ENVIRONMENTAL PRACTICES OF EUROPEAN CORPORATIONS:
POLICY, MANAGEMENT SYSTEMS AND REPORTING

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Environmental Practices of European Corporations:
Policy, Management Systems and Reporting

Introduction

1. The present paper reports on the environmental practices of European companies as a part of a broader “fact-finding” project on business approaches to corporate responsibility. The objective of the overall project is to generate internationally comparable information on an important trend in international business. This paper explores a specific aspect of the more general question -- what are firms doing to ensure that their environmental policies and conduct comply with the law and with societal expectations? The paper presents data concerning the following aspects of the environmental practices of a sample of more than 1600 European companies:

- Environmental policy: What percentage of firms publish a formal environmental policy statement? What environmental commitments are made in these statements? How does this differ by nationality and sector?

- Environmental management systems (EMS’s): What percentage of the firms in the sample has a formal environmental management system? What percentage of the firms has standardised EMS’s (e.g. EMAS or ISO 14001) and what percentage opt for “tailor made” systems? Are EMS’s more likely to be adopted by firms operating in sectors where environmental impacts are high?

- Environmental reporting: What percentage of the firms publish environmental information? How detailed is this information?

2. Since it focuses on environmental issues, this paper covers only a fraction of the broad array of issues that firms address in their policy statements and codes of conduct. Earlier “fact finding reports” [DAFFE/IME(2000)15/ANN1] show that, in addition to addressing environmental issues, company codes make commitments in such areas as labour standards, human rights, combating corruption, competitive practices, consumer protection, integrity in financial reporting and protection of shareholder rights. In the set of codes examined in this report, environment and labour standards are the most frequently mentioned issue areas in company codes. The earlier work also shows that the environmental codes address a wide range of more specific issues and that the approach to environmental commitment in many of these codes is often detailed and specific. Among the partial list of the concepts and principles used in these codes are continual improvement, hazardous materials, bio-diversity, site restoration, water, waste and effluent management, energy conservation. The study of codes of conduct also found that the content of the codes is heavily influenced by sectoral considerations.

3. The data-gathering effort on corporate environmental practices was undertaken by researchers from the OECD, using data from a non-profit organisation, the Ethical Investment Research Service (EIRIS). Based in the United Kingdom, EIRIS provides company information to ethical investment services (e.g. specialised mutual funds) and organisations (pension funds, churches) engaged in ethical investment. The present study is based on aggregations of the EIRIS environmental database which covers...

1. List of other papers being presented as part of this project.

over 1650s publicly traded firms in the UK and in continental Europe (the Annex to this paper describes
the research methodology). The OECD Secretariat aggregated these data in order to form an overall view
of enterprises’ practices in the areas of environmental commitment, management and reporting. The firms
in the EIRIS database range from large multinationals to smaller, quoted companies. They many types of
economic activity and 424 firms, or 26 per cent of the firms, operate in sectors that EIRIS describes as
having “high environmental impacts”.

4. The EIRIS database is organised under three headings: 1.) policy statements and commitments;
2.) management systems; and 3.) reporting. The EIRIS data are drawn from published sources only,
including the company’s annual reports, company environmental reports, web-sites and from other
publicly available documents (e.g. the EMAS Register). The paper uses these same three headings to
report the aggregations.

Environmental policy statements and commitments

5. Forty-two per cent of firms in the EIRIS database publish detailed statements of environmental
commitment, while an additional 3 per cent make much simpler statements. Hence, 55 per cent of the
sample does not make any type of public environmental commitment. Among firms operating in high
environmental impact sectors, the percentage making detailed statements of environmental commitment
rises to 75 per cent. There is significant variation among companies, when looked at by country of origin
(Figure 1). In some countries all of the firms operating in high environmental impact sectors have a formal
environmental policy (Belgium, Norway and Sweden). The lowest percentage for high impact firms was
found for Greece, where only about one firm out of four operating in high impact sectors publish a
statement.

6. Publishing environmental statements involves costs -- it absorbs management time and entails
direct expenses for design, publication and dissemination. It might be reasonable to expect that firms for
which the environment is a major strategic and risk management issue -- that is, those operating in the high
environmental impact sectors -- would be more likely to assume such expenses. The EIRIS sample
suggests that this is indeed the case. The firms operating in high environmental impact sectors are much
likelier to publish an environmental policy statement than companies in low environmental impact sectors.

3. High environmental impact sectors include such sectors as extractive industries, civil engineering, building
materials and chemicals, aerospace, metallurgy, vehicle manufacture, food producers and retailers, utilities,
transport, textiles and leather manufacture and waste disposal.

4. Some policy statements here may be very brief and may not meet the standard used by EIRIS when
reporting to ethical investors for a full-fledged environmental statement.
7. EIRIS has identified the following as key issues in environmental performance and management: suppliers, contractors, resources and materials, energy use and efficiency, emissions to water, emission to air, transport, waste minimisation/reduction/disposal and recycling, packaging, product and/or stewardship/design, social impact, noise, bad neighbour, visual blight, employee training, green housekeeping, sustainability and industry specific issues. Forty-two per cent of the firms issuing environmental policy statements refer to all of these key issues.

8. The EIRIS database also keeps track of companies’ commitment using the following categories: 1.) Commitment to comply with the law; 2.) Commitment to exceed legal requirements, 3.) Commitment to best practice. Among the firms publishing a statement of commitment, about 26 per cent state that they intend to comply with the law, 18 per cent state that they will try to exceed legal requirements, while 2 per cent target “best practice”. For the remaining firms, it was not possible to determine the commitment standard using EIRIS’s categories.

9. Other organisations -- especially business associations, international and non-governmental organisations -- also publish statements of commitment to good environmental practices. In the EIRIS sample, few companies refer to external statements in their own statements (Figure 2). The most common reference in the EIRIS sample is to the International Chamber of Commerce’s Business Charter for Sustainable Development, which was mentioned in about 5 per cent of the environmental policy statements in the sample. Thus, the EIRIS database confirms the finding of other studies (see DAFFE/IME(2000)15/ANN1) that companies do not often mention outside standards or declarations in their codes of conduct.
Environmental management systems

10. Publication of an environmental policy statement is only one part of a multi-stage process that companies undertake in order to gain control of their environmental performance and to manage their environmental risks. Often companies employ a range of environmental management practices and tools and these generally draw on the management control practices used in other aspects of the firms operations. Sometimes, these practices are formalised as an explicit environmental management system or EMS. Kolk (2000), writing about environmental management systems, defines them as follows: “An EMS is that part of the overall management system which includes the organisational structure, responsibilities, practices, procedures, processes and resources for determining and implementing the firm’s overall aims and principles of action with respect to the environment. It encompasses the totality of organisational, administrative and policy provisions to be taken by a firm to control its environmental influence.”

11. Firms having such systems often seek to increase the credibility of their environmental commitments by publishing the details of their EMS. Among the roughly 1600 firms in the EIRIS database, 26 per cent refer to some type of environment management system (Figure 3). Among firms operating in high environmental impact sectors, the percentage is 52 per cent. Looking at the sample by national affiliation of the high environmental impact companies, wide differences in their degree of adoption of formal environmental management systems are apparent. Countries whose high impact companies have high rates of EMS adoption are Sweden (93 per cent of high environmental impact companies quoted on Swedish exchange), Finland (89 per cent) and German (82 per cent). Countries

Source: OECD
* The UNEP Environment Initiative Declarations include those for Insurance and Financial Institutions.
whose high environmental impact companies have relatively low rates of adoption include Greece (7 per cent) and Ireland (10 per cent). Difference between high environmental impact companies and low environmental impact companies is particularly notable in Spain and Belgium.

Figure 3. Companies with environmental management systems: a comparison of high- and low- environmental impact sectors (as a percentage of sample by country)

Source: OECD

12. EMS’s normally include the following features; an environmental policy statement, an initial review, environmental objectives and targets, implementation procedures, internal monitoring and auditing and internal reporting. Firms sometimes opt for own-design environmental management systems that are tailored to individual company requirements and problems. Other firms use or adapt environment management standards. Such standards distil and share information about effective environmental management practices and may enhance the credibility of the firms’ environmental measures if the management standard is widely accepted.

13. In the environmental field, the most common standardised EMS’s are Eco-Management and Audit Scheme (EMAS), the EU supported management system and certification scheme introduced in 1993, and ISO 14001, an international environmental management standard which was published in 1996. These standard systems seem to attracted considerable interest among European firms operating in high environmental impact sectors (Figure 4). A comparison of Figures 3 and 4 shows that most high impact companies with management systems use either ISO 14001 or EMAS. In the entire sample of high impact firms, about two thirds use a standard management system (Figure 5). One third of the high impact sample uses tailor-made EMS’s that have been designed for the company’s own needs.
Figure 4. **ISO 14001 and EMAS adoption by high environmental impact firms**
(as a percentage of sample by country)

![Graph showing ISO 14001 and EMAS adoption by country](image)

*Source: OECD*

Figure 5. **Standardised EMAS and ISO 14001 versus Tailor Made EMS’s**
(as a percentage of all companies with EMS’s)

![Pie chart showing standardised EMS adoption](image)

*Source: OECD-EIRIS*
14. The degree of coverage of EMAS or ISO 14001 varies from company to company. In the majority of cases (82 per cent of the total number of the firms that have achieved either EMAS or ISO14001 certification in at least one part of the Company Group), the certifications cover less than one third of the total Company Group. Only 2 per cent of the firms have achieved either EMAS or ISO14001 certification that covers the entire Company Group. However, these figures may understate the true degree of coverage due to the time lag in either companies reporting certification or public databases of certifications/registrations being “frozen” by the compilers.

Environmental Reporting

15. For the purposes of this paper, environmental reporting refers to the practice of making information on environmental performance available to the public. In some cases, this could take the form of a stand-alone environmental report, while in others environmental information is included in the company’s annual report. Of the three environmental practices considered in this paper, reporting is the least common. Seventeen per cent of the firms in the EIRIS sample (and 41 per cent for the high environmental impact firms) make some kind of report on their environmental performance. High environmental impact companies in Sweden are most likely to make an environmental report -- about nine out of ten such companies do so (Figure 6a). Austria -- where low environmental impact companies are more likely to engage in environmental reporting -- show an extremely an unusual pattern.

5. In some cases, the extent of the coverage is not clear.

6. This corresponds to the number of firms that report one of the following items of information: description of main impacts, quantitative data, performance against targets, bad news, financial dimensions, stakeholder relations, sustainability and independent verification. However, the report may cover only a part of the Company Group.
Figure 6a. **Companies reporting on environmental performance**:  
a comparison of high- and low- environmental impact sectors  
(as a percentage of sample by country)

*Source: OECD-EIRIS*

Companies that publicly report more than three essential indicators defined by EIRIS (basic environmental policy, description of main impacts, provides quantitative data, performance against targets) or/and any desirable indicators (outline of environmental management system; non-compliance, prosecutions, fines or accidents; financial dimensions; verification; stakeholder relations or involvement; coverage of sustainability).
Figure 6b. **Companies publishing a stand-alone environmental report: a comparison of high- and low- environmental impact sectors (as a percentage of sample by country)**

Source: OECD

16. Figure 6b shows the percent of the firms that publish stand-alone environmental report. This usually implies that the data provided in more detailed. Again, the comparison of firms by countries shows significant variation in reporting practices among companies of different nationalities. Countries whose high environmental impact companies are likely to publish stand-alone environmental reports include Sweden (64 per cent of high impact companies), Finland (56 per cent) and Switzerland (50 per cent). On the other end are Ireland and Greece, where none of the high environmental impact firms in the EIRIS sample produce stand-alone reports. The number of firms that produce a stand-alone environmental report is rising rapidly: 131 companies now publish a separate environmental report, compared to 51 reported by EIRIS in November 1998.

17. In the absence of an agreed standard for environmental reporting, firms make their own choices. Thirteen per cent of the total number of companies -- or 62 per cent of the firms that report some aspects of environment performance -- provide some quantitative data in their reporting. Among those companies reporting quantitative data, 15 per cent report on all key issues (using EIRIS’s definition of key issues\(^7\)). Seven per cent of the companies report on some financial dimensions such as expenditure, capital investment, saving or additional income, environment liabilities, risk and provisions (Figure 7).

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7. Key issues identified by EIRIS. See footnote 2
Figure 7. **Companies reporting financial dimensions of environmental management**

*(as a percentage of companies publishing environmental practices)*

- Report made on financial aspects but the specifics not known: 3.0%
- Expenditure: 2.5%
- Capital investment: 1.5%
- Environment liabilities, risk and provisions: 1.0%
- Savings or additional income: 0.5%

**Source:** OECD

18. In order to increase accountability, some firms go further by reporting “bad news”. Four per cent of the firms in the sample publish information that is not positive such as fines, prosecutions, instances of non compliance, spills, accidental releases (Figure 8).

19. The EIRIS database indicates that environmental reporting is relatively uncommon and that high environmental impact firms differ markedly in how they publish their information and the data they include. Unlike other areas of business reporting, there are few widely accepted standards to help firms decide what information should be included in their environmental report. A group of NGOs, corporations, and business associations is working on the development of Global Reporting Initiative (GRI). The GRI, which is to provide guidelines for sustainability reporting by firms, is currently being implemented on a pilot basis by a number of large firms. Other guidelines, frameworks and standards have also been developed. Examples are Social and Ethical Accounting, Auditing and Reporting, Corporate Community Investment by the London Benchmarking Group, Fondazione Eni Enrico Mattei, Health, Safety and Environmental Reporting Guidelines by the European Chemical Industry Council, and Public Environment Reporting Initiative.

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8. Environmental reporting clearinghouse web-site http://cei.sund.ac.uk
Figure 8. Companies publishing “bad news”
(as a percentage of companies publishing environmental practices)

Source: OECD-EIRIS

20. In the EIRIS database, 43 per cent of the firms publishing environmental reports mention independent verification of their reports. Most of such firms have EMAS registration, which requires both environmental reporting and independent verification of reports. Few companies use audits or verification beyond data accuracy. It should also be noted that the majority of companies that use independent verification have less than one third of their Group certified by EMAS, as discussed earlier. This implies that the independent audit or verification based on EMAS is confined to a relatively small fraction of the Group.

Cross-sectoral comparison of environmental practices

21. The previous analysis suggests that there is significant international variation in the propensity of high environmental impact to adopt formal environmental management practices. The present section looks at this propensity across sectors, some of which are high environmental impact and some of which are low impact. As expected, the results show that firms in high impact sector (such as chemicals or forestry) are much more likely to implement formal management and reporting practices than their low-impact counterparts (Figure 9).

22. Three sectors -- chemicals, forestry and mining -- appear to have the highest overall propensity to issue a formal environmental policy statement, to implement an environmental management system and to report on environmental performance. The sectors showing the lowest propensity to do so are in service sectors -- banks, telecommunications and software and computer services. This may reflect the costs and benefits of implementing formal environmental management and reporting systems in the different sectors.
23. The relative positions of the three bars for policy, management systems and reporting in Figure 9 show a definite pattern across sectors. The propensity to issue an environmental policy is the highest statement among the three bars. This is followed by the implementation of an environmental management system, which is in turn followed by reporting on environmental reporting. This pattern may reflect the broader trend noted in the literature -- firms tend to begin by formulating their ethical and compliance commitments as a general policy statement and then follow up with management systems designed to make good on these commitments. As noted earlier, environmental reporting may be less common because there are few formal or informal reporting standards in this area.

**Figure 9. Industry comparison of environmental practices**  
*(as a percentage of companies adopting practice by industry)*

*Source: OECD*  
*Companies publishing stand-alone environmental report*
Summary

24. The responses to the questions raised in the beginning of this paper are summarised below:

- Forty-two per cent of firms in the EIRIS database publish a detailed statement on their environment commitment.
- The statement covers issues such as suppliers/contractors relations, resources and materials, energy use and efficiency, emissions to water, emission to air, transport, waste minimisation/reduction/disposal and recycling, packaging, product and/or stewardship/design, social impact, noise, bad neighbour, visual blight, employee training, green housekeeping, sustainability and industry specific issues.
- The high environmental impact companies are much likelier to publish an environmental policy statement, to implement a formal environmental management system and to engage in environmental reporting.
- Twenty-six per cent of the companies in the total EIRIS sample have a formal environmental management system. This rises to 52 per cent for high environment impact companies in the sample.
- Most of the companies that have a formal environmental management system use a management standard (EMAS or ISO 14001). Only 34 per cent of the companies with EMSs use a tailor made system.
- Environmental management systems are very common among high impact firms operating in Sweden, Finland and Germany, while they are uncommon in equivalent firms in Ireland and Greece.
- Seventeen per cent of the companies in the total EIRIS sample report on their environment performance.
- Eight per cent of the companies in the total sample produce a stand-alone environment report.
- In the absence of the reporting standard, firms make their own choices to include the following subjects in their report; expenditure or investment on environmental practices, environment liabilities, savings or additional income, and some “bad news”. Just over 2 per cent of the firms report on expenditure and less than 1 per cent report on spills and accidental releases.
Research Methodology

The EIRIS database on environment management and reporting contains over 1600 firms in Europe (approximately two-thirds of UK companies and one-third continental Europeans). It covers firms in the Financial Times Stock Exchange (FTSE) All-Share Index in UK and the FTSE European Index as well as other publicly quoted companies. The characteristics of the EIRIS sample, by country of origin, are shown in Table A.1 (here, country of origin is defined as the location of exchange on which the corporate entity is quoted). The database provided the raw data as it existed on January 11th 2000 and will have since been modified by takeovers, mergers and general updating.

Table A.1. National affiliations of companies in EIRIS sample

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<th>Number of cases</th>
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<tr>
<td>UK</td>
<td>1019</td>
</tr>
<tr>
<td>Total</td>
<td>1656</td>
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</tbody>
</table>

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 the firm. Furthermore, the EIRIS database also draws on other public information sources such as the EMAS Register. It is possible that some indicators exist for a particular company, but the company does not publish this information and it is not available from other publicly available sources. In such cases, the database does not include it. In putting together its database, EIRIS concentrates on information that allows it to give a company a “grade” in its report to ethical investors. Other information about the firms’ environmental practices may go unrecorded; for example, supplier audits or environmental impact assessments may not have been mentioned if the company also has a more comprehensive environmental management system. For more detail, see “Corporate Environmental Policy, Management and Reporting” (1999) EIRIS.
References

