



DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS

**ROUNDTABLE ON CORPORATE RESPONSIBILITY:
Encouraging the positive contribution of business to environment through the
OECD Guidelines for Multinational Enterprises**

**OVERVIEW OF CORPORATE ENVIRONMENTAL
MANAGEMENT PRACTICES**

June 2004

This report is submitted as background to the discussions at the Roundtable on Corporate Responsibility on 16 June 2004. The views expressed are those of the authors and they are not necessarily shared by EIRIS, OECD, or the member countries of the latter Organisation. Comments are welcome and should be addressed to daf.contact@oecd.org.

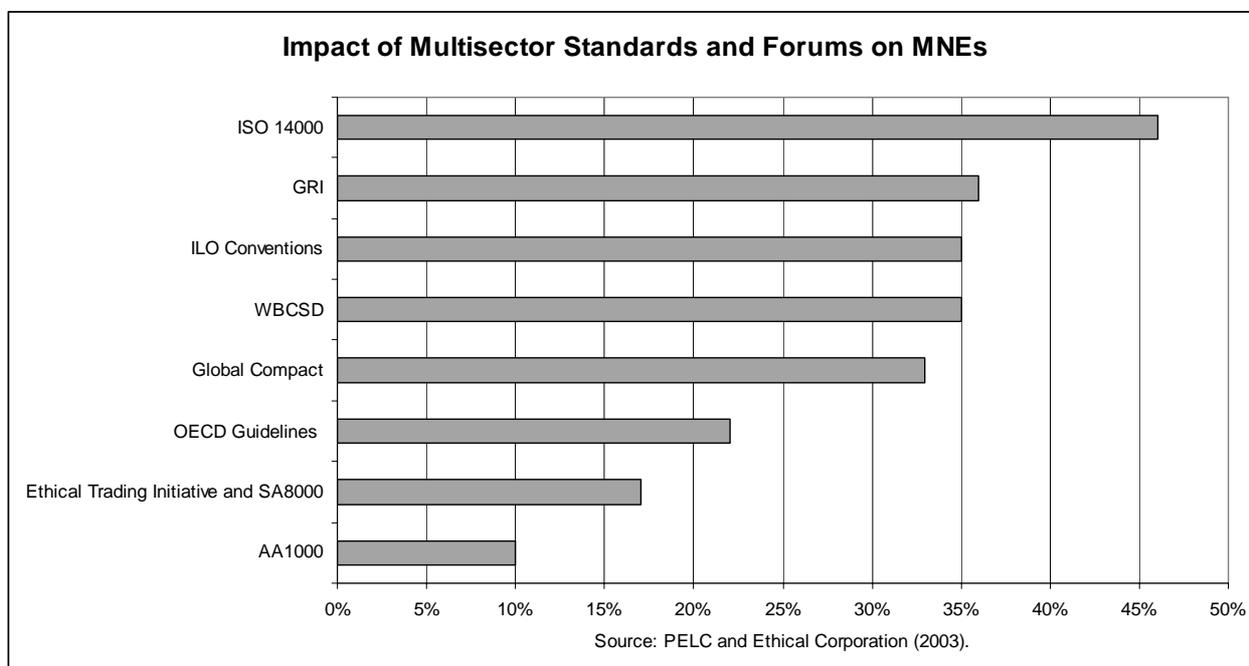
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AN OVERVIEW OF CORPORATE ENVIRONMENTAL MANAGEMENT PRACTICES¹

I. Introduction

1. A recent study indicated that the OECD Guidelines for Multinational Enterprises have a considerable impact on the actions of MNEs². Respondents in 107 large international enterprises were asked to identify, without prompting, which standards, coalitions or forums were proving to be the most influential on practice at their companies. 22 per cent pointed to the OECD Guidelines as having been “influential” (Figure 1). Also relevant to the present report, the same study indicated that among all the elements of corporate responsibility environmental management generally receive the greatest amount of attention among enterprises, in terms of both resource allocation and top-management attention.

Figure 1



2. The values represented by the OECD Guidelines are shared beyond the enterprises that report that the Guidelines *per se* have been influential. While few companies will be “accidental users” of management tools such as the ISO 14000 series and AA1000, large segments of the business sector have undertaken efforts at environmental improvement and put in place management practices that are consistent with the Environment Chapter of the Guidelines.

3. The purpose of the present study is to provide an overview of the extent to which companies around the globe have adopted some of the environmental practices that are enumerated in the background report for the 2004 Roundtable on Corporate Responsibility (henceforth the “Background Report”). It

¹ This analysis was prepared in cooperation with EIRIS, Ltd. Special thanks are due to Esther Garcia, previously of EIRIS’s Research Department.

² PELC and Ethical Corporation Magazine (2003), “Race to the Top: Attracting & Enabling Global Sustainable Business”, study commissioned by the World Bank and IFC.

provides internationally comparable information on the development and adoption of advanced environmental management practices. In doing so it draws on an earlier study, “Corporate Environmental Management Practices in European, Japanese and Non-Member Asian Firms” that appeared in OECD (2001), *Corporate Responsibility – Private Initiatives and Public Goals*. In many respects it represents an updating and broadening of the analysis of this publication. In particular, it examines the environmental management practices of companies in Europe, North America and the Asia-Pacific region.

4. The structure reflects a simplified adaptation of the main elements of environmental management procedures proposed in the Background Report, in the sense that environmental management techniques are assumed to develop in three steps. The first step is the issuance of an environmental policy statement. At more advanced levels of environmental practices, companies put in place formal management systems to control the environmental impacts of their operations. Finally, a commitment to environmental performance reporting is integrated into most companies' environmental management systems, but it is in practice often one of the last elements to be put into place. Sections III through V reflect these three steps, and deal with the issues of environmental policy statements, management systems and reporting in succession. It must, however, be recognised that this model of implementation is not universally supported. For example, some companies (notably in the United States) prefer to integrate environmental policy on a more encompassing corporate basis.

5. Section VI briefly addresses the question of occupational health and safety systems, which as mentioned earlier, appear as part of a broader societal health and safety commitment in parts of the Environment Chapter of the Guidelines (it also figures in the Employment and Labour section).

II. Data and methodology

6. This section reports on the environmental management practices of the 1509 enterprises listed in FTSE All-World Developed index as of 10 September 2003. The data was compiled by the non-profit organisation Ethical Investment Research Services Ltd. (EIRIS). Based in the United Kingdom, EIRIS provides company information on social, environmental and ethical issues to the socially responsible investment community³ (e.g. specialised mutual funds, pension funds, etc.) EIRIS' database was updated over the summer 2003 and represents the state of affairs in September 2003.

7. The three major economic regions of the world have broadly equal representation in the index. However, there is necessarily a certain country bias within the three regions. The United Kingdom is for instance the country with the biggest presence in Europe (118 companies out of 498). This is even more significant in the cases of Japan (320 companies out of a total of 493 in Asia-Pacific) and the United States (437 companies out of 518 in North America). Moreover, since ‘large’ enterprises in some areas are larger than in others, the equal balancing of the sample among the main regions actually implies that the average company size varies significantly from one region to the next. On top of this, the focus on the large FTSE-listed companies necessarily discards taking into account the environmental practices of small and medium-sized enterprises. As a whole, the data set therefore provides a good snapshot of ‘large internationally-oriented’ enterprises, but it cannot claim to be representative of the respective national business communities.

8. The country attribution of companies (many of which are listed on multiple exchanges) is done on the basis of “primary listing” so that each enterprise is counted as having only one nationality. The

³ It should be noted that a similar function to that of EIRIS is performed by SAM Indexes GmbH on the basis of the Dow Jones Sustainability Indexes. Outside the OECD area, work was underway in the first half of 2004 toward establishing the Johannesburg stock exchange socially responsible investment index based on FTSE/JSE All Share Index.

remainder of the article makes extensive use of EIRIS' categorisation of companies according to their environmental impact. Industry sectors have been classified in "high environmental impact", "medium environmental impact" and "low environmental impact" sectors. A documentation of these categories is found in the Annex. A sectoral and national breakdown of the companies in the samples can be found in Table 1.

9. The database contains information on environment management systems that is found in company annual reports, environment reports, web-sites and other materials made publicly available by companies. The EIRIS database also draws on other public information sources such as the EMAS register. It must therefore be recognised that it is possible that some indicators exist for a particular company, but the company does not publish and it is not available from other public sources. In that case the database does not include it. For more detail, see EIRIS (1999), *Corporate Environmental Policy, Management and Reporting*.

10. Finally, a few further methodological caveats need to be highlighted. First, the study makes extensive use of geographic breakdowns by main areas. Insofar as, for cultural and historic reasons, corporate governance practices have tended to converge within these regions this makes good sense. In practice, no region is truly homogenous (notably not Asia-Pacific) and one should be careful not to infer general regional corporate environmental practices. Second, and related to a point made in the previous section, the presence or absence of environmental 'tools' such as environmental policy statements, management systems and reporting mechanisms may serve as a useful indicator of companies' efforts at improving their environmental performance. However, given the possibility of alternative corporate approaches, it is not possible to infer from these tools' absence that little or no effort is being undertaken. Third, while there is no reason to assume that companies are reporting false information about their environmental practices, it is risky to draw conclusion about the 'greenness' of a company on the basis of the extent of its reporting and the sophistication of its environmental management tools alone.

III. Environmental policy statements

11. As mentioned in an earlier chapter an environmental policy statement (EPS) is a statement by an organisation of its intentions and principles in relation to its overall environmental performance. The statement provides a framework for action and for setting of the organisation's environmental objectives and targets⁴. A high, and apparently increasing, share of companies in the industrialised economies publishes environmental policy statements. By September 2003 58 per cent of all companies in the sample had issued statements that meet certain "minimum requirements" – according to EIRIS' definitions. The "minimum requirements" imply either a commitment to public reporting, a commitment to monitoring or audits, a commitment to use targets, a reference to allocation of managerial responsibility or a reference to all EIRIS' "key issues". The latter will vary depending on the industry sector the company belongs to and may include: suppliers, contractors, resources and materials, energy use and efficiency, emissions to water, emissions to air, transport, waste minimisation/reduction/disposal and recycling, packaging, product and/or stewardship/design, social impact, noise, neighbourly concerns, visual blight, employee training, green housekeeping, sustainability and industry specific issues.

12. Among the three main regions in the index, businesses in Europe appear more likely to issue environmental policy statements than those in other regions. 69 per cent of the European companies in the sample have published statements, compared with 62 per cent in the Asia-Pacific region and 44 per cent in North America. At the national level, the United Kingdom had the highest share of all (92 per cent), followed by Germany (91 per cent), Switzerland (85 per cent) and Netherlands (83 per cent). Within the Asia-Pacific region, 77 per cent of all Japanese companies issued environmental policy statements.

⁴ International Organisation for Standardisation's website at <http://www.iso.ch>.

Australia and New Zealand have comparable shares (although fewer of these score well according to the EIRIS assessment methodology). This contrasts with shares beneath 20 per cent in Hong Kong (China) and Singapore. This is in part due to the nature of their economies, with fewer primary industries and a higher concentration of low impact activities such as finance, IT, property investment. It has also been attributed by some observers to a relatively low level of pressure from civil society organisations, investors and customers in these regions.

13. These observations need to be assessed against the background of considerable sectoral differences in corporate issuance of environmental policy statements. First and foremost, the publishing of statements involves costs. It absorbs management time and entails direct expenses for design, publication and dissemination. It is therefore reasonable to expect that enterprises for which the environment is a major strategic or risk management issue will be more likely to assume such expenses. One group of companies in this category are those that operate in the high environmental impact sectors. Another one includes enterprises that operate in a social or political context (including pressure from governments and civil society) that makes them particularly keen to be seen to undertake efforts to this effect. Another issue relates to national differences in legal environments that may make companies more or less willing to volunteer standards of behaviour against which third parties can assess their actions.

14. When looking at the high environmental impact sectors alone it does appear that there are hardly any geographic differences (Figure 2). 78 per cent of all companies in these sectors publish policy statements, and none of three major regions is far from this average. Asia-Pacific has 83 per cent of the area's companies publishing environmental policy statements, followed by Europe (77 per cent) and North America (73 per cent). The countries with the highest national shares are the United Kingdom and Finland where 100 per cent of the enterprises in high environmental impact sectors publish policy statements, but several other countries (e.g. Australia and Japan, both at 94 per cent) also record very high rates.

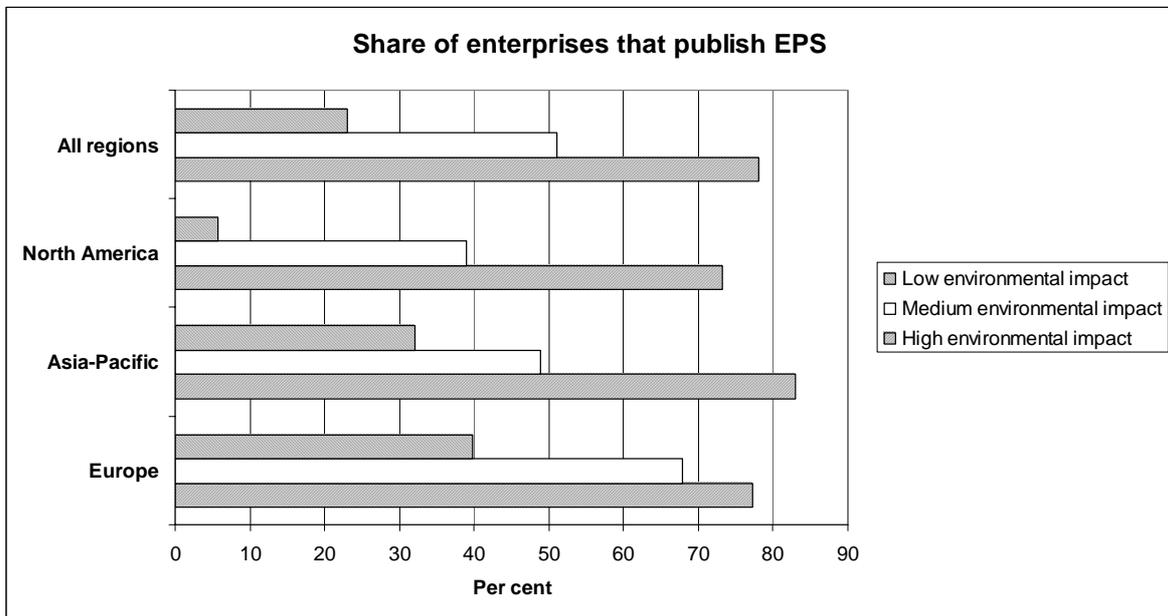
15. It is also noticeable that medium impact companies in Europe have much higher rates than companies in Asia-Pacific and North America. This is thought to be due to the increasing pressure that such companies operating within the EU are facing. Frequently quoted examples include the Waste Electronic and Electrical Equipment (WEEE) Directive for the electronics/electrical equipment sector and public expectations that companies in the financial sector take into account voluntary initiatives such as the UNEP Finance Initiative or The Equator principles.

16. The propensity for companies in the low environmental impact sectors to issue environmental policy statements differs sharply. 40 per cent of the European companies in the sample have published statements. By contrast, only 6 per cent of the North American enterprises in these sectors have chosen to do this.

a) *The content of environmental policy statements*

17. Perhaps a more important question than whether a company has an environmental policy statement is the content of that statement. The EIRIS database allows identifying the main elements of an environmental policy statement. Hence, it is possible to identify whether the policy statement makes specific reference commitment to comply with the law; commitment to exceed legal requirements; *or* commitment to best practice, among other elements (Table 2). It may at first glance seem tautological to include compliance with the law in environmental policy statements, since the whole concept of corporate responsibility would make little sense in the absence of a willingness to comply with legal obligations. However, by including legal compliance explicitly in the policy statement those individuals who are responsible for the implementation of the statement also become personally associated with the company’s legal obligations in this respect.

Figure 2



Source: OECD/EIRIS

18. Table 2 indicates that environmental policy statements almost invariably include a commitment to comply with the law (95 per cent of all companies), and that there are very limited geographic differences in this respect – although this does not take into account the difference between best practices and minimal legal requirements across the regions. The share of companies that announce their commitment to adhere to best practices in the Asian-Pacific region (19 per cent) is higher than in Europe (12 per cent) and North America (4 per cent).

Table 1. Companies in FTSE All-World Developed Index, by nationality and sector

	High environmental impact	Medium environmental impact	Low environmental impact	Total
Europe	224	196	78	498
Austria	13	7	2	22
Belgium	8	6	3	17
Denmark	8	10	2	20
Finland	4	2	2	8
France	22	16	7	45
Germany	21	12	3	36
Greece	31	22	15	68
Italy	9	23	5	37
Ireland	3	6	0	9
Luxembourg	0	0	1	1
Netherlands	8	8	2	18
Norway	9	7	4	20
Portugal	5	3	2	10
Spain	12	6	3	21
Sweden	9	13	6	28
Switzerland	11	7	2	20
UK	51	48	19	118
Asia-Pacific	223	217	53	493
Australia	31	22	8	61
Japan	156	132	32	320
New Zealand	8	11	3	22
Hong Kong (China)	17	30	5	52
Singapore	11	22	5	38
North America	183	231	104	518
Canada	39	32	10	81
United States	144	199	94	437
Total	630	644	235	1 509

Source: OECD/EIRIS

Table 2. Contents of environmental policy statements, all sectors

(percentage share of those enterprises that publish EPS)

	Nature of commitment:		
	Comply with relevant laws	Exceed legal requirements	Adhere to best practices
Europe	92	37	12
of which:			
France	86	34	11
Germany	91	45	27
United Kingdom	100	43	6
Asia-Pacific	97	74	19
of which:			
Japan	98	83	21
Australia	98	38	5
North America	94	47	4
of which			
United States	94	52	2
Canada	93	28	13
Total	95	53	12

Source: OECD/EIRIS

19. An interesting, but also potentially confusing, indicator regards companies' commitments to operate on higher standards than legally required. It appears that companies in the Asia-Pacific region generally opt for a higher level of ambition than is the case in other areas. 74 per cent of Asia-Pacific companies mention the exceeding of legal requirements in their policy statements, compared with 47 per cent in North America and 37 per cent in Europe. However, this indicator can provide only part of a larger story. A commitment to operate above required standards does indicate an environmental effort on the part of individual companies, but comparisons between countries are clouded by different legal requirements across jurisdictions. Companies domiciled in countries with particularly high legal requirements have limited incentives to volunteer to exceed these, whereas internationally active companies domiciled in countries with relatively low legal standards will find it easier, and in some cases feel under a certain pressure, to operate above requirements.

20. Detailed national and sectoral data show that the "levels of ambition" of policy statements vary little across environmental impact sectors. Within individual countries, the shares of high, medium and low impact companies that aspire to exceeding legal requirements and implement best practices are broadly the same. Conversely, even within geographic regions there are important national differences. For instance, regarding the exceeding of legal requirements Japanese companies' policy statements are in a class of their own, with 83 per cent of the issued statements committed to doing this. Other countries with a high share in this regard (above 50 per cent) are the United States and Italy.

21. Another important indicator is the number of enterprises that allocate the responsibility for their environmental policy statements to the board level, and hence are perceived to attach a high level of managerial interest to them. According to the available figures there is a strong tendency for companies to allocate the responsibility for statements to board members (89 per cent of the companies that have policy statements do so). The Asia-Pacific region comes out at the top with almost 95 per cent of the companies allocating responsibility to their boards, whereas a comparatively lower, but still significant, share of 83 per cent of European companies does this.

22. Companies also differ with respect to the intra-firm coverage of their environmental policy statements, notably whether the statement covers the entire business group. This is a particularly pertinent question where multinational conglomerates are concerned, as the issue of corporate responsibility can become controversial if applied differently according to nationality of operations. EIRIS' database does not allow for an analysis of the trans-nationality issue. However, the overall figures show that where a company has issued a policy statement, as a general rule, the whole group is covered. In 2003 this was the case for 88 per cent of the companies with policy statements. However, there are certain geographic differences. In North America virtually all of the relevant companies (98 per cent) extended their policy statements to the entire group. In the Europe 88 per cent and in the Asia-Pacific region 78 per cent of the surveyed enterprises did this.

b) Additional voluntary approaches

23. Finally, a large number of companies have signed up to voluntary environmental initiatives. In most enterprises the choice to subscribe to a shared code of conduct coincides with publishing environmental policy statements of their own, but this does not necessarily have to be the case. The explicit endorsement of a given code of conduct can be done *en lieu* of formulating a tailored company policy, or it can serve as a supplement to such a policy. Table 3 illustrates the participation by companies in either of four such voluntary initiatives, namely the International Chamber of Commerce's (ICC) *Business Charter for Sustainable Development*, the Coalition for Environmentally Responsible Economies' (CERES) *Corporate Environmental Reporting Requirements*, UNEP's *Finance Initiative* and the chemical industry's *Responsible Care*.

24. A similar trend is observed as in the case of environmental policy statements. First, there is a relatively strong tendency for high environmental impact sectors to adopt voluntary environmental initiatives. As for the low environmental impact sectors their involvement with such initiatives is very low, which seems to indicate that they see little need to make announcements over and beyond a normal policy statement. Second, the tendency for North American companies to be less active than European ones is visible in Table 3 as well, although not more so than in the case of environmental policy statements.

25. As regards the individual initiatives, the acceptance of Responsible Care, which targets the chemical industry, is unsurprisingly limited to the high environmental impact sectors. UNEP's Finance initiative, on the other hand, focuses largely on banks and insurance companies, which are categorised as being of medium environmental impact. Signatories to the remaining two standards, which do in principle apply equally to all categories of companies, are largely found in the high impact sectors.

Table 3. Signatories to voluntary initiatives¹

(percentage share of group total)

	Impact sector			Total
	High environmental impact	Medium environmental impact	Low environmental impact	
Europe	39	33	5	31
of which:				
France	32	44	14	33
Germany	86	67	33	75
United Kingdom	43	27	0	30
Asia-Pacific	23	11	13	17
of which:				
Japan	31	15	16	23
Australia	10	9	25	11
North America	24	9	0	13
of which:				
United States	26	8	0	12
Canada	15	19	0	15
Total	29	17	5	20

¹ Includes UNEP FI, Responsible Care, ICC and Ceres.

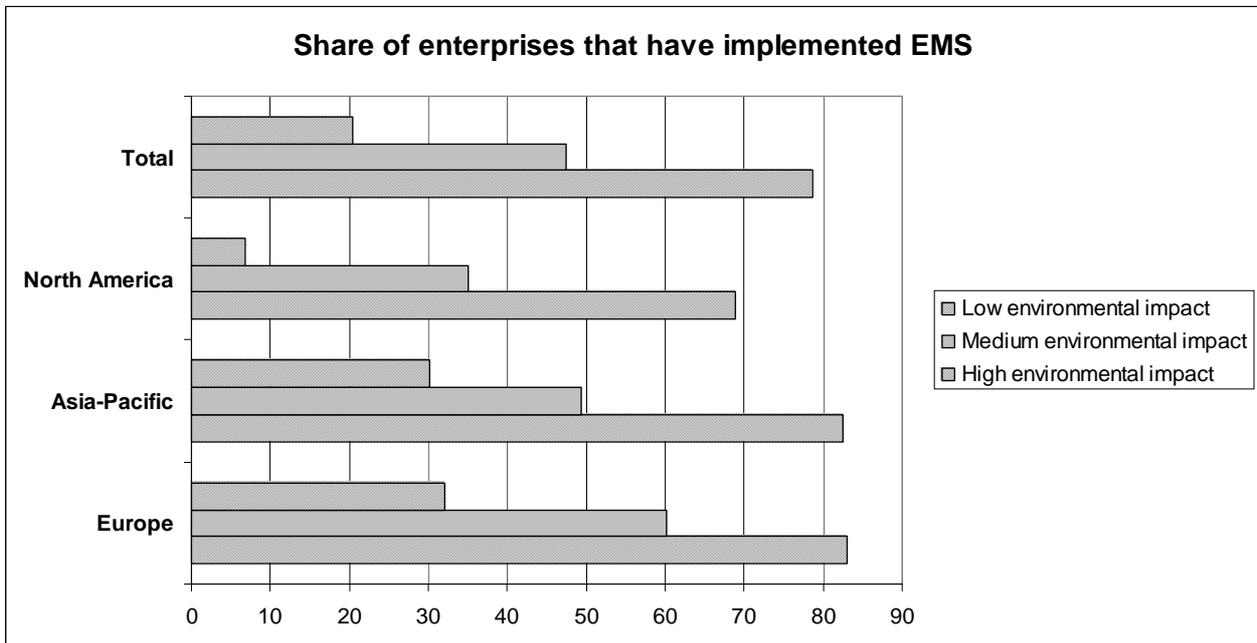
Source: OECD/EIRIS

IV. Environmental management systems

26. The implementation of environmental management systems follows largely the same sectoral and national patterns as the issuance of environmental policy statements. Businesses in Europe appear somewhat more likely to implement management systems than is the case in North America and the Asia-Pacific region. In September 2003, 66 per cent of all European companies listed on the FTSE All-World Developed index had implemented EMSs, compared with 62 per cent in Asia-Pacific and 41 per cent in North America. The individual countries with the highest share of environmental management systems in place are United Kingdom and Germany (both with 86 per cent), followed by France (82 per cent). The lowest rates of implementation within the sample are found in Singapore (18 per cent), Hong Kong (China) (19 per cent) and Greece (23 per cent).

27. As was also the case with environmental policy statements, the geographic differences diminish when looking only at companies in the high environmental impact sectors (Figure 3). Within these sectors, the share of enterprises with EMSs in Europe and Asia-Pacific is identical (83 per cent), and the share in North America is moderately lower (69 per cent). In three European countries, namely United Kingdom, Germany and Finland, all companies in the high impact sectors have implemented environmental management systems.

Figure 3



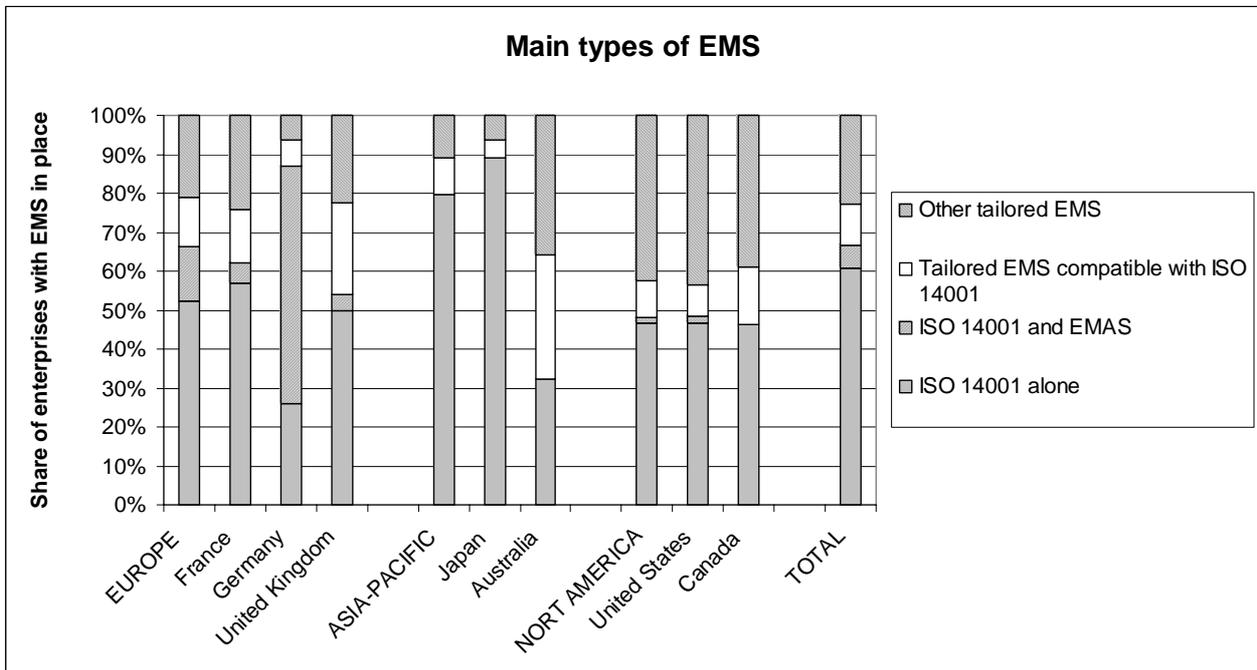
Source: OECD/EIRIS

a) Types of environmental management systems

28. As also mentioned in the Background Report, some enterprises opt for self-designed EMSs that are tailored to the individual company requirements and problems. Others use or adapt environment management standards. The advantages of tailor-made management systems on the one hand and standardised systems on the other have been discussed in relation with other areas of management, and there appear to be similar discrepancies with regards to EMSs. Standards may enhance the credibility of enterprises’ environmental measures if the management standards are widely accepted, and standardised systems provide quick and relatively inexpensive access to advanced management techniques. On the other hand, a potential drawback of standardised systems is that they may not be entirely suited to individual company needs.

29. Among the companies that have EMSs in place, two thirds have either an ISO 14001 certification of their system (either covering the whole company or part of it) or have implemented the ISO standard as part of an EMAS certification (Figure 4). The remainder of the EMSs are tailored to individual enterprises. Some of these, while not ISO 14001 certified, could, in the estimation of EIRIS, have been so had the company wished it. The criteria on which this assessment is based is whether all the ‘key elements’ of ISO 14001 are met by the non-certified company, i.e. evidence of environmental review, objectives and targets, auditing system, procedures in place and management review. Results show that 11 per cent of EMSs are non-ISO certified EMSs systems that appear to be ‘ISO compatible’ and 23 per cent are tailored systems that do not meet the ISO 14001 criteria.

Figure 4

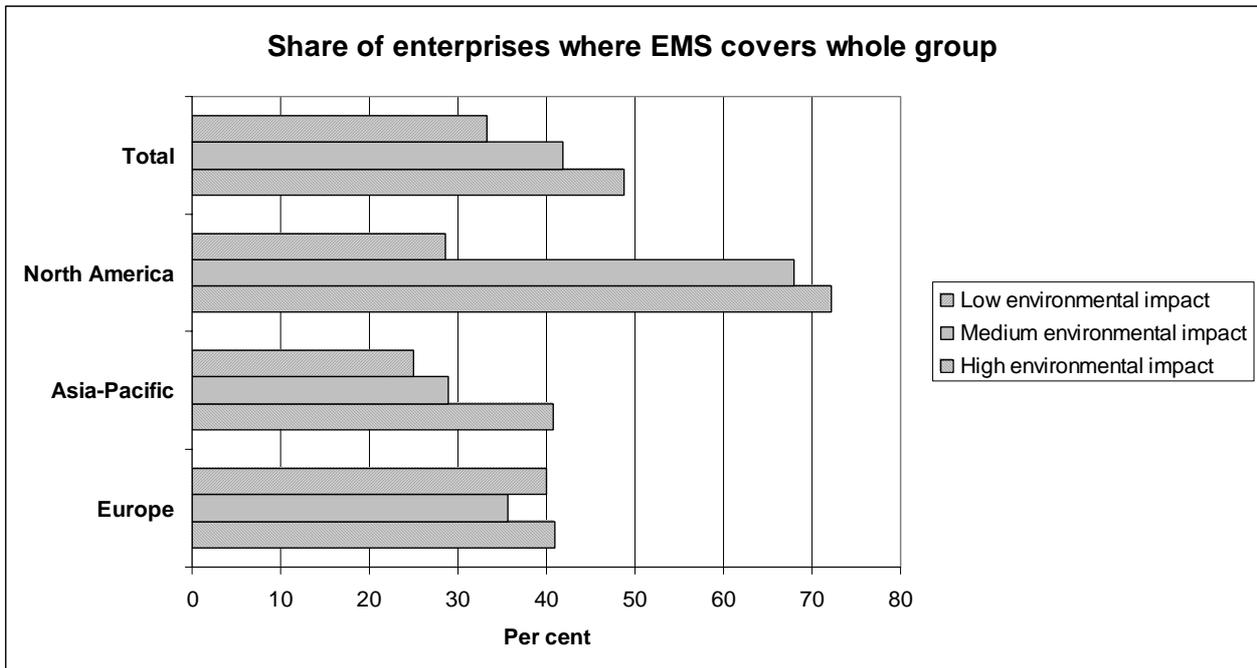


Source: OECD/EIRIS

30. Again, the geographic differences are considerable. Asia-Pacific has by far the highest share of EMSs with ISO 14001 certification (80 per cent of all companies), and Japan (89 per cent) has the highest share of any individual country. Perhaps unsurprisingly, the EMAS scheme is predominantly subscribed to by European enterprises, 14 per cent of which have implemented this system. By far the largest acceptance of EMAS is found in Germany where 61 per cent of the companies have put the scheme in place. In Austria and Belgium (second and third rank) the share is around one third. The few North American companies that have adopted EMAS are apparently multinationals with a large corporate presence in Europe. Finally, North American companies stand out both by having an internationally high share of tailored EMSs (52 per cent).

31. The degree of coverage of environmental management systems varies from company to company. In North America there is a tendency for those companies that adopt EMSs to implement them across their business group, especially in the high and medium environmental impact sectors (Figure 5). In Europe and the Asia-Pacific region only around one third of the companies with EMSs applied them throughout. Conversely, the share of companies that have implemented EMSs is only a comparatively limited part (less than a third) of their business group is 32 per cent in Europe, 23 per cent in the Asia-Pacific region and 10 per cent in North America. However, these figures must be interpreted with some caution. While the coverage of ISO 14001 and EMAS is well documented owing to the need for certification, the coverage of tailored EMSs is necessarily based on a degree of judgement. Moreover, as assessments rely on public available information, uncertainties are compounded where corporate reporting is not particularly comprehensive.

Figure 5



Source: OECD/EIRIS

b) Environmental auditing

32. Various tools have been developed to assist companies in implementing their EMSs, including Environmental Impact Assessment, Environmental Accounting and Auditing and Life Cycle Assessment. These tools may be employed for assessing and monitoring environmental impacts (impact assessment is mandatory in many countries), setting a course of action and providing means of communication. For instance, auditing is an important tool for assuring company managers of the accuracy of information and at the same time contributing to the external credibility of companies' environmental commitment.

33. As mentioned earlier, to obtain ISO 14001 certification of its EMS, a company needs to undertake a degree of internal monitoring and auditing, but not all companies have certified EMSs and not all of those that do extend this commitment to the level of full-blown environmental audits. According to EIRIS' database, 72 per cent of those enterprises that had EMSs in place in 2003 undertake environmental auditing. The tendency to do so is lowest among European companies (58 per cent) and highest in the Asia-Pacific region (84 per cent). The higher incidence in Asia-Pacific (above all Japan) than in Europe is thought to be partly linked with the fact that the Japanese business sector has a high share of high and medium impact sectors where environmental auditing appears more relevant.

34. Companies that have committed themselves to a high standard of environmental management often want to guard themselves against being tainted by possible shortfalls in the environmental performance of their suppliers and contractors. Supply chain auditing has therefore emerged, providing corporate buyers with comprehensive environmental information on the products, components or materials

they produce. Supply chain auditing can transmit pressure and an impetus to change among small and medium-sized companies⁵.

35. A relatively limited 14 per cent of the companies that have implemented EMSs engage in environmental supply chain audits. However, the national differences are very large. No less than 31 per cent of the North American enterprises (38 per cent in the case of the United States) undertake supply chain audits, compared with 16 per cent in Europe and 1 per cent in the Asia-Pacific region. This could reflect the relative importance of issues in certain countries, i.e. social issues and supply chain issues have gained wide acceptance in the United States. In Japan, corporate social responsibility is mainly centred on environmental issues rather than social issues⁶.

36. The sectoral patterns are also interesting. Contrary to almost any other indicator of corporate environmental efforts, the share of enterprises that engage in environmental audits is actually lower in the high environmental impact sectors than elsewhere (high impact: 11 per cent; medium impact: 20 per cent; low impact: 15 per cent). Companies operating within the high environmental impact sectors, on the other hand, tend to devote their resources instead to their own intra-firm environmental performance.

c) The broader context of EMSs

37. Supplementary evidence of the use of EMS by companies was provided by a recent OECD study, surveying a total of 4,176 enterprises in Canada, France, Germany, Hungary, Japan, Norway and the United States⁷. The survey covers more ground than FTSE All-World Developed index in the sense that a large number of small and medium-sized enterprises are included. At the same time it is biased relative to the data used in all other sections of the present part of the report, owing both to the limited number of countries and national differences in company response rates (varying from 9 to 35 per cent).

38. The survey sheds light on, among other things, the degree to which companies integrate their environmental management systems with other corporate governance and management tools. Respondents were requested to indicate the extent to which they had introduced different 'advanced management practices' (i.e. full-cost accounting, total quality management, etc.), and to rate the extent to which these were integrated with environmental management on a scale from 1 to 3 (see Table 4). This will allow for an assessment of the 'value added' provided by environmental management relative to other management practices (i.e. does environmental accounting contribute to improved environmental performance in different areas beyond the contribution arising from the application of full-cost accounting?) It appears that a high share of respondents have integrated their EMS with quality management and, which is important in the context of the Environment Chapter of the OECD Guidelines, with health and safety management systems. It should also be noted that full-cost (or activity-based) accounting is both the least prevalent and least integrated.

⁵ Business Council for Sustainable Development (2002), "Progress toward Sustainable Development: a review of business initiatives", paper presented at the World Summit on Sustainable Development, Johannesburg 2002.

⁶ Statement by Good Bankers, Japan

⁷ "Environmental Policy Tools and Firm-Level Management", Environmental Policy Committee, unpublished.

Table 4: Relationship between Environmental Management and General Management

	Share of respondents using such tools	Degree of Integration (Scale from 1 (not integrated) to 3 (fully integrated))
Quality Management System	75%	2.15
Health and Safety Management	60%	2.14
Full-Cost Accounting	39%	1.51
Management Accounting	56%	1.62
Process/Job Control System	48%	1.67
Inventory/Materials Requirement Planning	54%	1.69

Source: OECD Environment Directorate.

39. Table 5 provides some information on the relative importance of some of the relationships between environmental management systems and the characteristics of the facility and its market. For ease of understanding, many of the 'independent' variables have been reclassified into discrete variables with two classes, and Chi-square tests undertaken to determine whether the different factors are associated with statistically significant differences in the mean of facilities with EMS's in place. (Caution is, however, called for in interpreting the results: the relationship among several of the factors in Table 5 is complex, and bivariate analysis can provide only a part of the picture.)

40. It does appear that there is a statistically significant relationship between facility size (positive), whether the facility is part of a multi-facility firm (positive), profitability (positive), whether the firm primarily sells to final consumers (negative), whether the market is international (positive), whether the head office is overseas (positive), the presence of a quality management system (positive) and whether regulatory incentives were provided to introduce an EMS (positive). However, the self-reported change in sales does not have a statistically significant influence.

Table 5: Relationship Between Environmental Management Systems and Selected Facility Characteristics

		% with EMS	Pr (X^2)
Size	< 250 employees	24.58	0.000
	> 250 employees	55.47	
Multi-facility	No	27.61	0.000
	Yes	38.82	
Change in Sales	Negative	33.75	0.449
	Positive (or flat)	32.43	
Profitability	Negative	26.34	0.000
	Positive (or even)	34.52	
Primary Customers	Final consumers	24.93	0.001
	Other	34.09	
Market Scope	Local/National	27.39	0.000
	Regional/Global	39.31	
Head Office	Domestic	30.70	0.000
	Foreign	51.35	
Quality Mgmt System	No	13.57	0.000
	Yes	40.42	
Government Incentives	No	28.75	0.000
	Yes	50.12	

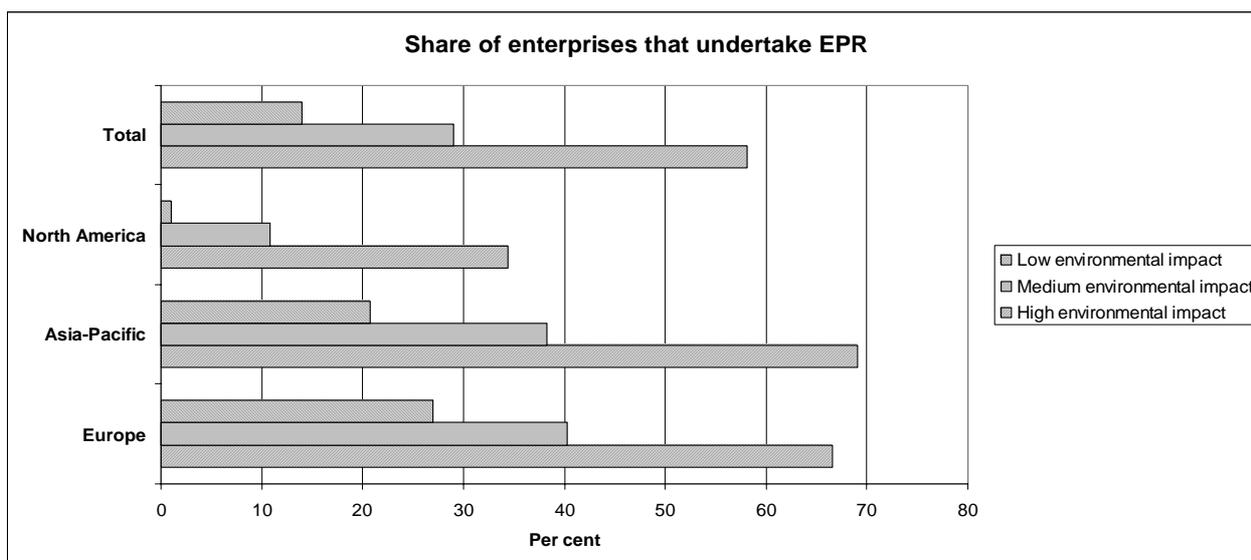
Source: OECD Environment Directorate.

V. Environmental performance reporting

41. An increasing number of enterprises publish information on the environmental impact of their activities. However, in the absence of internationally agreed reporting standards, the content of such reports ranges from rudimentary pieces of information to full-scale sustainable development reporting⁸. For the purposes of this study, environmental reporting refers to the practice of making information on environmental performance available to the public, whether in a stand-alone environmental report or included in the company's annual report.

42. A study undertaken by OECD in 2001 concluded that the area of environmental performance reporting is "the least common of the three environmental practices considered"⁹. This is still the case, albeit apparently to a lesser degree. In 2003, 39 per cent of the companies listed in FTSE All-World Developed Index engaged in environmental performance reporting. Broadly the same share (around 50 per cent) of the companies in Europe and Asia-Pacific undertook performance reporting, whereas in North America a more limited 17 per cent of the enterprises did so. As is the case with most other indicators of corporate environmental performance, the take-up rates are much higher in the high environmental impact sectors than elsewhere (Figure 6). Around two thirds of the companies operating in high impact sectors in both Europe and Asia-Pacific undertake environmental performance reporting. In North America one third of the enterprises in this sector do this.

Figure 6



Source: OECD/EIRIS

43. In respect of environmental performance reporting individual countries differ significantly more than is the case with the two other classes of indicators analysed above. The countries in which performance reporting by enterprises is the most pervasive are Germany (86 per cent), United Kingdom (71 per cent) and Japan (69 per cent). Moreover, in three countries every single high environmental impact company undertakes environmental performance reporting, namely Germany, Finland and Norway. In

⁸ One Sustainability reporting Framework, the Global Reporting Initiative, was recognised by the UN World Summit on Sustainable Development. It is presently used by over 400 companies and other organisations.

⁹ OECD (2001), *op cit.*

Ireland and Greece no company within EIRIS' sample issues performance reports and in Singapore only 3 per cent (that is, one company) does so.

a) The contents of environmental performance reports

44. There are few widely accepted standards to help enterprises decide which information should be included in their environmental performance reports. In the absence of an agreed standard for environmental reporting, enterprises make their own choices as regards the scope and depth of their reporting. Four indicators of differences between the contents and scope of existing environmental performance reports are presented in Table 4: the publishing of quantitative data; whether performance is compared with targets, whether the report is verified by a third party; and whether the report includes environmental cost accounting.

45. If an enterprise's environmental performance report is to be comparable with those of other companies (and with the enterprise's own past) it is essential that quantitative information be made not only public but also that data is presented in a comparable way, i.e. reporting on same indicators, same units and presenting accurate data. The vast majority of the companies that issue performance reports do include at least some such data (91 per cent of total)¹⁰. In North America and the Asia-Pacific region this is the case for around 95 per cent of the enterprises, whereby European companies are a bit less likely to do so (85 per cent). The high environmental impact sectors in almost all countries are more likely to publish quantitative information – which is perhaps unsurprising insofar as they are the biggest corporate producers of pollutants and hence have more to report about. 93 per cent of the high-impact companies issue quantitative information, compared with 81 per cent of the enterprises in low environmental impact sectors.

Table 6. Nature of companies' environmental performance reports

(percentage share of companies that issue EPRs)

	Publish quantitative data	Compare performance with targets	Rely on third-party verification	Environmental cost accounting
Europe	85	56	46	43
of which:				
France	92	44	36	32
Germany	94	71	29	48
United Kingdom	89	73	44	35
Asia-Pacific	97	86	29	30
of which:				
Japan	100	90	29	29
Australia	85	85	46	85
North America	94	45	11	21
of which				
United States	93	38	10	10
Canada	100	67	14	57
Total	91	67	34	34

Source: OECD/EIRIS

¹⁰ EIRIS excludes companies that have included quantitative data but considered not to be "material". This would, for example, be the case of an oil and gas company reporting on all main issues except for a key one: CO2 emissions.

46. Many companies include in their environmental performance reports the kind of information that makes it easier for stakeholders, authorities and members of civil society to monitor their progress toward implementing higher environmental standards. One example is the practice of publishing performance targets alongside with quantitative information and undertaking a comparison of actual data with past targets. Table 6 indicates that 67 per cent of enterprises' performance reports include a comparison of performance and targets. The Asia-Pacific region stands out in this respect with 86 per cent of companies engaging in this practice. In Europe and North America, the share is closer to 50 per cent.

47. Third-party independent verification is used by a number of enterprises as a way of underpinning the credibility of environmental performance reports. Verification also provides the top management of the organisation with a level of comfort that its reporting system is adequate. Verification is generally conducted by qualified external parties that are independent from the data collection and report production process. Overall, 34 per cent of the companies issuing performance reports rely on third-party verification of those reports' contents (Table 6). Doing so is significantly more widespread in Europe (46 per cent) than in the Asia-Pacific region (29 per cent) and North America (11 per cent). In one nation this practice is far more common than anywhere, namely Italy where no less than 91 per cent of the companies rely on third party verification of their environmental performance reports.

48. One may ask why third party verification has not gained wider acceptance. Some have attributed this to the loss of credibility in the verification process following corporate scandals in the past. The fact that there is no internationally recognised assurance standard has also played a role. The AA1000 Assurance Standard has been taken up by some companies, but it is still too early to assess the success of the initiative.

49. An interesting development over the last years has been a tendency for companies to highlight the economic value of their environmental efforts and the business integration of their environmental management systems. One of the visible results has been a co-evolution of environmental performance reporting with environmental cost accounting – that is accounting for the financial and non-financial costs and benefits of pursuing a company's environmental policies. In 2003, about one third of the companies listed on FTSE All-World Developed Index published environmental cost accounting data as part of their performance reporting. In Europe, 43 per cent of the companies that issue environmental performance reports included cost accounting into those reports, compared with 30 per cent in the Asia-Pacific region and 21 per cent in North America.

VI. Occupational health and safety

50. As is the case with environmental management systems, occupational health and safety systems come in two shapes, namely off-the-shelf standards and systems tailored to individual enterprises. However, a comprehensive occupational and safety system will commonly include the following elements: (i) the formulation of an occupational health and safety policy; (ii) the identification of risks and legal requirements; (iii) objectives, targets and programmes that ensure continual improvement; (iv) management activities to control occupational health and safety risks; (v) monitoring of the system's performance; and (vi) continual reviews, evaluation and improvement of the system.

51. The development of standardised occupational health and safety systems is more recent than the environmental standards. In 1996, British Standards Institute launched the world's first standard, the "BS 8800: Guide to Occupational Health and Safety Management Systems", which was later, drawing also on existing ISO 14001 standards, further developed into "OHSAS 18001: Occupational Health and Safety Assessment Series: Specification". In parallel developments ILO developed its Guidelines on Occupational Safety and Health Management Systems (ILO-OSH 2001) and the UK Health and Safety Executive formulated its own standard "HSG 65: Successful Health and Safety Management". No commonly

accepted industry standard has emerged so far, and the three are considered in most practical contexts as being operationally equivalent¹¹.

a) *Evidence of the implementation of occupational health and safety systems*

52. Owing to the relatively recent development of standardised tools, only a limited number of companies in most countries have so far implemented them, while many others continue to rely on their own tailored solutions. For this reason EIRIS limits itself to examining the “evidence of a health and safety system” among the companies listed in the FTSE All-World Developed index. The findings are classified as providing “clear evidence”, “some evidence” or “little or no evidence” by means of the following four criteria: (i) a senior company official is named as responsible for occupational health and safety; (ii) the company has received significant awards from an independent standard-setting body; (iii) clear details of health and safety training programmes are provided; (iv) detailed quantitative data is provided illustrating changes to performance or allowing sectoral comparisons. Where either (i), (ii) and (iii) are fulfilled, or (i) and (iv), a company is classified as having provided clear evidence. Where at least one of the four elements is fulfilled, a company is classified as having provided some evidence.

53. Some caution is called for here. The data on occupational health and safety systems is of a somewhat more judgmental nature than the ones surveyed in previous sections, so sweeping conclusions should be avoided. Moreover, no sectoral breakdown of the data is available, which makes an accurate interpretation even more difficult. For instance, one may speculate that companies in the heavy industries and other high environmental impact sectors tend to be under greater pressure to put in place occupational health and safety measures.

54. It appears from Table 7 that just under half of the companies in the sample display at least some evidence of having an occupational health and safety system in place. Of the 20 per cent that provide clear evidence, the majority is found in Europe where a third of the enterprises are in this category. The highest percentage of clear evidence is found in the United Kingdom (56 per cent), the Netherlands (55 per cent) and France (49 per cent). According to this indicator, the lowest incidence of health and safety systems is found among Asian enterprises. In Singapore, Japan and Hong Kong (China) only 3, 5 and 11 per cent of the companies displayed clear evidence of having an occupational health and safety system. More than two thirds in the Asia-Pacific region show little or no evidence of having implemented such systems.

¹¹ A useful overview of the corporate health and safety issues was provided by the United Kingdom’s Health and Safety Executive in its publication “Health & Safety Indicators for Institutional Investors”: <http://www.hse.gov.uk/aboutus/hsc/meetings/2002/280502/papers/c82b.pdf>.

Table 7. Evidence of the presence of an occupational health and safety system

(percentage share, by country or region)

	Clear evidence	Some evidence	Little or no evidence
Europe	34	31	35
of which:			
France	49	33	18
Germany	22	46	32
United Kingdom	56	32	11
Asia-Pacific	9	23	67
of which:			
Japan	5	26	69
Australia	30	21	49
North America	15	25	60
of which:			
United States	16	25	60
Canada	12	27	60
Total	20	26	54

Source: OECD/EIRIS

VII. Summary

55. In summary, some of the main observations about companies' approach to environmental performance that can be derived from the survey results are the following:

- **Environmental policy statements:**

- 58 per cent of the surveyed companies **publish** environmental policy statements. The highest propensity to do so is found in Europe (69 per cent), followed by the Asia-Pacific region (62 per cent) and North America (44 per cent).
- These differences derive largely from a tendency to issue policy statements among companies outside the high environmental impact sectors. Within the high impact sectors 78 per cent of all enterprises publish policy statements, a share that varies little across major regions. However, in the low impact sectors 40 per cent of the companies in Europe issued policy statements, compared with 6 per cent in North America.
- The **contents** of environmental policy statements vary geographically (but less so across sectors). Almost all policy statements (95 per cent) include a commitment to comply with the law, but in addition 74 per cent of the Asian-Pacific enterprises are committed to operate above legal requirements – a share much higher than in Europe (37 per cent) and North America (47 per cent).
- Companies also differ with respect to the **coverage** of their environmental policy statements. In North America 98 per cent of all policy statements covered the entire business group of the

issuing company. The same was the case for 88 per cent of the European policy statements and 78 per cent of the Asian-Pacific ones.

- The signup to **voluntary** environmental initiatives follows a similar trend as the issuance of policy statements. One third of all enterprises are signatories to any of such initiatives, most of which operate in the high environmental impact sectors. The acceptance of such initiatives is somewhat higher in Europe than elsewhere.
- **Environmental management systems:**
 - The tendency to **implement** environmental management systems displays similar trends as the issuance of policy statements. European enterprises are more likely to do so (66 per cent), followed by Asia-Pacific (62 per cent) and North America (41 per cent).
 - Environmental management systems are far more prevalent among companies operating in the high environment impact sectors. In both Europe and Asia-Pacific 83 per cent of all enterprises in these sectors had EMSs in place, and the share in North America (69 per cent) was only slightly lower.
 - Regarding the **types** of environmental management systems, ISO 14001 appears to have emerged as the shared standard across the globe. Companies with EMSs fall into three main categories: those that have obtained ISO certification; those that have not, but whose systems are ISO compatible; and those with tailored systems that are generally not compatible with ISO.
 - Two thirds of all environmental management systems are either ISO certified or follow another standard that encompasses ISO 14001. The acceptance of ISO 14001 is by far the highest in Asia-Pacific with 80 per cent ISO certification, followed by Europe (66 per cent) and North America (48 per cent).
 - The share of EMSs that are not ISO certified and, according to EIRIS' assessment, are not ISO compatible is 8 per cent in Asia-Pacific, 23 per cent in Europe and 43 per cent in North America.
 - 72 per cent of companies with environmental management systems engage in environmental **auditing**. The share is highest in Asia-Pacific (84 per cent), followed by North America (80 per cent) and Europe (58 per cent).
 - Supply chain audits are particularly widespread among North American companies. 31 per cent of North American companies with EMSs in place engage in this practice, compared with 16 per cent in Europe and 1 per cent in the Asia-Pacific region.
- **Environmental performance reporting:**
 - Environmental performance **reporting** is less common than the other practices considered in this report, *inter alia* owing to the fact that environmental reporting is relatively new compared to policies and management systems (and registration is difficult as there is still no certification standard for reporting). A total 39 per cent of the companies in the sample undertake performance reporting. In Europe and Asia-Pacific the share is 50 per cent, in North America it is 17 per cent.

- The *scope* of reporting varies greatly in the absence of an internationally agreed standard. Most of the reporting companies (91 per cent) publish quantitative, allowing comparisons of performance intra-industry and over time. The share is comparatively low in Europe (85 per cent), whereas in Asia-Pacific and North America virtually every company includes such data in its reporting.
- 67 per cent of performance reports include comparisons of companies’ environmental performance relative to previous targets. This practice is particularly widespread in Asia-Pacific where 86 per cent of the reporting companies publish such.
- Around a third of the environmental performance reports are subject to third-party *verification* of their content. 46 per cent of the reporting companies in Europe have independent entities verify their performance reports, compared with 30 per cent in the Asia-Pacific region and 21 per cent in North America.
- ***Occupational health and safety:***
 - Occupational health and safety systems are traditionally less standardised than environmental tools. However, the ISO-compatible standard OHSAS 18001 appears to be gaining widespread acceptance.
 - EIRIS cites 20 per cent of the companies in the sample as displaying “clear evidence” of having an occupational health and safety system in place. The geographic differences are significant. 34 per cent of the European enterprises fall into this category, compared with 15 per cent in North America and 9 per cent in the Asia-Pacific region.

ANNEX

EIRIS classification of environmental impact sectors

The principle underlying the classification system is that a sector's overall environmental impacts should be assessed in relation to its size. The basic indicator used is a ratio of environmental damage to economic significance. For each sector, direct impacts relating to climate change, air pollution, water pollution, waste and water consumption were reviewed. Impacts arising indirectly through upstream (supply chain) or downstream (product life cycle) were also considered, mainly in qualitative terms.

Each sector was profiled in terms of its impacts (high, medium or low) on the above issues (see attached table). Where quantitative data exists the criteria for high, medium or low grades for each issue are based on an absolute ratio. For example, sectors which contribute a higher proportion of the national CO2 emissions than economic value added in the UK are graded at least medium in this area, and where the CO2 contribution is more than double the economic significance they are graded as high.

The overall classification depends on the number of issues where the sector has been found to have a high or medium impact.

Data sources

Gross Value Added (GVA) was used as a measure of economic significance, while a wide range of environmental datasets are also considered. These include information sourced from the UK's Office of National Statistics, the US Toxic Release Inventory, NETCEN, NGOs and from corporate reporting.

Relationship with FTSE Global Classification System

Although the list of sectors examined by EIRIS is loosely based on FTSE sectors, it aims to group companies with similar activities rather than economic links. As with the FTSE sectors, these classifications are not set in stone and may evolve over time. A particular company may be placed in one or more sectors, and is classified as high, medium or low according to the highest impact classification associated with at least 15 per cent of its activities. For example, a telecoms company with 15 per cent of its turnover arising from high impact activities such as chemical manufacture and construction would be classified as high impact.

Definitions

High, medium and low impact classifications – companies may be involved in one or more of the business sector below. Where more than 15 per cent of a company's turnover derives from high impact or medium impact sectors, the company is classified as high or medium impact accordingly. If the company only has significant activities in low impact sectors then it is classified as low impact.

High impact	Medium impact	Low impact
Agriculture	DIY & building supplies	Information technology
Air transport	Electronic and electrical equipment	Media
Airports	Energy and fuel distribution	Leisure not elsewhere classified (gyms and gaming)
Building materials (includes quarrying)	Engineering and machinery	Consumer / mortgage finance
Chemicals and pharmaceuticals	Financials not elsewhere classified	Property investors
Construction	Hotels, catering and facilities management	Research & development
Fast food chains	Manufacturers not elsewhere classified	Support services
Food, beverages and tobacco	Ports	Telecoms
Forestry and paper	Printing & newspaper publishing	Wholesale distribution
Major systems engineering	Property developers	
Mining & metals	Public transport	
Oil and gas	Retailers not elsewhere classified	
Pest control	Vehicle hire	
Power generation		
Road distribution and shipping		
Supermarkets		
Vehicle Manufacture		
Waste		
Water		