation. However, the level of confidence and support environmental groups expressed about the CERES reporting mechanism as a means for attaining this information varied. The feelings of all the environmental groups regarding corporate legitimacy associated with adopting the CERES Principles can be expressed by the following statement: “A company only gains credibility from signing the CERES Principles if it performs. If it doesn’t perform, it loses credibility.” Thus, while all the environmental organizations interviewed favored reporting as a mechanism to increase accountability, concern arose around endorser implementation and CERES’s ability to motivate companies to make continual progress. The concerns environmental groups expressed fell into two categories: skepticism of CERES’s organizational capability to oversee and confirm and skepticism of corporate conformance.

All organizations interviewed felt the ability of a company to be viewed as a legitimate actor of the environment rested on disclosure. “If a company is going to try and be a environmental leader it must convince the people it is credible--there is no other way to do this than to publicly discuss what it is doing.” Disclosure was considered an “incentive for continuous improvement because companies know they are being scrutinized by the public and their competitors.”

In addition, environmental groups stated that “who is a[n environmentally] good or bad company is matter of public impression that does not necessarily have foundation in fact. Without uniform reporting, criteria, or information, companies can take wide stances on what they reveal.” The CERES report was largely considered useful because it “provides more information about a company’s activities than are otherwise available. The report can’t foresee Bhopal or Exxon Valdez, but it eliminates a situation where those companies that are looked on as good and those looked at as bad are based on accidental publicity.”

Regarding independent verification, several environmental groups specifically commented on the benefits which CERES can offer as non-industry, non-governmental organization. This belief is embodied in the comment that “companies need a broader base of support for credibility and accountability. Any code of practice requires an “independent means of
verifying what companies say they are doing and a watchdog element that makes an independent judgment of what’s going on to make corporate reporting more believable and credible.” CERES was also credited with being “more objective than an industry group.” “The CMA has gone far by saying a company must follow Responsible Care to be in CMA...but since CMA was created by an industry group, it probably did not press the envelope. Any CMA company could join Responsible Care.” Furthermore, “CERES is different from PERI, which is a set of guidelines without anyone running the organization. Companies are not interacting to improve the process or reevaluate it. Instead the process and guidelines are finished, thereby leading to stagnation...CERES, however, has an organization behind it that checks the reports and hustles the company for timely reports. It can put fire under the companies and review the reports and press a company if its report is vague. CERES can get feedback to companies...”

Although CERES, as an independent organization, was credited with the ability to put more pressure on a company than an industry group, the actual collection and verification of information was considered the most important aspect of a voluntary reporting initiative. All organizations stated an opinion that a crucial element to the success of CERES, or any reporting program, is the information provision and a generally accepted reporting format. “If the right questions were asked, reporting could be helpful, but there is no common currency. It is a huge job to develop the right kind of standards for reporting. Whether CERES has the technical capability to do that is not clear.” It was an environmental representative’s impression that “CERES has a more financial background and they don’t have the hands-on experience with plant operation and environmental issues to develop meaningful standardization.” A significant number of environmental groups commented on the vast task of verification and auditing. “For any sizable company it would be a monstrous job (to verify information in the reports)... practically. CERES may not have the resources.”
8.2.1 Extent of the Information in the CERES Report

In general, environmental groups feel that CERES is useful on some level. According to environmental groups, the benefits of CERES were based on a belief that reporting information to an independent organization makes corporations more accountable. Thus, while all the environmental organizations interviewed favored reporting as a mechanism to increase accountability, concern arose that CERES was not asking all the questions necessary for enforcing continuous member improvement. Environmental groups feel that CERES reports provide insufficient information on a company’s activities for accurate determination of its environmental responsibility. Environmental groups were skeptical about whether CERES could enforce or validate the information provided.

Other environmental groups expressed concern that the questions particularly relevant to specific industries were not included in the CERES report. “The CERES information is helpful and a good idea, but that the information is not specific enough about exceeding permits, fines, emissions, reactions to environmental issues like legislation or technology, plans for innovative technology, community concerns and access of the communities to information and data.” Others felt “CERES is a good-guy approach and its nice to sign-on. TRI [toxic release inventory] requires specific information for people adjacent to the facilities and is a more potent tool than CERES.” TRI can watch emissions on an annual basis to see if releases decline and the information takes away some of the mystery about what the facilities are producing. CERES, however, is a fairly general set of principles, so someone would have to go way beyond them to see if endorsing has really effected behavior.”

Despite concerns raised by environmental groups, it is important to note groups still lend overall support to CERES by remaining members of the CERES Board, by participating in dialogue with companies, determining specifically relevant issues to potential CERES endorsers, and reviewing and commenting on CERES reports. While some of the groups supported CERES more actively than others, none removed themselves from CERES’s list of members and supporters. Based on the concerns the environmental groups raised about the CERES Principles, their overall belief that CERES promoted the goal of reporting, and

\footnote{TRI was mandated by law in SARA Title III (Emergency Planning and Community Right to Know Act) in 1986 and requires large companies to provide data about accidental and routine releases of toxic chemicals. TRI applies to companies with 10 or more full time employees and which produce or use over 25,000 pounds of certain toxic chemicals annually. The information is intended to inform regulators and the public about releases of toxic chemicals into the environment. One problem with TRI is the inability to compare relative risks or damages among chemical releases. TRI is not standardized thus preventing someone from determining if a release of one chemical is worse than another.}
their continual involvement in the promulgation of the Principles, one may assert that environmental groups are both critical and supportive of CERES. Skepticism seems generated less directly toward CERES itself than by a struggle to define environmental responsibility and accept the limitations of voluntary reporting initiatives.

8.2.2 Contents of the CERES Report

Several environmental organizations expressed concern about the contents of the CERES report. Although they were supportive of CERES’s reporting efforts, they felt there were gaps in the questions which CERES asked, which prevented all useful data from being made available to the public. Furthermore, they felt that if reporting, in fact, revealed to companies the changes they needed to make, then by not asking all the right questions, firms would not be pressed in certain crucial areas. A representative of CEP suggested that “to determine environmental responsibility and good reporting the following aspects must be known: (1) practice in terms of impact (2) management policies and attitudes (3) compliance and litigation” (Moulten, 1995). This environmental representative acknowledged that gathering information on all of this is extremely difficult. His main criticism was that CERES addresses mostly management policies and attitudes but does not stress much of the practice in terms of impact or compliance and litigation.

Although CERES continually updates and expands the information required in its reports, CERES cannot require that endorsers supply all the information environmental groups would find useful. The evolution from the Valdez Principles to the CERES Principles,

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62 The Council for Economic Priorities (CEP) is one of the more prominent organizations making such determinations and has been a leading force in Socially Responsible Investing (SRI) research for almost 20 years. Its purpose is to research, collate and publicize the facts behind corporate and government programs to reveal how they actually affect people. In 1970, CEP’s first major study reviewed the paper industry. It concluded that doing business conscientiously with respect for the environment and employees, does not indicate a likelihood of lower profits. CEP’s studies have proven that the most socially responsible corporations are often those with the greatest profitability. CEP has now produced over 100 publications covering issues such as air and water pollution, occupational safety, nuclear energy, toxic waste disposal, military spending and armsments (Miller, 1992).

63 (1) The practices and impacts of a company including emissions, wastes, and accidents. Although accidents are unplanned, they indicate problems in manufacturing, transportation, and management practices. Additionally, actions after accidents are important. The accident should be as least impacting on environment and people as possible and a proper system should be in place to deal with an accident. The final product of a company should be innovative, safe, have lower emissions. (2) A company’s annual reports, stated public policies, annual environmental report, internal policies, goals, and/or deadlines should be consistent clear, and stated. If this information is difficult to obtain or vague, this indicates a company’s level of commitment. (3) While compliance is difficult and there are many laws, those laws are trying to protect resources and people. Violations are indications of problems. Small problems can balloon into a Bhopal situation. Public and private litigation is also an indicator of compliance. If a community group has a complaint, that can be a flag of issues that need to be addressed. Litigation on a product can indicate that the testing of a product didn’t cover all conditions, or the product needs more instructions, etc. (Moulten, 1995).
indicated a realization by CERES that it has to be more accepting of the limitations under which companies operate. In the same way that CERES could not expect companies to sign Principles that companies perceived as unduly restricting, the report cannot require disclosure of information which might put companies at competitive disadvantage or expose them to additional EPA fines or scrutiny.

As the rules governing auditing shields change, companies may feel more comfortable disclosing this information. However, because CERES is attempting to “walk a line between working together with companies and retaining the right to protest,” it cannot demand more information than the “healthy tension between environmentalists and industry” allows (Bavaria, 1994). Although TRI data has supplied communities and regulators with information about accidental and intentional releases of toxic chemicals, the data provided do not allow chemicals to be assessed relative to each other. It is therefore inappropriate to compare TRI information mandated by law, with CERES’s attempts at standardized, comparable information companies voluntarily disclose. As an independent organization trying to utilize non-regulatory mechanisms to encourage disclosure, CERES cannot realistically be expected to acquire standardized data from all large emitters. The concerns environmental groups have about the level of disclosure provided in the CERES report is therefore the inevitable result of an environmental-company coalition and voluntary reporting guidelines.

8.2.3 Measuring Environmental Performance
CERES emerged from a socially conscious investment group, but its interest in a corporation’s continual improvement fundamentally appeals to both the financial and environmental component of CERES. The financial members of CERES want an emphasis on accounting, so that investors have standardized information they need to compare environmental responsibility across companies. Investor groups typically are concerned with issues of environmental liability, ongoing costs related to compliance and cleanup, and capital and total expenditures on environmental research and development and technology. The environmental groups also want information on environmental performance and future goals, but are typically more concerned with emissions, and overall impact of production on the environment. These different reporting and accounting expectations clearly cause some of the skepticism environmental groups express regarding the issued CERES reports.

Many authors have suggested the information and details that companies should provide so that the environmental dimension of corporate performance may be captured. The
information suggested has typically included consumption of energy and any measures being taken to reduce it: information on size and composition of the used vehicles / fleet and measures being taken to reduce usage of the road network, steps being taken to replace usage of hazardous substances with more environmentally friendly alternatives, information on waste output, and specific data on the company's use of energy and physical resources (Adams, 1992; Cowe, 1992). Determining the important environmental concerns to measure is only one aspect of reporting. The units of measurement, environmental effects of substitutes, and media of concern still need to be determined. The environmental community has yet to decide which environmental issues are the most important and how to measure a company's impact on it.

The accounting profession has also suggested important areas of environmental reporting. They suggest that a comprehensive environmental reporting package should include financial reporting of environmental expenditure and liabilities: an environmental report indicating the company's broader impact on the environment and consisting of valuations of man-made and natural assets, transfers between these categories, and data on the maintenance of assets (Owens, 1992). However, developing a valuation system and determining the existence, use, and bequest value of a resource raises major practical problems.

Investors have also joined the task of creating a comprehensive reporting system which would allow them to rectify various corporate environmental behavior. Investors have faced similar constraints as environmental and financial groups. A common way investment groups have responded to the current limitations on environmental reporting is by using an absolute standard. Many investment funds simply screen out all polluting companies, as a way of eliminating the complexity of environmental issues. However in doing so, virtually all investment in the oil or chemical industries is eliminated. This absolute standard is easy to apply, but to many it prevents investment in the more innovative or less impacting companies (Hansell, 1991).

Other investment firms use a relative standard based on several criteria: compliance with environmental regulations, number of Superfund sites, waste minimization, and whether the company has endorsed the CERES Principles. This system allows high impact companies to be an acceptable environmental investment because it accounts for companies with the “best policy and the fewest problems” (Hansell, 1991: p.102). This method also has problems, however. Almost all companies that have operated in the last 40 years have
some Superfund liability. Almost all companies in the US are out of compliance at some point in their operations. "Acceptable waste" still requires prioritization, and being a CERES endorser at this point only indicates a firm is committed to continual improvement.

Determining a purely quantitative way for doing measuring environmental performance is unlikely because of the complexity of environmental impact. Until there are acceptable ways of measuring progress in terms of general waste to all media and full life-cycle analysis, CERES and other organizations will continue to struggle to find some standardization for extremely subjective information on which there is no consensus. CERES itself is grappling with the elements necessary in generally accepted environmental procedures. Since CERES and other organizations have yet to determine generally accepted environmental procedures, the information provided by companies is so far unstandardized. Generating generally accepted environmental procedures is a monumental task that CERES can at best influence and direct. CERES cannot, however, singularly generate and define the necessary elements of appropriate environmental performance.

8.2.4 Validation of Reports

Environmental groups expressed concerns with CERES's capacity for validating the information supplied in the CERES report. In its earlier stage, CERES envisioned itself as an "Environmental Audit Standards Board for the Principles, setting standards for the audit and disclosure of audit details" (Press Conference 9/7/89). However, CERES now sees its role as a "conduit of information on what companies are doing in recycling, energy efficiency, pollution abatement and (the other CERES Principles)" (Doyle, 1990: p 38). CERES "is concerned with the design of information disclosure and its credibility and is working toward the institutionalization of excellent environmental practices and the acceptance of the idea that environmentalism and economics must be linked" (Bavaria, 1992). CERES now accepts that it does not have the capacity to validate endorser reports and therefore acknowledges that it is up to the readers of the report to determine whether they are satisfied with the company's performance.

Concerns with all voluntary codes of practice are that "mechanisms for seeing that the reality of the performance by companies [that have endorsed a code] match the rhetoric. The CERES Principles do have public disclosure and reporting processes, which are the more difficult, but more important areas." An example typifies the concerns environmental groups have with the implementation of the CERES Principles: One of the environmental representatives interviewed had never had experience directly with CERES. Instead, her
knowledge of CERES and the CERES report came from interactions with a CERES endorser. This representative stated, “The community group I work with has demonstrated against (a CERES endorser) in the last year. [This endorser] is notorious in the community for its air emissions and unwillingness to talk with environmental and community groups. [The company] has regularly canceled meetings with local groups... is regularly out of compliance with air emission requirements... and pays large fees for this.” Furthermore, this representative “was very surprised when (the company) mentioned in its CERES report that they interact with [our organization].” This same representative stated that “some good information is in the CERES reports and they are good Principles, which I would like to see companies follow” despite the fact that the company with which she is concerned “is not meeting them at all.” This comment reflects the overall approval environmental groups give to CERES and voluntary reporting initiatives despite the skepticism they have towards individual endorsers.

This concern was further articulated by those who suggested that “some companies would really like to make a positive environmental impact but the others only want the reputation of being environmental responsible without reducing their environmental impact.” Other environmental organizations agreed that they “haven’t seen anything come out of companies that signed the CERES Principles that showed they had fundamentally changed their operations in ways that would have a significant environmental improvement. Sure it made a difference, but not a significance change in operations.”

Much of the concern environmental organizations had with the CERES Principles is based on the level of oversight and verification of accuracy they perceived as necessary for successful completion of the reports. As one environmental representative stated, the “CERES Principles are a good idea, but they require constant vigilance to make sure companies are actually meeting the guidelines.” Other organizations concurred, stating that “while it is a plus if they sign on, someone has to go the lengths to see what it means operationally.” Endorsing the CERES Principles may “score some points initially with environmental and investor stakeholders, but they are not naive, the guidelines must be policed... and CERES must police guidelines to show companies are doing and not just saying... CERES needs to monitor the report, and make sure it is timely and consistent.”

The skepticism and subsequent concerns environmental groups express about CERES’s ability to validate data are not surprising given the larger struggle that exists in determining auditing criteria and third-party certification.
Difficulties in environmental reporting extend beyond the problems quantifying environmental impact and environmental responsibility. Auditing and verification of environmental performance requires that externalities and impacts be attributed to the appropriate entity. Auditing and verification would also require that certain impacts were associated with a single time period, or the year of the report. Environmental issues, however, tend to be long term in nature, and sometimes difficult to attribute to a single corporation. An example of this would be the externality of oil solvent run-off into a river. GM may use a part in an automobile which utilizes a solvent. However GM may have purchased the part form another automobile manufacturer. An audit must attribute the degradation of the river to one company or find a way to share the responsibility. Assuming the river was degraded gradually, one must determine how much degradation occurred annually per company. Furthermore the environment is a complex interacting set of systems and it is unlikely the impacts of oil solvent were limited to a river. While environmental groups and companies both would like to see generally accepted environmental reporting, such information is much less evolved than financial audits. Financial audits can be verified, thereby assuring the integrity of the data. A system of collecting and reporting environmental information is still in its infancy, verifying the data are even less developed.

8.2.5 Enforcement

Much of the concern about verifying corporate attempts at continual improvement can be attributed to the flexibility of the Principles. While the endorsers must commit to continual improvement, there are no specific end targets or deadlines. This has led some environmental organizations to feel that “Principles may be useful in reminding top people in companies that they should be thinking environmental issues and specific plans. however [this allows] the Principles to be used in a variety ways, creating a situation where a company can endorse and do a lot or endorse and do very little.”

Others concurred, stating that a “standard set of principles for some companies may help them become more environmentally sensitized and change their practices in a positive way. For other companies having other people’s Principles developed for them and then asking them to sign on ...doesn’t do as much for pushing the leaders and pulling the laggards.” “It is hard to determine through the CERES reports if a company is a leader or is innovative, and that really is indicative of a company’s environmental responsibility.”
Environmental organizations have expressed concern that the Principles are too general and “don’t tend to have ... a biting effect.” CERES is not trying to be a standards setting organization; they are instead attempting alternative approach toward garnering corporate environmental responsibility. For various industries to adapt a singular set of Principles into its business practices, the Principles must necessarily be flexible and broad. It is CERES’s intention that once Principles are adopted, companies would determine for themselves the specific implementation. Expectations from environmental groups that CERES should be more specific, more punitive, or more like “command-and-control” is a misunderstanding of CERES’s intentions.

Environmental group’s desire for deadlines and requirements in the CERES Principles is not unexpected. As discussed in the Chapter on regulation, environmental issues have traditionally included timelines for achieving a set of level of improvement. These standards are enforced by the EPA and state agencies. While the advantages of this method include simple and determinate objectives combined with relative ease in determining a company’s failure to meet the objectives, this method of gaining regulating the environmental has become less popular due to economic efficiency arguments. Voluntary codes of management do not employ these strategies and therefore lack the same enforcement capacity. The same aspect of CERES many environmental groups consider an asset--its independent, non-governmental status--prevents it from setting standards or punishing those companies that violate CERES’s expectations. Furthermore, while CERES wants companies to strive “beyond compliance,” for many environmental organizations, a bottom-line concern remains whether a company is actually in compliance. For these organizations CERES does not, and cannot, provide a high enough level of assurance.
8.2.6 Varying Definitions of Environmental Responsibility

Environmental groups also expressed concern about the types of companies becoming endorsers and the categorical nature of CERES endorsement. Both of these concerns are tied to the varying definitions of environmental responsibility that exist within environmental groups. Although any company may join, CERES does not recruit companies known as environmental leaders. They instead attempt to move large industrial, extractive, and chemical producing companies into the arena of environmental responsibility. Many environmental organizations questioned the ability of such companies to meet the CERES Principles. This concern is attributable to the lack of consensus on the criteria which a company must meet to be considered environmentally responsible and the differences between environmental groups’ objectives.

Many of the environmental groups acknowledged that “there are no ‘pure’ processes and that there is no benefit in a ‘holier than thou’ attitude.” Substances, which in their final form are environmentally benign, can in their extraction, manufacture and disposal have a major impact on the environment. All human existence has some impact on the environment by depleting or damaging resources that would otherwise be unused. Politically radical environmental groups often feel collaboration with corporations is tantamount to being coopted. They contend that chemical, mining, and refining, companies (henceforth called high impact industries) are inherently dirty and cannot be environmentally responsible. Other environmental groups felt “it is an oxymoron for extractive, toxin, petroleum, and chemical producing companies to attempt Principles calling for sustainable use.” Other environmental groups felt that expending energy on high impact industries would provide only minimal returns. They felt that instead of working with extractive and refining companies, environmental responsibility efforts should “focus on how companies are strategically investing in innovative, high performance, future energy sources...there is only marginal improvement extractive, coal, petroleum companies can make. The focus should not be on individual company performance but the overall direction of the economy.”

Many mainstream organizations adopt a more pragmatic view of high impact industries: “We live in a particular time and place. Do we measure how a company is doing relative to others or against an ideal? Everyone uses energy...[it is necessary] to be practical and grounded and recognize use of fossil fuels is not going away tomorrow.” A clear majority of the organizations interviewed felt all industries, including chemical, mining, and
refining, needed better environmental management. Several environmental groups felt that “any company should be able to join the CERES Principles with some exceptions.”

CERES acknowledges that environmental advocacy groups express skepticism about the capacity for some of the CERES endorsers to meet the CERES Principles and provide a useful report. CERES explains this reaction by stating that “environmental reporting is out of the fray of most environmental advocacy groups. But increasingly these groups are realizing that government is not the most effective third party, and that CERES... doesn’t want to just work with the “green” companies, the companies that are already there” (CERES, March 7, 1995).

As CERES suspected, some environmental groups are skeptical of CERES’s ability to influence endorsing activity because of the varying objectives environmental groups have regarding high impact industries. Regional environmental groups are organized around protecting a particular area or resource. These organizations are concerned with the immediate emissions from a local facility or the emergency protection of a local resource. In these cases, companies adhering to the Principles by taking positive environmental actions elsewhere make little impression. National groups concerned with the preservation of whole wildlife species have only a tangential interest in companies which meet the CERES Principles. For these groups, corporations are only one of the actors impacting the environment. In addition, limited actions taken by corporations in order to comply with CERES Principles are likely to have only a small effect on the broad issues concerning national organizations. CERES is seen by these environmental groups as one of many tools appropriate for improving the environment.

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64 An environmental representative stated that “tobacco companies couldn’t be socially responsible because their fundamental purpose is problematic. Extractive industries can be socially responsible if they are managed carefully and are making an effort for responsible management. Timber can be managed sustainably. Mining has limited capacity, but increased recycling is a movement towards social responsibility. Americans consume fossil fuel, therefore there is a need to manage extraction and refineries in a more socially responsible manner” (Thomas, 1995).
8.2.7 Results of the Collaborative Process

Environmental groups largely feel there is a “need for some effort by the environmental community to work directly with the business community to advance some environmental issues.” Many environmental groups thought the “CERES Principles are a pretty good embodiment of an agenda that a corporation ought to embrace to be environmentally sustainable” and thought “signing [the Principles] is a way to focus diffuse environmental efforts,... crystallize why a company is making improvements, and help implement environmental programs as well as publicizing them.” Other environmental representatives stated they “actively give credit to companies with bad previous records attempting CERES.”

Several environmental organizations noted that “organizationally CERES links the social responsibility forum and the environment” and is a “platform where [companies and concerned non-governmental actors] could talk about issues of larger concerns [like] ethics and underlying values.” An environmental representative stated he had a “positive view of companies who are CERES signatories because [being an endorser is] an acknowledgment by the company that it is part of a larger community and is willing to enter into dialogue with that community about the impact it has on the environment and on people in general...CERES offers an approach, where in good faith [companies] are negotiating with CERES and are trying to reach these goals and be public about it. CERES favors an approach that looks at societal needs, not just the company’s individual needs.” One environmental group stated that “CERES is one example of one way the environment is incorporated into a company’s “culture.”

One environmental group used an analogy between the CERES Principles and Alcoholics Anonymous to articulate the belief that CERES has an important impact on industries: “A company admitting it has a problem is taking the hardest step. It’s hard for a company to admit it wants to change and wants help from CERES.” Furthermore another company asserts, “even if a company is not completely consistent in all of its policy decisions and actions, is still trying and should still be supported.” Despite the general approval environmental groups indicated about the collaborative aspect of CERES, most environmental representatives expressed some hesitancy about CERES’s collaboration with high impact industries.

Traditional activists have an even more fundamental concern with the legitimacy of collaborating with companies. As discussed in the chapter on social responsibility and
regulation, many environmental groups continue to feel that companies are responsible for much of the environmental degradation which currently exists. Corporations are often perceived as ignoring larger responsibilities. These environmental groups see alliances with industry as inappropriate and disloyal. They may favor tactics that include demonstrations, boycotting, and active, physical intervention in a company’s activities. Greenpeace, which is not involved with CERES said “the Principles do not require companies to make major changes in the way they do business. [Endorsing] companies... drag [environmental representatives] into a negotiating process that produces meaningless results” (Zack, 1992: p. 57). Environmental responsibility to these groups is “deliver[ing] the goods that people need in a way that produces little or no impact through innovative ways of production.” Although this definition is not distant from that held by mainstream environmental groups, mainstream organizations feel that working with companies leads to a productive and long-term solutions.

8.2.8 Categorical Status
The concerns environmental groups have regarding CERES’s definition of environmental legitimacy are consistent with the variety of models of environmental responsibility introduced in the social responsibility chapter. In that chapter, industries are placed on a range of activity—from those focusing on compliance to seeking sustainability. Another model places companies on a range from inactive to hyperactive. CERES, on the other hands, suggests that if continual improvement is a goal, companies fall into two categories—endorsers who have committed to continual improvement, and those who have not. In addition, CERES accepts extraction, refining, chemical production and nuclear power as potentially environmentally responsible industries, providing the goals of continual improvement are met. The CERES model deviates from more common models of environmental responsibility, making many of the activist and mainstream environmental groups uneasy.

Several of the environmental groups felt that CERES categorized companies as either good or bad. They objected to what some perceived as a simplistic view of environmental responsibility. They noted that these categories allow a company that attempts the Principles with limited success to gain the same approval as a company that stringently incorporates the Principles into management and production. “CERES is categorical in nature. CERES sometimes portrays companies which sign as good and those that don’t are bad. But there is a larger issue of…long-run implementation.” Furthermore CERES endorsers range from chemical producers to ice-cream companies. One group suggested
by putting these companies in the same category, CERES was giving a “stamp of approval
on industries that are inherently dirty and still rely on depletable, carbon-based fuels.” The
most common feeling that environmental groups expressed about the “endorser” and “non-
endorser” status, however, was that “one cannot ultimately give credit to a company that
merely tries...[however] a company that tries and attempts to improve gains more
credibility that a company that says ‘we don’t think we can do it, therefore we won’t sign.’

Environmental groups felt that a category of endorsement or non-endorsement does not
represent the complexity of corporations or their problems. “Larger companies often have
serious environmental problems but may also be more technologically advanced and may
be sponsoring more R&D for less harmful production processes. Large companies can
take away with one hand and give with the other by being unsound and progressive at the
same time.” For instance,

Aveda and Ben & Jerry’s have shown leadership on a variety of issues, including
the environment. But Ben & Jerry’s uses Mylar bags which are not recyclable.
Companies will always consume resources and have some environmental impact.
It is too simplistic to be green or not. There are companies that are laggards and
have not even met compliance, some just meet compliance, some are trying to go
beyond compliance, and others are trying to build into its standard operating
procedures and make it the goals of the company to minimize impact and
incorporate innovative ideas. Monsanto has tried to improve but is not in same
category as Ben & Jerry’s or Aveda which are innovative. But Monsanto probably
has done more than other chemical companies. Environmental responsibility is a
range, and I object to the idea of a green company or not green company.

One environmental group gave a cogent example of its dislike for the environmental
responsibility conveyed through the endorser category:

CERES initially approached McDonald’s when EDF was working with them.
McDonald’s had already done a tremendous amount of work with EDF to develop
its own internal procedures. They were already building environmental issues into
their existing management mechanisms, which seemed to have larger potential in
terms of long term institutionalization, building on efforts, and really becoming a
part of corporate culture...than CERES could offer. EDF told McDonald’s that they
already met the CERES requirements of a policy statement, senior person on the
board, and communicating with the public. EDF didn’t think being a CERES
endorser should be a litmus test of whether a company is becoming a leader.

While many groups expressed concern about lumping companies into a category that may
convey a level of environmental responsibility not yet achieved by the endorser, EDF’s
comment also reveals some territorial issues. If McDonald’s already had many of the
systems in place for continuous environmental improvement, it would lose nothing by
becoming a CERES endorser. EDF’s advice that McDonald’s not join CERES indicates that some competition between CERES and EDF. Environmental groups that work directly with companies to improve their practices, not surprisingly, feel that CERES’s suggestion that the company needs to also be an endorser to be considered environmentally responsible, allows CERES gets credit for the effort another group has done.

Although the effectiveness of CERES has come under question by environmental groups, concerns are not based on distrust of the organization or a lack of faith that CERES should be a part of the changing social norms and structure of corporate environmental legitimacy. Ultimately, environmental groups must feel satisfied with the actions of industry if they are to accept the actions of companies as legitimate. Environmental groups have traditionally been the force of environmental legitimacy for corporations because they represent public expectations regarding environmental behavior. Companies that work with environmental groups recognize there is little need to codify their actions through the state. The responses of the environmental groups regarding CERES ability to motivate continuous environmental improvement are important because companies are looking to environmental groups to help define the norms that constitute environmentally legitimate behavior. Although environmental groups expressed concerns regarding the types of companies with which CERES collaborates, the extent of the data CERES collects, and the flexibility CERES allows endorsing companies, the ability for CERES to confer environmental legitimacy on companies is not contingent on these factors. CERES’s affect on corporate culture is hinged to its ability to define and evaluate corporate environmental responsibility, or influence the social construction of what constitutes “environmental legitimacy.”

8.3 CERES’s Influence on the Social Construction of “Environmental Legitimacy”

Six major companies representing several industries have thus far endorsed the CERES Principles. Determining the direct impact of the CERES Principles on individual firm behavior is problematic. In addition, environmental groups have expressed skepticism toward the flexibility of voluntary codes of management and the evolving field of auditing, disclosure, and verification. Despite these limitations, CERES has influenced the social construction of what constitutes “environmental legitimacy,” or the public perception of environmental norms and corporate environmental responsibility.

Environmental groups largely agreed that there is not is a single technique to move companies toward environmental responsibility. Most agreed “any one company cannot sign a single guideline and have it change everything. “In the environmental arena there are
many different approaches to bring about corporate responsibility, and all of them help. Many of the environmental groups stated that pressure to adopt CERES is helping to expand the social obligation corporations have with the public while also affecting corporate efforts in accounting, auditing, and reporting.

8.3.1 Expanded Social Obligation
As discussed in the chapter on legitimacy, companies must meet changing social norms and expectations to maintain their legitimacy. Social acceptance is an essential component of any power-wielding institution. For a company to retain its power, it must operate within constantly changing and expanding stakeholder demands. CERES's reporting requirements and dialogue process have influenced public expectations of corporate environmental performance and impacted how society at large defines and evaluates corporate environmental responsibility.

As CERES presses for increased reporting and disclosure of environmental information, it continues to act as a catalyst within the movement for corporate environmental responsibility. The environmental groups interviewed indicated that the overall impact of CERES is not a matter of those companies who have or have not joined. Companies have very seriously considered the implications, meaning, and responsibilities inherent in CERES. Whether or not one signs, there is a learning process that a company goes through in considering to sign. This is true of CERES Principles, GEMI, Responsible Care, or the ICC Business Charter. [One] can choose to be cynical about [the Principles] or choose to see them as a beginning of a very serious process of the corporate forum wrestling with additional and new social obligations.

8.3.2 Pressure for Action (Endorse or Explain)
One environmental representative saw CERES as a benchmark from which to question a company's actions.

When large groups scorned the Valdez Principles all the companies could be in the group scorning. But now, when the largest American company, GM, says they can [commit to continuous environmental improvement]--this gives CERES a new tool to respond to companies who say they cannot endorse because they are too large with too many complicated processes. Instead, CERES makes companies draw a line and say they either want to [endorse] or they refuse [to endorse]. Companies who say they already are operating under comparable Principles and have nothing to gain should have no reason not to sign. Not signing indicates... either they have the data and don’t want to share it because it is revealing of bad
performance, or they don’t collect it indicating they do not have proper management polices set up.

Furthermore,

CERES is willing to work with a company and its current policies and resources. If a company is really already doing [environmental programs and continuous change], it should be a short distance to adopt the Principles. If they are just reaffirming their policy by joining CERES, [by doing so] they would satisfy potentially thousands to millions of customers.

Several of the companies interviewed also indicated that becoming a CERES signatory allowed them to make a strong, public statement about their commitment to environmental improvement. This feeling is best summed up by the following statement:

Sun wanted to be seen as a leader--not as perfect, holding itself on a pedestal, or being in the top 10% [of environmentally responsible companies]. Endorsing [the CERES Principles] enables Sun to be a leader with the recognition that environmental performance is important, that Sun isn’t where it wants to be, and that CERES and Sun goals are ones to strive for through continuos improvement. Sun wants to be collaborative in dealing with external stakeholders and work through the debate on how to get improved environmental performance. Sun wanted to create a cultural change within the company. Being the first Fortune 500 company to endorse is a real statement--it is important to the external world and internally to the company.

Interviews indicated that those companies that have not signed seemed more opposed to actually endorsing the CERES Principles than actually undertaking the activities CERES requires. Several companies acknowledge that “verification is essential, but disclosure is a slow process and we need baby steps” (Pasko, 1995). Amoco, one of the more vocally opposed companies states that not signing is part of a “philosophy.” “Amoco does not want to be bound by specific organizations but would rather adopt parts of the policies appropriate to Amoco business. Amoco adopted a lot of what CERES advocates, including environmental reporting...and there is not much in CERES that we don’t agree with, but we have opted not to join the organization.”

In his book, Planning in the Face of Power, John Forester makes the observation that organizations such as CERES do not just produce instrumental results (such as improving corporate environmentally responsibility), they also produce and reproduce social and political relations (Forester, 1989). Hoffman also found that “CERES has had a dramatic

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65 Amoco is one of the nine companies in PERI which requires a report every five years.
effect on the state of the institutional field, and its associate perspectives on proper corporate behavior” (Hoffman, 1995: p. 295).

The effect on the institutional field can be seen in the actions non-endorseering companies have undertaken. Although there is no concrete, direct correlation between the social pressure CERES applied and the larger trends in corporate activity, CERES acted as a catalyst, providing momentum for existing trends in overall corporate behavior. Companies were already providing some information in their annual reports and were interacting with stakeholders. CERES has attempted to push companies’ commitments to reporting and continual improvement. CERES provided additional pressure, a process, and organization to which companies had to react.

In response to the Valdez oil spill and the creation of the CERES Principles, corporate America has adopted progressive environmental principles tailored to the unique circumstances of particular companies. A heightened consciousness of the need to be a responsible steward of the environment has been achieved from the CEO down through the entire corporation. Consequently corporations have begun to think more seriously about the value of corporate environmental reports and disclosure of information (Smith, 1993: p. 310).

Corporations began to develop their own answers to the Valdez Principles. CMA developed Responsible Care, and the American Petroleum Institute announced a set of environmental principles for its members. Corporations involved in the Business Roundtable established GEMI. The International Chamber of Commerce (ICC) formulated a set of Principles for Sustainable Development which were adopted by many international corporations. Although they the rejected Valdez Principles, a number of corporations instituted some of its elements. Companies issued environmental reports, wrote their own environmental policies, and some created the position of VP for environmental affairs.

During the early stages of CERES, CERES met with ten companies to discuss environmental reporting standards. The intention was to create a program for corporate reporting not associated with Principles. Some of the companies that entered discussions later in the process wanted indemnity from future shareholder resolution and a programmatic shelter. CERES could not grant these concessions (Kuszewski, March 28, 1995). Discussions for an alternative reporting program disintegrated when Sun endorsed the CERES Principles. Rather than adopting the CERES Principles, Amoco, Dow, DuPont, IBM, Northern Telecom, Phillips Petroleum, Polaroid, United Technologies created PERI (the Public Environmental Reporting Initiative) which recommends guidelines
on the practices, policies, and performance information provided in corporate environmental reports.

Hoffman’s research indicates that although these companies had terminated direct dialogue with CERES, they remained concerned with the growing influence of CERES. Amoco expressed concern about future shareholder resolutions in an internal memo: “CERES proponents chose not to introduce resolutions at all but one of these ten companies this year, mainly because of [the companies’] support for standardized environmental reporting. However, since [PERI companies’] discussions [with CERES] have ended, the ten companies could become targets of CERES shareholder resolutions next year” (Hoffman, 1995).

As they feared, Amoco faced a CERES resolution that year. Amoco did not dismiss the Principles as unnecessary or irrelevant. Rather, Amoco petitioned the SEC to agree to the omission of the proposal based on their prior ‘substantial implementation’ of the CERES principles. In January of 1994, the SEC agreed with Amoco’s request, based on four significant improvements since March of 1991: (1) PERI reporting; (2) Improvements in operational and management programs such as crisis management and waste minimization; (3) Changes in the internal auditing function (program and process review); and, (4) Cooperative government programs such as Yorktown, the 33/50 program and EPA risk management stakeholder meetings (Hoffman, 1995: p. 288).

Three internal changes in Amoco appear to have been expedited by the pressure exerted by CERES: the “green-span” environmental report, the EH&S Board committee, and the redraft of the EH&S policy. Previously, Amoco attempted to avoid CERES’s goals. However, in late 1991,

Seemingly spurred on by the CERES movement, Amoco began the process of incorporating the pro-active language of the Valdez Principles into its Health, Safety and Environmental Policy. ...As a result, the EH&S policy also underwent a fundamental shift from a compliance oriented document towards a pro-active one, pledging the corporation to commit to environmental leadership (Hoffman, 1995: p. 281).

When asked if CERES caused the formation of the new environmental policy, an Amoco executive answered,

Yes and no. [CERES] influenced [Amoco’s] redraft but, previous to that, we had spent a lot of time looking at other companies’ policies. There was a directional shift within industry at that time... It started with CMA’s...program which really
started pushing companies towards community responsibility and the idea that they were responsible for the well being of their neighboring communities. This, coupled with the Canadian Chemical Manufacturer's Association program, was the genesis of the CMA Responsible Care program. So, in a sense, CERES precipitated a movement within industry (Hoffman, 1995: p. 281).

In 1991, three years before they became signatories, General Motors executives met with CERES representatives. Shortly thereafter, GM issued a revised Statement of Environmental Principles, which was included in its 1991 proxy statement. Company executives insisted that the 1991 CERES stockholder resolution was not a motivating factor in their decision to revise GM's environmental principles, which had not been revised since 1959 (Cogan, 1994).

Although companies express a hesitancy to attribute any of their internal environmental changes to CERES, CERES appears to have had some effect on their behavior. CERES was one of several organizations promoting continual environmental improvement, disclosure, and reporting, however its requirements were more encompassing than other programs like PERI, GEMI, or CMA. When companies either endorsed or responded to the CERES Principles by adopting similar Principles or policies, this legitimized CERES's demand for greater responsibility. CERES essentially set a precedent for the extent of commitment and type of information the public could expect from companies.

Thus, this thesis concurs with Hoffman's finding that while many companies may dispute the impact of CERES on their own firms, "there seem to be several movements within industry redefining legitimate corporate environmental management along the lines which CERES advocated" (Hoffman, 1995: p. 295). Although only a small proportion of all companies have publicly endorsed the Principles, since the introduction of the Valdez/CERES Principles, many major companies have incorporated portions of the principles and the overall spirit of the Principles by increased collaboration with environmental groups, providing more information and disclosure though reporting, completing internal audits, and utilizing third-party verification.
8.3.3 Increased Collaboration with Environmental Groups

CERES Principle #10 calls for a management commitment of “sustain[ing] a process that ensures that the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our Board of Directors, [endorsers] will consider demonstrated environmental commitment as a factor” (CERES, 1995). CERES rationale for this requirements is that environmental accountability requires established responsibility and demonstrating strong upper management commitment to environmental initiatives.

Although Exxon initially rejected the idea of putting an environmental representative on its Board, shortly after the Valdez spill, oceanographer John H. Steele, became a board member. In addition, in January 1990, Exxon appointed one of its top executives to the newly created position of vice president for environment and safety. In its proxy statement, Exxon stated that these measures were “consistent with several objectives” of the Valdez Principles (Barnard, 1990). Many companies have since appointed environmentalists to their executive boards.

**TABLE 1.0: Environmentalists on the Board**

<table>
<thead>
<tr>
<th>Company</th>
<th>Environmental Director</th>
<th>Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashland Oil Inc.</td>
<td>Patrick Noonan</td>
<td>President, Conservation Fund</td>
</tr>
<tr>
<td>Atlantic Richfield Co.</td>
<td>Frank Boren</td>
<td>Conservation Fellow, World</td>
</tr>
<tr>
<td>Baxter International, Inc.</td>
<td>James Ebert</td>
<td>Wildlife/Conservation Fund</td>
</tr>
<tr>
<td>Chevron</td>
<td>Bruce Smart</td>
<td>Director, Chesapeake Bay Institute</td>
</tr>
<tr>
<td>Dexter Corp.</td>
<td>Jean-Francois Saglio</td>
<td>Senior Counselor, World Resources Institute</td>
</tr>
<tr>
<td>DuPont</td>
<td>William Reilly</td>
<td>Former Director, French Administrator of Environmental Protection</td>
</tr>
<tr>
<td>Exxon</td>
<td>John Steele</td>
<td>Former Administrator, EPA</td>
</tr>
<tr>
<td>Metaclad Corp.</td>
<td>Alan John Borner</td>
<td>Senior Scientist, Woods Hole Oceanographic Institute</td>
</tr>
<tr>
<td>Monsanto</td>
<td>William Ruckelshaus</td>
<td>Founding Director, National Association for Environmental Management</td>
</tr>
<tr>
<td>Niagara Mohawk Power Corp.</td>
<td>Bonnie Guiton</td>
<td>Former Administrator, EPA</td>
</tr>
<tr>
<td>Union Carbide</td>
<td>Russell Train</td>
<td>President and CEO, Earth Conservation Corps</td>
</tr>
<tr>
<td>Waste Management Inc.</td>
<td>Kathryn Fuller</td>
<td>Chairman, World Wildlife; Former Administrator, EPA</td>
</tr>
<tr>
<td>Weyerhauser Co.</td>
<td>William Ruckelshaus</td>
<td>President, World Wildlife Fund and Conservation Foundation (presently on leave from the Board)</td>
</tr>
</tbody>
</table>

(Source: Cahill & Engelman, 1993)
According to a Price Waterhouse survey (the principal source collecting corporate environmental reporting and auditing trends, the recent inclination to appoint environmental representatives to the Boards is due to the government and the general public placing increasing pressure on companies to exercise environmental responsibility. This pressure is evidenced by the increasing number of shareholder proposals on environmental responsibility introduced at annual meetings and the increasing demands for information on companies’ environmental performance. In response, many companies have become proactive in establishing environmental policies and programs and in appointing high-level oversight within the company to legitimize and enforce their policies and programs (Price Waterhouse, 1994: p. 29).

The Price Waterhouse survey indicated the percentage of companies that have established an environmental affairs oversight function at the Board of Directors level increased from 14% in 1990 to 23% in 1992 and has nearly doubled (41%) since the 1992 survey. The report states that having someone knowledgeable about the environment at the Board level sends a strong message about the importance of achieving the company’s environmental mission (Price Waterhouse, 1994).

Many companies that have not placed an environmental representative on their Board have created alternative ways of introducing environmental issues to upper-level management. Environmental Committees have become a more prevalent trend in the US. As of the middle of 1992, well over one-third of the Fortune 100 companies had established board level committees for public policy or environmental, health and safety matters. Specific companies designating an environmental committee of the board include: Amoco, ARCO, Dow, DuPont, Occidental, Union Carbide and Hoechst Celanese Corporation (Cahill and Engelman, 1993).

In addition, dialogue with environmental groups has become more prevalent. More than 50 company executives have joined the Boards of national environmental organizations. For example Union Carbide has its directors on the boards of the World Wildlife Fund, World Resources Institute, and the National Resources Defense Council (Cahill and Engelman, 1993).

CERES is not directly responsible for the appointment of environmental representatives on the Board of corporations or the interaction corporate executives have had by joining the Boards of national environmental organizations. However CERES was a motivating force in exerting pressure and defining the social expectation for strong upper management
commitment to environmental initiatives and increased environmental-corporate collaboration. To some extent, when CERES defined management commitment as a requisite for environmental responsibility and companies appointed environmental representatives to their Board, a norm of environmentally legitimate behavior emerged.

8.3.4 Reporting Trends

In addition to providing momentum for the formulation of voluntary reporting programs and upper-management commitment, CERES also has advanced the trends in corporate reporting. Interviews indicated that most of social investing information is currently derived from newspaper clippings and running a database search on where a company’s name appears, if it is involved in controversies, or if it has a bad reputation. As a result companies that kept their head down and maintained a low profile were assumed to be good. Hopefully over time there could be...something akin to generally accepted accounting principles (GAAP) and auditing. CERES reports still encounter the problem of normalizing data, but it is an effort to advance the reporting agenda (Thomas, 1995).

Fund managers reported that “more companies are providing HES report with their annual report. CERES has had an impact [on firms], [but] perhaps rather than everyone following the Principles, the impact has been to make companies look at what they are doing and improve” (Pfund, 1995).

Price Waterhouse notes the impact of increasing social expectations on reporting trends:

Whether public environmental reporting becomes a requirement for Corporate America is an open question. ISO is likely to consider including public reporting of performance measures. The CERES Principles support reporting of environmental performance, and participation in EMAS in Europe also results in a level of public disclosure...companies have initiated environmental reporting to proactively satisfy information demands and receive due credit for their significant investments in environmental stewardship (Price Waterhouse, 1995: p.35).
8.3.5 Formal Environmental Policies

73% of companies with significant environmental liabilities stated they have a formal statement of environmental principles, an overall environmental policy, or an environmental mission statement. In addition nearly 60 percent of those participants without significant environmental liabilities report having formal statements or policies. Price Waterhouse believes “this is strong evidence of the seriousness with which corporations are approaching its environmental responsibilities, and presumably its recognition of the potentially adverse social and economic consequences of failing to do so” (Price Waterhouse, 1994: p.29).

8.3.6 Voluntary Reporting

25% of the surveyed companies, or 100 American companies, indicated they are issuing public reports, although the definition of public report was not supplied (Price Waterhouse, 1994). A 1993 study of European and North American firms indicated that 30 major corporations\(^{66}\) released voluntary environmental progress reports. The 1993 study indicated that the report consisted of an attempt to address low points as well as high points, and provided a discussion of the whole company rather than selected units.

The progress reports are described as a “descriptions of specific, successful environmental projects, a mention of the corporate audit program (although the specific facilities evaluated are not yet disclosed), and tables or graphs showing quantitative environmental data that provide company stakeholders with a snapshot of the company’s environmental progress. The most recent environmental reports are often designed for several purposes including eliciting employee support for company environmental plans, reassuring host communities that local facilities are not hazardous, impressing shareholders that the company will not be hurt by environmental risks, and convincing environmentalists that companies are making environmental progress” (Naimon, 1994).

\(^{66}\) Companies issuing reports range from multinational companies such as AT&T, British Petroleum, DuPont, ICI, and Monsanto to medium-sized companies such as Noranda Minerals in Canada, Dutch BSO/Origins, Swissair and The Body Shop in the United Kingdom. In addition, many corporations are in the process of publishing consolidated environmental progress reports, such as Amoco, Northern Telecom and Procter & Gamble (Naimon, 1994).
8.3.7 Auditing

An environmental audit highlights exactly what environmental problems the company has, how these impact the business, and what actions need to be taken.

Many businesses have found that the environmental audit has contributed to major savings through waste reduction, increased energy efficiency and improvements in the use of plant, machinery and vehicles. [An audit] ensures that the company is in full possession of all the facts on potential risks... [and is able to] comply with numerous environmental laws. Environmental auditing should be a continuous proactive process. No company should wait until it is involved in some form of wrong-doing (Wicks, 1992: p.105).

According to a Price Waterhouse survey, 60% of respondents perform environmental reviews quarterly, up from 52% in 1992. Perhaps more interesting is that reviews completed only upon significant developments (e.g., something was wrong), decreased by more than half since 1992. This indicates that companies are beginning to realize the benefits from proactive environmental accounting (Price Waterhouse, 1994).

More indicative of increased recognition of an audit's importance was that 73 percent of companies had auditing programs in 1994, a significant increase from the 40 percent which had auditing programs in 1992 (Price Waterhouse, 1994). Most of the audits (70%) in 1994 were directed toward evaluating compliance with environmental laws and regulations. Sixty-four percent also measure compliance with company policies and procedures and, to a somewhat lesser extent (55%), compliance with environmental operating permits (Price Waterhouse, 1994). Over 95% report that management awareness has improved as a result of these audit programs (Price Waterhouse, 1994).

Almost 2/3 of those companies now performing environmental audits indicated they would expand their programs if penalties were eliminated for violations they themselves identify, report, and correct (Price Waterhouse, 1994). The issue seems to be not one of convincing companies they need audits, but convincing them that they should disclose the information the audits provide. The new EPA environmental auditing guidelines may eliminate the hesitancy the companies show regarding disclosure of violations identified through the audits.

Many forces impact a companies' determination of the resources devoted to reporting and the extent of disclosure. Recently companies have committed to a greater level of formal environmental policies, reporting, and auditing. CERES actively promotes these components of environmental responsibility and is part of the external pressure which
companies must face as they try to conform with increasing external pressures and changing environmental norms. CERES is a consistent and forceful advocate of these activities and presses the envelope to determine the extent and type of information a company should disclose, as well as the behavior that constitutes environmentally legitimate corporate behavior.

8.4 Broader Implications

8.4.1 Policy Implications:

CERES also has influenced environmental norms and the social construction of environmental legitimacy by its larger policy implications. Most of the companies interviewed expressed that they were “frustrated with regulatory structure and political life in America” (Polaroid, 1995). Companies expressed frustration in having to “deal with regulators who don’t understand how industry works and impose regulations that are either impossible to meet or [were not formulated] in the most cost-effective way. The CEO of Sun believed that being involved with CERES allowed it to shape policy and dialogue. Sun stated that “once [one] acknowledges that environmental disclosure and reporting are here to stay, [one] may as well be a player in terms of how policy is shaped” (Sun, 1995).

The desire to be involved with CERES for the purpose of shaping dialogue is significant for two reasons. First, environmental groups do create much of the social pressure for new environmental legislation and standards. A company that recognizes the capacity for environmental groups and CERES to influence future policy is expressing a belief that a relationship with CERES will provide an opportunity, by association, to influence, or at least have their interests represented in future policy decisions. Second, companies which acknowledge that CERES may have an impact on future reporting requirements are recognizing that CERES specifically is an institution that influences social expectations and environmental norms.

The extent to which these companies can influence future policy through their interactions with CERES is not, at this point, clear. In New Jersey the Principles have been introduced as state legislation. The United Nations used the Valdez Principles in the design of its sustainable development guidelines for multinational corporations (Doyle, 1990). Pressure from socially responsible investors resulted in state and local government placing social screens around their investments and government contracts. At least 10 states have passed legislation on voluntary audits, and the EPA also recently changed its guidelines regarding auditing to promote more disclosure (Hanson, 1995). Companies are also aware that since
auditing and disclosure are becoming more common legislative issues and the norm for environmental responsibility, involvement with CERES offers a way for some companies to explore—and possibly shape—policy in an open dialogue.

8.4.2 CERES as an External Organization
The CERES Principles do not impose a standard, technology, or deadline on a company. However companies are resisting any organization (government or environmental) that states conditions for achieving environmental responsibility. Companies are resistant to affiliating with an “outside” coalition that requires public reports and disclosure and may result in increased scrutiny. Companies can see the changing environmental norms and even the influence of CERES on the social construction of what constitutes “environmental legitimacy.” However they do not believe they need to be a CERES endorser to meet these environmental norms.

As CERES helps articulate environmental legitimacy, many companies are able to respond to the definitions of environmental responsibility CERES establishes without actually committing to the CERES Principles. Companies believe they are able to gain the benefits of becoming a CERES endorser without comprising any of its independence. Companies may be able to attain increased social acceptance and legitimacy by reacting to increasing expectations without accepting CERES specific requirements. Ironically, companies are able, to some extent, to free-ride from the precedents endorsing companies and their disclosure creates. Whether one can gain all of the benefits from CERES without signing the Principles is however arguable. As voluntary environmental management initiatives become the norm of corporate behavior, those who are not CERES endorsers may find themselves at a competitive disadvantage, especially when the particular elements of CERES that distinguish it from other reporting initiatives become widely recognized. The oversight by a non-industry, non-governmental organization and the ongoing dialogue with CERES members and endorsers are benefits non-signatories cannot capture.

Companies argue that they should be judged by getting on the right road, but they want to choose the vehicle. Companies have seen the context of environmental legitimacy clarified, however they do not agree with the operational side of the CERES Principles. Companies are willing to follow the ground rules, but want to account for themselves. Many companies want the flexibility to pick the operational procedures to meet the increased expectations for environmental legitimacy.
8.4.3 CERES as a Corporate Compromise?
Several companies stated that their reluctance to join was due to the fact they felt the CERES Principles were intrusive. “Companies do incur costs through these programs. Companies realize this and think the public knows there is only so much money to spend. Companies are not willing to spend it on something without an environmental benefit and companies can make the judgment as to what they can and cannot do” (Bowers, 1995). Others suggested that companies are opposed to “providing more disclosure...because of a powerful emotional reaction. They are afraid if they disclose some information now, more will be required later. This is a similar tactic to the smoking and gun industry” (Pasko, 1995). Finally, another company stated that

usually principles are thought of as important and fundamental, like a value. As a corporation you cannot just sign on willy-nilly to everybody’s Principles without compromising your own. We don’t sign anyone else’s principles. What we are willing to state as a principle is the right thing to do. Signing implies that someone else is more right. Furthermore, we have a environmental policy equivalent or better already (Amoco, 1995).

CERES is seen by some companies as an internal compromise and many companies would prefer to initiate an internally equivalent auditing and disclosing policy. Companies still feel like they aren’t part of the process and they are following someone else’s ideas. Companies feel the Principles are imposed upon them and that they and lose power by agreeing to them. Not actually endorsing the CERES Principles may be “evidence [of ]the unwillingness of corporations to cede any element of control of their environments’ actions, particularly to non-corporate groups like CERES” (Smith, 1993: p. 310).
8.4.4 Influential, Yet Not Popular
What could explain corporate reluctance in endorsing the CERES Principles considering the increasing prevalence of reporting, auditing, disclosure and collaboration? If the benefits of CERES are obvious and some level of auditing is already underway, why is disclosure still resisted by many companies? Three factors explain this contradiction. First, the litigious nature of the US legal system makes companies resist providing any information which may be incriminating. Second, demands for environmental responsibility and changing environmental norms are still a small component of many pressures companies face. Furthermore, companies have never liked outside institutions dictating appropriate behavior. Although companies favor the standardized, comparable measurement system CERES provides, the larger environmental-political trend is moving toward a reduction in command-and-control types of regulation, and companies are averse to CERES telling them how to attain the goal of environmental responsibility.

8.4.5 Competing Pressures
Companies still face additional social and economic forces beyond environmental pressures. As Gordy states, “corporate legitimacy cannot be abstracted from its context, from its interrelationship with politics, economic development, cultural milieu, etc. Furthermore, the differing perception of corporate legitimacy in specific instances can only be understood in reference to a wider theater of social interaction” (Gordy, 1994: p.101). Companies are just recently recognizing environmental responsibility issues through the thick fog of other pressures they face. Adopting CERES or other mechanisms for increased environmental responsibility requires that companies are sufficiently aware of the necessity of changing their behavior and are capable of seeing the benefits of CERES over other reporting mechanisms. It will probably be several more years before companies can clearly recognize all environmental management options and the necessity of choosing one. The process of adapting to changing environmental norms will likely be slow and difficult. As Hoffman articulates, “Such dramatic dissonance between the firm’s original objectives and these new objectives set by them by society are expected to bring about resistance...Acceptance will come about as increasing numbers of associated constituents support the new value as valid” (Hoffman, 1995: p. 56).

Environmentalism moved away from being a social responsibility concern it was in the 1970s. It now affects the economic, organizational and technical operations of the firm. Although corporate decision-makers must look outside their firm for answers to what
society expects of them, environmental issues and CERES are not the only societal pressures within the complex field of changing norms corporations face.
Chapter 9: Summary of Conclusions

9.1 Summary of Conclusions
This thesis attempts to answer the following question: to what extent does endorsing the CERES Principles increase a corporation’s legitimacy or public acceptance of corporations’ activities? Answering this question depends first upon an analysis of the social theory of corporate legitimacy and current trends in non-regulatory environmental codes of management.

The analysis accepts that rational economic behavior and institutional pressures influence corporate decision making but do not fully account for increased corporate environmental action, specifically the adoption of “voluntary” codes of management. This thesis acknowledges the presence and influence of economic explanations but builds on social theory to explain the hypothesis that corporations adopt voluntary codes of management in response to changing environmental norms, thereby increasing legitimacy in the eyes of stakeholders.

To function in society, corporations require power over resources which they can retain only by maintaining public approval. Prominent social theorists explain that any power-wielding, non-authoritarian, institution’s power depends on public acceptance. Increasing public dissatisfaction with the social and environmental externalities associated with corporations places businesses at the forefront of public concern. Modern corporations have risen in power beyond government control and, some social theorists argue, beyond the minimum moral obligation legitimate institutions have not to harm society.

As the public expectations of corporations have expanded, definitions of social responsibility have also evolved. Attempts to influence corporate activity to meet concepts of social responsibility typically included command-and-control regulation and market-forced regulation. However, environmental regulations have recently come under scrutiny for being economically inefficient and stifling to innovation. Non-regulatory codes of environmental management have thus emerged as an alternative mechanism to influence corporate behavior. They utilize self-regulation and internal corporate pressure to manage environmental impacts. Such programs have emerged throughout Europe, and to a lesser extent in the US. In the US voluntary mechanisms to influence corporate behavior have manifested themselves in EPA voluntary auditing programs and industry- and business- sponsored environmental principles.

Controlling corporate behavior from outside the firm via voluntary environmental codes of management is a significant divergence from traditional regulatory attempts. Voluntary codes
are non-regulatory and rely on market and social pressures to create de facto regulation of
corporate activity. CERES is a particularly interesting voluntary code of management because
it is promulgated by a non-industry, non-governmental coalition of investor and environmental
groups. In addition, CERES promotes accountability through the disclosure of information in
its required annual environmental reports. The fundamental inquiry of this thesis is to assess
CERES’s ability to convey environmental legitimacy.

By interviewing environmental groups which represent various interests, CERES endorsers
and non-endorsers, and investment groups, the extent the CERES Principles impact corporate
legitimacy, or the ability of companies to operate within CERES’s environmental norms was
determined.

Interviews with environmental groups reveal both support and criticism of CERES. Research
shows that corporations which endorse the CERES Principles gain some environmental
legitimacy as a result of responding to changing social norms. Environmental groups have
more favorable views of companies which attempt to continuously improve their management
and production techniques while disclosing more information. However environmental groups
are skeptical that the high impact industries participating in CERES can alter their practices
enough to conform with increased corporate environmental performance expectations.
Companies have shown some initial steps in reforming their corporate culture, however it is
premature to evaluate the long-term impact of these changes.

Research also indicates that the CERES Principles are helping define the practical components
for corporate accountability through reporting and disclosure requirements. CERES has
helped shape expectations regarding high level management commitment, components of
public reports, and elements of an audit. Although not all companies are adopting the CERES
Principles, trends indicate that companies are adopting many of the environmental actions
which CERES advocates. Thus, the level of legitimacy a firm gains by adopting the CERES
Principles may be less visible than the institutional influence CERES has had by impacting the
expectation society has for corporate environmental responsibility.
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Appendix A

**British Standard on Environmental Management Systems**

1. Establish environmental management system
2. Define, document, and communicate policy
3. Define responsibility
4. Register regulatory requirements and manage response communications
5. Specify environmental objectives
6. Set up a program for achieving objectives
7. Maintain a manual and documentation
8. Implement operational controls
9. Maintain environmental management records
10. Conduct environmental management audits
11. Review the management system

Appendix B

**The EMAS Principles**

1. A sense of responsibility for the environment amongst employees at all levels shall be fostered.
2. The environmental impact of all new activities, products and processes shall be assessed in advance.
3. The impact of current activities on the local environment shall be assessed and monitored, and any significant impact of these activities on the environment in general shall be examined.
4. Measures necessary to prevent or eliminate pollution, and where this is not feasible, to reduce pollutant emissions and waste generation to the minimum and to conserve resources shall be taken, taking account of possible clean technologies.
5. Measures necessary to prevent accidental emissions of materials or energy shall be taken.
6. Monitoring procedures shall be established and applied, to check compliance with the environmental policy and, where these procedures require measurement and testing, to establish and update records of the results.
7. Procedures and action to be pursued in the event of detection of non-compliance with its environmental policy, objectives or targets shall be established and updated.
8. Cooperation with the public authorities shall be ensured to establish and update contingency procedures to minimize the impact of any accidental discharges to the environment that nevertheless occur.
9. Information necessary to understand the environmental impact of the company’s activities shall be provided to the public, and an open dialogue with the public should be pursued.
10. Appropriate advice shall be provided to customers on the relevant environmental aspects of the handling, use and disposal of products made by the company.
11. Provisions shall be taken to ensure that contractors working at the site on the company’s behalf apply environmental standards equivalent to the company’s own
### Appendix C

**ICC's Business Charter for Sustainable Development**

1. Recognize the environment as a top corporate policy
2. Integrate it into business management
3. Continuously improve performance
4. Educate and motivate employees
5. Reduce environmental impacts
6. Improve products and services
7. Advise customers
8. Operate facilities mindfully
9. Research impacts
10. Use precautionary approaches
11. Promote principles with suppliers
12. Develop emergency preparedness
13. Transfer environmental technology
14. Contribute to the common effort
15. Foster openness and dialogue
16. Measure and Report Compliance

### Appendix D

**Responsible Care**

1. Recognize and Respond to community concerns
2. Develop and produce safe chemical
3. Make health, safety, and environmental consideration a priority
4. Promptly report chemical-related health or environmental hazards
5. Counsel customers on safe use and disposal of chemicals
6. Operate plants and facilities in a manner that protects health and environment
7. Extend knowledge and research
8. Work with others to resolve problems
9. Participate with government and others in policy-making
10. Promote the principles

### Appendix E

**The Keidanren (Japanese) Global Environmental Charter**

1. Manage business activities to realize an environmentally protective society
2. Establish an environmental management system
3. Manage all activities with concern for the environment
4. Develop innovative technologies
5. Transfer those technologies
6. Manage emergencies
7. Publicize environmental protection information
8. Preserve community environment... promote dialogue
10. Contribute to public policies
11. Help to solve global problems
Appendix F: Comparison of Reporting and Disclosure Requirements in Several Voluntary Environmental Codes

**Bold typeface indicates specific reporting and disclosure requirements**

<table>
<thead>
<tr>
<th>CERES</th>
<th>Responsible Care</th>
<th>GEMI/ICC’s Business Charter for Sustainable Development</th>
<th>PERI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Continual progress toward reduced releases</td>
<td>1. Recognize and Respond to community concerns</td>
<td>1. Recognize environmental management as a key to sustainable development</td>
<td>1. A company profile</td>
</tr>
<tr>
<td>2. Sustainable use of natural resources</td>
<td>2. Develop and produce safe chemicals</td>
<td>2. Integrate policies, programs, and practices into management</td>
<td>2. Environmental policies of the company</td>
</tr>
<tr>
<td>3. Reduction and disposal of waste through recycling and responsible disposal</td>
<td>3. Make health, safety, and environmental consideration a priority</td>
<td>3. Improve corporate policies, programs and environmental performance</td>
<td>3. Organization of environmental management: staff and level of accountability</td>
</tr>
<tr>
<td>4. Energy conservation and improved energy efficiency</td>
<td>4. <strong>Promptly report chemical-related health or environmental hazards</strong></td>
<td>4. Educate, train, and motivate employees</td>
<td>4. <strong>Report baseline data of use and current releases of pollutants and hazardous substances</strong></td>
</tr>
<tr>
<td>5. Risk reduction of environment, health and safety to employees and community</td>
<td>5. Counsel customers on safe use and disposal of chemicals</td>
<td>5. Assess environmental impacts before starting an activity or project and before closing a site.</td>
<td>5. Environmental audit, remediation, emergency response, and workplace hazards programs</td>
</tr>
<tr>
<td>7. Environmental restoration</td>
<td>7. Extend knowledge and research</td>
<td>7. <strong>Advising and educate customers and distributors</strong></td>
<td>7. Product stewardships or life-cycle management</td>
</tr>
</tbody>
</table>
Appendix F: Comparison of Reporting and Disclosure Requirements in Several Voluntary Environmental Codes ...continued

**Bold typeface indicates specific reporting and disclosure requirements**

<table>
<thead>
<tr>
<th>CERES</th>
<th>Responsible Care</th>
<th>GEMI/ ICC’s Business Charter for Sustainable Development</th>
<th>PERI</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Informing the public of conditions caused by company activity</td>
<td>8. Work with others to resolve problems</td>
<td>8. Energy and resource efficient products and services safe and responsible disposal of waste</td>
<td>8. Employee awareness of environmental programs</td>
</tr>
<tr>
<td>10. Audits and reports including self-evaluation and annual completion of the CERES report</td>
<td>10. Promote the principles</td>
<td>10. Prevent serious environmental degradation by modifying manufacturing and use of products</td>
<td></td>
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<td></td>
<td></td>
<td>11. Encourage wider improvement by suppliers and contractors</td>
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<td></td>
<td></td>
<td>12. Develop emergency preparedness plans</td>
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<td></td>
<td></td>
<td>13. Contribute to the transfer of technology</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>14. Contribute to public policy and education</td>
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<td></td>
<td></td>
<td>15. Foster dialogue with employees and the public</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>16. Periodically provide environmental audits and reports of the principles and compliance.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix G: 1991 Shareholder Voting Results on Valdez Principles

Percentage of Shares Voting

<table>
<thead>
<tr>
<th>Company</th>
<th>For</th>
<th>Against</th>
<th>Abstain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amoco</td>
<td>8.6</td>
<td>91.4</td>
<td>12.6</td>
</tr>
<tr>
<td>Exxon</td>
<td>6.3</td>
<td>93.7</td>
<td>20.4</td>
</tr>
<tr>
<td>Occidental</td>
<td>14.9</td>
<td>85.1</td>
<td>10.0</td>
</tr>
<tr>
<td>Mobil</td>
<td>8.3</td>
<td>91.7</td>
<td>6.5</td>
</tr>
<tr>
<td>American Cyanamid</td>
<td>12.0</td>
<td>88.0</td>
<td>8.7</td>
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<tr>
<td>Dow Chemical</td>
<td>6.4</td>
<td>93.6</td>
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<td>9.0</td>
<td>91.0</td>
<td>15.8</td>
</tr>
<tr>
<td>McDonald's</td>
<td>9.4</td>
<td>90.6</td>
<td>8.2</td>
</tr>
<tr>
<td>Waste Management</td>
<td>9.5</td>
<td>90.5</td>
<td>9.2</td>
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</table>

(Hoffman, 1995: p. 276)
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Principal Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ally Capital Corporation</td>
<td>Equipment Finance</td>
</tr>
<tr>
<td>Arizona Public Service Company</td>
<td>Electric Utility</td>
</tr>
<tr>
<td>Atlantic Recycled Paper Company</td>
<td>Recycled Paper Products</td>
</tr>
<tr>
<td>Aurora Press</td>
<td>Publishing</td>
</tr>
<tr>
<td>Aveda Corporation</td>
<td>Personal Care</td>
</tr>
<tr>
<td>B &amp; B Publishing</td>
<td>Publishing</td>
</tr>
<tr>
<td>The Beamery, Inc.</td>
<td>Timber Frame Homes</td>
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<tr>
<td>Bellcomb Technologies, Inc.</td>
<td>Honeycomb Panels &amp; Systems</td>
</tr>
<tr>
<td>Ben &amp; Jerry’s Homemade</td>
<td>Ice Cream Products</td>
</tr>
<tr>
<td>Bestmann Green Systems, Inc.</td>
<td>Bioengineering</td>
</tr>
<tr>
<td>The Body Shop International</td>
<td>Personal Care</td>
</tr>
<tr>
<td>The Bullitt Foundation</td>
<td>Philanthropy</td>
</tr>
<tr>
<td>C-A-P-D Consultants, Inc.</td>
<td>Environmental Consulting</td>
</tr>
<tr>
<td>Calvert Group</td>
<td>Financial Services</td>
</tr>
<tr>
<td>Calvert Social Investment Fund</td>
<td>Social Investing</td>
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<tr>
<td>Clivus Mulrum, Inc.</td>
<td>Waste Disposal Systems</td>
</tr>
<tr>
<td>Community Capital Bank</td>
<td>Banking</td>
</tr>
<tr>
<td>Co-op America</td>
<td>Social Investing</td>
</tr>
<tr>
<td>Council on Economic Priorities</td>
<td>Social Research</td>
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<tr>
<td>Coyote Found Candles, Inc.</td>
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<tr>
<td>Crib Diaper Service</td>
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<tr>
<td>Cyclic, Inc.</td>
<td>Asphalt Recycling</td>
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<td>DEJA, Inc.</td>
<td>Footwear</td>
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<td>Domino’s Pizza Distribution Corp.</td>
<td>Food Products Distribution</td>
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<tr>
<td>Donat/Wald Company</td>
<td>Publishing</td>
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<tr>
<td>Earth Action Network</td>
<td>Recycled Paper Products</td>
</tr>
<tr>
<td>Earth Care Company</td>
<td>Telecommunications Services</td>
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<tr>
<td>Earth Communications, Inc.</td>
<td>Nutritional Products</td>
</tr>
<tr>
<td>Earthrise Trading Company</td>
<td>Investment Publishing</td>
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<tr>
<td>Eco-Invest Publishing, Ltd.</td>
<td>Marketing</td>
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<td>Eco-Logical Marketing</td>
<td>Printing</td>
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<tr>
<td>Ecoprint</td>
<td>Environmental Consulting</td>
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<tr>
<td>Environmental Risk &amp; Loss Control, Inc.</td>
<td>Education</td>
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<tr>
<td>Esalen Institute</td>
<td>Investment</td>
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<tr>
<td>Falcon Partners Management, L.P.</td>
<td>Social Investing</td>
</tr>
<tr>
<td>First Affirmative Financial Network</td>
<td>Social Investing</td>
</tr>
<tr>
<td>Franklin Research &amp; Development Corporation</td>
<td>Automotive</td>
</tr>
<tr>
<td>General Motors Corporation</td>
<td>Printing, Advertising</td>
</tr>
<tr>
<td>Geo. W. King Company</td>
<td>Water Purification Systems</td>
</tr>
<tr>
<td>Global Environmental Technologies</td>
<td>Lawn &amp; Garden</td>
</tr>
<tr>
<td>Greenworld Products Corporation</td>
<td>Social Investing</td>
</tr>
<tr>
<td>Harrington Investments</td>
<td>Lumber Products</td>
</tr>
<tr>
<td>Harwood Products Company</td>
<td>Specialty Chemicals</td>
</tr>
<tr>
<td>H.B. Fuller Company</td>
<td>Food Products</td>
</tr>
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<td>Indian Foods Company</td>
<td>Publishing</td>
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<td>The JG Press</td>
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<td>Company Name</td>
<td>Principal Business</td>
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<tr>
<td>LecTec Corporation</td>
<td>Medical Products</td>
</tr>
<tr>
<td>Louisville &amp; Jefferson Metropolitan Sewer</td>
<td>District Sanitation</td>
</tr>
<tr>
<td>Membran Corporation</td>
<td>Pollution Prevention &amp; Remediation</td>
</tr>
<tr>
<td>Natural World, Inc.</td>
<td>Personal &amp; Home Care</td>
</tr>
<tr>
<td>Nature's Fresh Northwest</td>
<td>Natural Foods Chain</td>
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<tr>
<td>New Heights Schools</td>
<td>Education</td>
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<tr>
<td>New Leaf Designs, Inc.</td>
<td>Bulk Merchandising Products</td>
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<tr>
<td>Oil Mining Energy Corporation</td>
<td>Oil Recovery</td>
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<tr>
<td>Pacific Partners International Investments</td>
<td>Investing</td>
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<td>Paper Service, Ltd.</td>
<td>Recycled Paper Products</td>
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<tr>
<td>Parson Capital Management</td>
<td>Financial Services</td>
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<tr>
<td>Performlance Computer Forms</td>
<td>Recycled Paper Products</td>
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<tr>
<td>Phoenix Heat Treating, Inc.</td>
<td>Heat Treating</td>
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<tr>
<td>Polaroid Corporation</td>
<td>Imaging</td>
</tr>
<tr>
<td>Progressive Asset Management</td>
<td>Social Investing</td>
</tr>
<tr>
<td>Real Goods Trading Corporation</td>
<td>Mail Order Distribution</td>
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<tr>
<td>Recycled Paper Company</td>
<td>Paper Distribution, Printing</td>
</tr>
<tr>
<td>Ringer Corporation</td>
<td>Lawn &amp; Garden</td>
</tr>
<tr>
<td>Service Litho-Print</td>
<td>Printing</td>
</tr>
<tr>
<td>Seventh Generation</td>
<td>Mail Order Distribution</td>
</tr>
<tr>
<td>Smith &amp; Hawken</td>
<td>Mail Order Distribution</td>
</tr>
<tr>
<td>Source Solutions Group</td>
<td>Financial Services</td>
</tr>
<tr>
<td>Stonyfield Farm Yogurt</td>
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</tr>
<tr>
<td>Sullivan &amp; Worcester</td>
<td>Legal Services</td>
</tr>
<tr>
<td>The Summit Group</td>
<td>Marketing</td>
</tr>
<tr>
<td>Sun Company, Inc.</td>
<td>Petroleum Refining &amp; Marketing</td>
</tr>
<tr>
<td>The Timberland Company</td>
<td>Outdoor Clothing &amp; Accessories</td>
</tr>
<tr>
<td>Tom's of Maine,</td>
<td>Personal Care</td>
</tr>
<tr>
<td>Town Creek Industries</td>
<td>Electric Vehicle Research</td>
</tr>
<tr>
<td>Tree-Free EcoPaper</td>
<td>Paper Products</td>
</tr>
<tr>
<td>United States Trust Company of Boston</td>
<td>Banking &amp; Investing</td>
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<tr>
<td>VanCity Savings Credit Union</td>
<td>Banking</td>
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<td>Walnut Acres</td>
<td>Organic Farming</td>
</tr>
<tr>
<td>The WATER Foundation</td>
<td>Radio Programming</td>
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<tr>
<td>County of Westchester, New York</td>
<td>Municipal Government</td>
</tr>
</tbody>
</table>
### Appendix I: A Comparison of the Valdez and CERES Principles

<table>
<thead>
<tr>
<th>The Valdez Principles</th>
<th>The CERES Principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>By adopting these Principles, we publicly affirm out belief that corporations and their shareholders have a direct responsibility for the environment. We believe that corporations must conduct their business as responsible stewards of the environment and seek profits only in a manner that leaves the Earth healthy and safe.</td>
<td>By adopting these Principles, we publicly affirm out belief that corporations have a responsibility for the environment and must conduct all aspects of their business as responsible stewards of the environment by operating in a manner that protects the Earth.</td>
</tr>
<tr>
<td>We believe that corporations must not compromise the ability of future generations to sustain their needs. We recognize this to be a long term commitment to update our practices continually in light of advances in technology and new understandings in health and environmental science. We intend to make consistent, measurable progress in implementing these Principles and to apply them wherever we operate throughout the world.</td>
<td>We believe that corporations must not compromise the ability of future generations to sustain themselves. We will update our practices constantly in light of advances in technology and new understandings in health and environmental science. In collaboration with CERES, we will promote a dynamic process to ensure that the Principles are interpreted in a way that accommodates changing technologies and environmental realities. We intend to make consistent, measurable progress in implementing these Principles and to apply them to all aspects of our operations throughout the world.</td>
</tr>
<tr>
<td>1. Protection of the Biosphere: We will minimize and strive to eliminate release of any pollutant that may cause environmental damage to the air, water, or earth or its inhabitants. We will safeguard habitats in rivers, lakes, wetlands, coastal zones, and oceans and will minimize contributions to the greenhouse effect, depletion of the ozone layer, acid rain, or smog.</td>
<td>1. Protection of the Biosphere: We will reduce and make continual progress toward eliminating release of any substance that may cause environmental damage to the air, water, or earth or its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.</td>
</tr>
<tr>
<td>2. Sustainable Use of Natural Resources: We will make sustainable use of renewable natural resources, such as water, soil, and forests. We will conserve nonrenewable natural resources through efficient use and careful planning. We will protect wildlife habitat, open spaces, and wilderness while preserving biodiversity.</td>
<td>2. Sustainable Use of Natural Resources: We will make sustainable use of renewable natural resources, such as water, soil, and forests. We will conserve nonrenewable natural resources through efficient use and careful planning.</td>
</tr>
<tr>
<td>3. Reduction and Disposal of Wastes: We will minimize the creation of waste, especially hazardous waste, and whenever possible recycle materials. We will dispose of waste through safe and responsible methods.</td>
<td>3. Reduction and Disposal of Wastes: We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed through safe and responsible methods.</td>
</tr>
<tr>
<td>4. Wise Use of Energy: We will make every effort to use environmentally safe and sustainable energy sources to meet our needs. We will invest in improved energy efficiency and conservation in our operations. We will maximize the energy efficiency of products we produce or sell.</td>
<td>4. Energy Conservation: We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.</td>
</tr>
<tr>
<td>5. Risk Reduction: We will minimize environmental, health, and safety risks to our employees and the communities in which we operate by employing safe technologies and operating procedure and being constantly prepared for emergencies.</td>
<td>5. Risk Reduction: We will strive to minimize environmental, health and safety risks to our employees and the communities in which we operate through safe technologies, facilities and operating procedures, and being prepared for emergencies.</td>
</tr>
</tbody>
</table>
Appendix I: A Comparison of the Valdez and CERES Principles
...continued

<table>
<thead>
<tr>
<th>The Valdez Principles</th>
<th>The CERES Principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Marketing of Safe Products and Services: We will sell products or service that</td>
<td>6. Safe Products and Services: We will reduce and where possible eliminate the use,</td>
</tr>
<tr>
<td>minimize environmental impacts and that are safe as consumers commonly use them. We</td>
<td>manufacture or sale of products and services that cause environmental damage or health</td>
</tr>
<tr>
<td>will inform consumers of the environmental impacts of our products or services.</td>
<td>or safety hazards. We will inform consumers of the environmental impacts of our</td>
</tr>
<tr>
<td></td>
<td>products or services and try to correct unsafe use.</td>
</tr>
<tr>
<td>7. Damage Compensation: We will take full responsibility for any harm we cause to</td>
<td>7. Environmental Restoration: We will promptly and responsibly correct conditions</td>
</tr>
<tr>
<td>the environment by making every effort to fully restore the environment and</td>
<td>we have caused to the extent feasible, will redress injuries we have caused to</td>
</tr>
<tr>
<td>compensate those persons who are adversely affected.</td>
<td>persons or damage we have caused to the environment and will restore the</td>
</tr>
<tr>
<td></td>
<td>environment.</td>
</tr>
<tr>
<td>8. Disclosure: We will disclose to our employees and the public incidents relating</td>
<td>8. Informing the Public: We will inform in a timely manner any one who may be</td>
</tr>
<tr>
<td>to operations that cause environmental harm or pose health and safety hazards. We</td>
<td>affected by conditions caused by our company that might endanger health, safety or</td>
</tr>
<tr>
<td>will disclose potential environmental, health, or safety hazards posed by operations</td>
<td>the environment.</td>
</tr>
<tr>
<td>and will not take action against employees who report conditions that create a</td>
<td>We will regularly seek advice and council through dialogue with any persons in</td>
</tr>
<tr>
<td>danger to the environment or poses health and safety hazards.</td>
<td>communities near our facilities. We will not take any action against employees for</td>
</tr>
<tr>
<td></td>
<td>reporting dangerous incidents or conditions to management or to appropriate</td>
</tr>
<tr>
<td></td>
<td>authorities.</td>
</tr>
<tr>
<td>9. Environmental Directors and Managers: We will commit management resources to</td>
<td>9. Management Commitment: We will implement these Principles and sustain a process</td>
</tr>
<tr>
<td>implement the Valdez Principles, to monitor and report upon our implementation</td>
<td>that ensures that the Board of Directors and Chief Executive Officer are fully</td>
</tr>
<tr>
<td>efforts, and to sustain a process to ensure that the Board of Directors and Chief</td>
<td>informed of and are fully responsible for all environmental matters. We will</td>
</tr>
<tr>
<td>Executive Officer are kept informed of and are fully responsible for all</td>
<td>establish a Committee of the Board of Directors with responsibility for environmental</td>
</tr>
<tr>
<td>environmental matters. We will establish a Committee of the Board of Directors</td>
<td>affairs. At least one member of the Board of Directors will be a person qualified</td>
</tr>
<tr>
<td>with responsibility for environmental affairs. At least one member of the Board</td>
<td>to represent environmental interests to come before the company.</td>
</tr>
<tr>
<td>of Directors will be a person qualified to represent environmental interests to</td>
<td></td>
</tr>
<tr>
<td>come before the company.</td>
<td></td>
</tr>
<tr>
<td>10. Assessment and Annual Audit: We will conduct and make public an annual self</td>
<td>10. Audits and Reports: We will conduct an annual self-evaluation of our progress in</td>
</tr>
<tr>
<td>evaluation of our progress in implementing these principles and in complying with</td>
<td>implementing these Principles. We will support the timely creation of generally</td>
</tr>
<tr>
<td>all applicable laws and regulations throughout worldwide operations. We will work</td>
<td>accepted environmental audit procedures. We will annually complete the CERES Report,</td>
</tr>
<tr>
<td>toward the timely creation of independent environmental audit procedures which we</td>
<td>which will be made available to the public.</td>
</tr>
<tr>
<td>will complete annually and make available to the public.</td>
<td></td>
</tr>
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</table>
## Appendix J: A Comparison of the Mutually Endorsed CERES and Sun Principles

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>By adopting these Principles, we publicly affirm our belief that corporations have a responsibility for the environment and must conduct all aspects of their business as responsible stewards of the environment by operating in a manner that protects the Earth. We believe that corporations must not compromise the ability of future generations to sustain themselves. We will update our practices constantly in light of advances in technology and new understandings in health and environmental science. In collaboration with CERES, we will promote a dynamic process to ensure that the Principles are interpreted in a way that accommodates changing technologies and environmental realities. We intend to make consistent, measurable progress in implementing these Principles and to apply them to all aspects of or operations throughout the world.</td>
<td>By adopting these Principles, Sun Company, Inc. reaffirms its responsibility for environmental stewardship and for protecting the well-being of our employees, customers and the general public. We will strive to preserve our precious human, natural and physical resources through sustainable progress in our HES performance. We will improve our performance by developing HES strategies and programs for the future which will utilize cost-effective technology and creates approaches. Sun’s policy is compliance with HES laws and regulations. In addition, where appropriate, Sun will seek opportunities to exceed the requirements of HES regulations provided we are able to maintain our competitive position. However we also have a responsibility to challenge unreasonable laws and regulations and seek practical solutions which are based on sound, scientific principles. We acknowledge that the business and facilities within the Sun family are at varying levels of HES achievement. We will aspire to continually improve our performance using these Principles as our objectives. In order to demonstrate our commitment to public accountability for environmental protection, Sun has also endorsed the CERES Principles, which establish a generic environmental code of conduct applicable to business entities anywhere in the world Sun’s HES Principles represent an adaptation of the CERES Principles to Sun’s businesses.</td>
</tr>
<tr>
<td>1. Protection of the Biosphere: We will reduce and make continual progress toward eliminating release of any substance that may cause environmental damage to the air, water, or earth or its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.</td>
<td>1. Protection of the Biosphere: We will reduce overall emissions to the environment (air, water and land) with special emphasis on toxic substances. We will pay attention to the protection of the surrounding environment at present facilities and when planning new facilities or operations.</td>
</tr>
<tr>
<td>2. Sustainable Use of Natural Resources: We will make sustainable use of renewable natural resources, such as water, soil, and forests. We will conserve nonrenewable natural resources through efficient use and careful planning.</td>
<td>2. Sustainable Use of Natural Resources: We will minimize the use of water in our facilities and strive to improve the quality of our water discharge streams. We will employ practical land management techniques to conserve the soils and forests at our facilities. We will make efficient use of nonrenewable natural resources through careful planning and conservation techniques.</td>
</tr>
<tr>
<td>3. Reduction and Disposal of Wastes: We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed through safe and responsible methods.</td>
<td>3. Reduction and Disposal of Wastes: We will continue to reduce and where possible eliminate waste through source reduction and recycling and treatment techniques. The handling and disposal of all waste will be conducted in a safe and responsible fashion in accordance with regulatory standards.</td>
</tr>
</tbody>
</table>
### Appendix J: A Comparison of the Mutually Endorsed CERES and Sun Principles...continued

<table>
<thead>
<tr>
<th>CERES Principles</th>
<th>Sun Company, Inc. Principles of HES</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Energy Conservation: We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.</td>
<td>4. Energy Conservation: We will conserve energy through careful selection of raw materials and energy sources through cost effective improvements in our operations, including technological improvements in new energy consuming processes. Environmental protection and sustainability will be considered in selecting new energy sources.</td>
</tr>
<tr>
<td>5. Risk Reduction: We will strive to minimize environmental, health, and safety risks to our employees and the communities in which we operate through safe technologies, facilities and operating procedures, and being prepared for emergencies.</td>
<td>5. Risk Reduction: Our goal is to prevent HES incidents such as environmental spills and releases, fires, explosions, injuries and illnesses and other accidents. We will utilize sound maintenance and work practices, safety conscious design, employee training and incident investigations to minimize risks to our employees and the communities in which we operate. We will be prepared to respond promptly and professionally should an incident occur.</td>
</tr>
<tr>
<td>6. Safe Products and Services: We will reduce and where possible eliminate the use, manufacture or sale of products and services that cause environmental damage or health or safety hazards. We will inform consumers of the environmental impacts of our products or services and try to correct unsafe use.</td>
<td>6. Safe Products and Services: Through research, planning and analysis we will strive to minimize the environmental impact and health and safety hazards of our company of our products or services and where feasible, attempt to correct unsafe use. We will strive to eliminate the use of purchased products which pose known environmental hazards such as PCBs and CFCs.</td>
</tr>
<tr>
<td>7. Environmental Restoration: We will promptly and responsibly correct conditions we have caused to the extent feasible, will redress injuries we have caused to persons or damage we have caused to the environment and will restore the environment.</td>
<td>7. Environmental Restoration: We will promptly correct conditions in our operations which have resulted in a significant health, safety or environmental impact. We will take responsibility for any harm caused by our operations to our employees, customers, the general public to the environment to the extent feasible, we will also restore the environment.</td>
</tr>
<tr>
<td>8. Informing the Public: We will inform in a timely manner anyone who may be affected by conditions caused by our company that might endanger health, safety or the environment. We will regularly seek advice and council through dialogue with any persons in communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.</td>
<td>8. Informing the Public: We will inform appropriate officials, employees, contractors, customers and the public about significant health, safety or environmental hazards related to our facilities in a timely manner. We will regularly participate in dialogue with our neighboring communities and their residents. No action will be taken against employees who report conditions to management or appropriate authorities.</td>
</tr>
<tr>
<td>9. Management Commitment: We will implement these Principles and sustain a process that ensures that the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our Board of Directors, we will consider demonstrated environmental commitment as a factor.</td>
<td>9. Management Commitment: We will ensure that the Board of Directors, the Chief Executive Officer and senior management are fully informed about pertinent HES issues and take responsibility for carrying out HES policy. We will consider demonstrated environmental commitment and HES experience as factors in our selection of future board members.</td>
</tr>
<tr>
<td>10. Audits and Reports: We will conduct an annual self-evaluation of our progress in implementing these Principles. We will support the timely creation of generally accepted environmental audit procedures. We will annually complete the CERES Report, which will be made available to the public.</td>
<td>10. Audits and Reports: We support the concept of public accountability for HES performance and intend to report on our progress in consistent, measurable terms. This will be accomplished through publishing an annual report on our HES performance and accomplishments. In addition, to promote public accountability among others in the industrial community, we intend to cooperate with the environmental and social investment by completing the annual CERES report.</td>
</tr>
</tbody>
</table>
### Appendix K: A Comparison of the Mutually Endorsed CERES and H.B. Fuller Principles

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>By adopting these Principles, we publicly affirm out belief that corporations have a responsibility for the environment and must conduct all aspects of their business as responsible stewards of the environment by operating in a manner that protects the Earth. We believe that corporations must not compromise the ability of future generations to sustain themselves.</td>
<td>H.B. Fuller has consistently conducted its business with a careful concern for its four constituencies: customers, employees, shareholders and communities. The following Principles reaffirm the Company long-standing commitment to responsible environmental, health and safety efforts worldwide, which are of critical interest to each of these constituencies. The Principles are by definition general statements of intended goals. Each will be pursued through specific action plans. All action plans will be developed and implemented with due regard to all four of our constituencies. We will update these action plans and our practices in light of advances in technologies and new understandings in the area of environment, health and safety.</td>
</tr>
<tr>
<td>We will update our practices constantly in light of advances in technology and new understandings in health and environmental science. In collaboration with CERES, we will promote a dynamic process to ensure that the Principles are interpreted in a way that accommodates changing technologies and environmental realities. We intend to make consistent, measurable progress in implementing these Principles and to apply them to all aspects of or operations throughout the world.</td>
<td>In order to demonstrate our commitment to public accountability for environmental protection, we also affirm the CERES Principles as a generic environmental code of conduct applicable to business entities throughout the world. Our WEHS Principles represent an adaptation of the CERES Principles to Fuller business.</td>
</tr>
</tbody>
</table>

1. **Protection of the Biosphere:** We will reduce and make continual progress toward eliminating release of any substance that may cause environmental damage to the air, water, or earth or its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.  

2. **Sustainable Use of Natural Resources:** We will make sustainable use of renewable natural resources, such as water, soil, and forests. We will conserve nonrenewable natural resources through efficient use and careful planning.  

3. **Reduction and Disposal of Wastes:** We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed through safe and responsible methods.  

4. **Energy Conservation:** We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.  

3. **Reduction and Disposal of Wastes:** We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed through safe and responsible methods.  

4. **Energy Conservation:** We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.
## Appendix K: A Comparison of the Mutually Endorsed CERES and H.B. Fuller Principles

<table>
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<tr>
<td><strong>5. Risk Reduction:</strong> We will strive to minimize environmental, health, and safety risks to our employees and the communities in which we operate through safe technologies, facilities and operating procedures, and being prepared for emergencies.</td>
<td><strong>5. Risk Reduction:</strong> We will strive to minimize the environmental and safety risks to our employees and the communities in which we operate, health, through safe technologies, facilities and operating procedures, and being prepared for emergencies.</td>
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<tr>
<td><strong>6. Safe Products and Services:</strong> We will reduce and where possible eliminate the use, manufacture or sale of products and services that cause environmental damage or health or safety hazards. We will inform consumers of the environmental impacts of our products or services and try to correct unsafe use.</td>
<td><strong>6. Safe Products and Services:</strong> Through research and planning, we will strive to minimize environmental damage or health or safety hazards caused by our products when used as intended. We will inform, and where relevant, educate our customers of the environmental, health and safety impacts of our products or services. We will strive to minimize the use of purchased products that create known environmental, health, and safety hazards.</td>
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<td><strong>7. Environmental Restoration:</strong> We will promptly and responsibly correct conditions we have caused to the extent feasible, will redress injuries we have caused to persons or damage we have caused to the environment and will restore the environment.</td>
<td><strong>7. Environmental Restoration:</strong> We will strive to promptly and responsibly correct conditions, to the extent caused by us, that create significant health, safety, or environmental risks. To the extent feasible and to the extent of our contribution, we will redress injuries we have caused to persons or damage we have caused to the environment.</td>
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<td><strong>8. Informing the Public:</strong> We will inform in a timely manner anyone who may be affected by conditions caused by our company that might endanger health, safety or the environment. We will regularly seek advice and council through dialogue with any persons in communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.</td>
<td><strong>8. Informing the Public:</strong> We will inform in a timely manner those affected by conditions caused by our company that endanger health, safety or the environment. We will seek advice and council on such matters through appropriate dialogue with person and communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.</td>
</tr>
<tr>
<td><strong>9. Management Commitment:</strong> We will implement these Principles and sustain a process that ensures that the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our Board of Directors, we will consider demonstrated environmental commitment as a factor.</td>
<td><strong>9. Management Commitment:</strong> We will implement these Principles and sustain a process that ensures that the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting future Board members, we will consider demonstrated environmental, health, and safety commitments as a factor.</td>
</tr>
<tr>
<td><strong>10. Audits and Reports:</strong> We will conduct an annual self-evaluation of our progress in implementing these Principles. We will support the timely creation of generally accepted environmental audit procedures. We will annually complete the CERES Report, which will be made available to the public.</td>
<td><strong>10. Audits and Reports:</strong> We will conduct an annual evaluation of our progress in implementing these Principles through action plans. In order to promote the timely creation of generally accepted environmental audit procedures, we intend to participate in the development and completion of an annual CERES Report.</td>
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### Appendix L: A Comparison of the Mutually Endorsed CERES and GM Principles

<table>
<thead>
<tr>
<th>CERES Principles</th>
<th>General Motors Principles: February 3, 1994</th>
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<td>By adopting these Principles, we publicly affirm our belief that corporations have a responsibility for the environment and must conduct all aspects of their business as responsible stewards of the environment by operating in a manner that protects the Earth. We believe that corporations must not compromise the ability of future generations to sustain themselves. We will update our practices constantly in light of advances in technology and new understandings in health and environmental science. In collaboration with CERES, we will promote a dynamic process to ensure that the Principles are interpreted in a way that accommodates changing technologies and environmental realities. We intend to make consistent, measurable progress in implementing these Principles and to apply them to all aspects of our operations throughout the world.</td>
<td>As a responsible corporate citizen, General Motors is dedicated to protecting human health, natural resources and the global environment. This dedication reaches further than compliance with the law to encompass the integration of sound environmental practices into our business decisions. The following environmental principles provide guidance to General Motors personnel in the conduct of their daily business practices.</td>
</tr>
<tr>
<td>1. Protection of the Biosphere: We will reduce and make continual progress toward eliminating release of any substance that may cause environmental damage to the air, water, or earth or its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.</td>
<td>We will continue to pursue vigorously the development and implementation of technologies for minimizing pollutant emissions. We will continue to work with all government entities for the development of technically sound and financially responsible laws and regulations.</td>
</tr>
<tr>
<td>2. Sustainable Use of Natural Resources: We will make sustainable use of renewable natural resources, such as water, soil, and forests. We will conserve nonrenewable natural resources through efficient use and careful planning.</td>
<td>We are committed to reducing and pollutants, conserving resources and recycling materials at every stage of the product’s life cycle.</td>
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<td>3. Reduction and Disposal of Wastes: We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed through safe and responsible methods.</td>
<td>We will continually assess the impact of our plants and processes on the environment and the communities in which we live and operate with the goal of continuous improvement.</td>
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<tr>
<td>4. Energy Conservation: We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.</td>
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<tr>
<td>5. Risk Reduction: We will strive to minimize environmental, health, and safety risks to our employees and the communities in which we operate through safe technologies, facilities and operating procedures, and being prepared for emergencies.</td>
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<tr>
<td>CERES Principles</td>
<td>General Motors Principles: February 3, 1994</td>
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<tr>
<td>6. Safe Products and Services: We will reduce and where possible eliminate the use, manufacture or sale of products and services that cause environmental damage or health or safety hazards. We will inform consumers of the environmental impacts of our products or services and try to correct unsafe use.</td>
<td>We are committed to restore and preserve the environment.</td>
</tr>
<tr>
<td>7. Environmental Restoration: We will promptly and responsibly correct conditions we have caused to the extent feasible, will redress injuries we have caused to persons or damage we have caused to the environment and will restore the environment.</td>
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<tr>
<td>8. Informing the Public: We will inform in a timely manner anyone who may be affected by conditions caused by our company that might endanger health, safety or the environment. We will regularly seek advice and council through dialogue with any persons in communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.</td>
<td>We will continue to participate actively in educating the public regarding environmental conservation.</td>
</tr>
<tr>
<td>9. Management Commitment: We will implement these Principles and sustain a process that ensures that the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our Board of Directors, we will consider demonstrated environmental commitment as a factor.</td>
<td></td>
</tr>
<tr>
<td>10. Audits and Reports: We will conduct an annual self-evaluation of our progress in implementing these Principles. We will support the timely creation of generally accepted environmental audit procedures. We will annually complete the CERES Report, which will be made available to the public.</td>
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Appendix M: Typical Interview Questions (asked to companies, environmental groups, and CERES)

- What do you think has motivated companies to adopt the CERES Principles? From where does the pressure originate?
- What do you think companies/environmental groups hope to gain by being involved with CERES?
- How do you define environmentally responsible? What are your main concerns regarding corporate activity/behavior?
- What do you view as the main differences between CERES and other voluntary standards/ guidelines (Responsible Care, GEMI, etc.)
- To what extent does the information provided in the CERES report enable you to make a determination of a company’s commitment to environmental responsibility?
- What action would a company have to take to meet the your definition of environmental responsibility? (Does an attempt at the CERES Principles meet the definition)?
- Do you think the information provided in the CERES report satisfies stakeholder’s concern about a company’s environmental performance and commitment to the environment? Define satisfying? What information (or lack of) in particular leads you to this conclusion?
- The nature of the information provided by the companies makes confirming the accuracy of CERES reports difficult. How does this affect your opinion of CERES? What mechanism would help provide assurance (third party audit)?
- How would you define satisfactory signatory performance? What obligation/ responsibilities should signatories of the principles fulfill?
- How do you view/evaluate the environmental responsibility of companies which are not signatories but are viewed as trustworthy stewards of the environment by much of the public? (Patagonia, Celestial Seasonings, Herman Miller)? Why do you think they do not sign the Principles?
- Do you feel a company which adopts the CERES principles is currently able to deliver its services in a way which satisfies your concerns about corporate activities? Do you feel companies which adopt the CERES principles are capable of determining which programs/policies should be adopted to benefit the environment? How would you define beneficial for the environment (those programs which improve to a level, those which are sustainable)?
- What factors stand in the way of the Principles being more effective in terms of promoting change?