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Business and environmental policies

Richard Welford

3.1 Introduction

There can be little doubt that environmental concerns have become so great that legislators, regulators, policy makers and some polluters have given environmental considerations a higher priority amongst competing policy areas. It is difficult to assess precisely when the new environmental emphasis which we observe in contemporary society first began to impinge directly on business. It was clearly a phenomenon of the 1960s. Rachel Carson's book *Silent Spring* published in 1962 had a major impact on the environmental movement with its unequivocal argument that much of the pollution in the world emanated from business:

> For the first time in the history of the world, every human being is now subjected to contact with dangerous chemicals, from the moment of conception until death. In the less than two decades of their use, the synthetic pesticides have been so thoroughly distributed throughout the animate and inanimate world that they occur virtually everywhere. They have been recovered from most of the major river systems and even from the streams of groundwater flowing unseen through the earth. Residues of these chemicals linger in soil to which they may have been applied a dozen years before. They have entered and lodged in the bodies of fish, birds, reptiles and domestic and wild animals so universally that scientists carrying on animal experiments find it almost impossible to locate subjects free from such contamination. They have been found in fish in remote mountain lakes, in earthworms burrowing in soil, in the eggs of birds - and in man himself. For these chemicals are now stored in the vast majority of human beings, regardless of age. They occur in the mother's milk and probably in the tissues of the unborn child. (Rachel Carson, 1965, p.31)

Very little has changed in the three decades since such views were first expressed. Moreover, the situation has probably been compounded many-fold such that we now

face a real crisis which may ultimately affect the very existence of human life on the planet.

By providing the goods and services demanded by the public, businesses fulfil many vital social needs and many not so vital social wants. The investments and innovations of industry drive economic growth and satisfy the demands of the consumer. However in doing so, as a result of the resources they consume, the processes they apply or the products they manufacture, businesses are major contributors to environmental destruction. Unless change occurs rapidly, environmental degradation brought about by resource depletion and pollution created by industry may become irreversible.

Protecting the environment involves meeting the needs of both current and future generations. In part, there is a need to develop new technologies and to develop more efficient methods of production. However, this potential technological solution cannot be relied upon to cure the problems of the past and present. Many would also point to the need for a change in attitudes towards both consumption and production.

This chapter examines the ways in which international environmental policy can be used to get businesses to improve their environmental performance and how business itself influences that policy. In relation to business it is possible to identify three contemporary approaches to environmental policy and one more radical alternative approach. In terms of the first three approaches, the ongoing debate revolves around the question as to whether businesses should be left alone to regulate themselves; whether we should introduce taxes, subsidies or other incentives to encourage more environmentally responsible behaviour; or whether there is a need for stricter legislation, applied internationally, to bring about environmental improvement within the time-scale demanded. However, the more we examine the increasingly international nature of business, issues of world trade and the power of transnational corporations, the more we must begin to question whether the international capitalist system within which business operates can, in fact, deliver a sustainable future. A more radical solution which challenges the very nature of the way we do business within the capitalist system therefore represents our fourth approach to policy.

It is by examining these four approaches, which are not necessarily mutually exclusive, that I shall consider the role and possible implementation of environmental policy. After considering and comparing these approaches in Section 3.2, the chapter goes on to examine the constraints and opportunities introduced as a result of policy, focusing on the range of stakeholder interests relevant to business activity and associated policy (Section 3.3). Section 3.4 considers the key debate over whether industry should be allowed to regulate itself through codes of conduct. Finally, in Section 3.5, the chapter examines environmental policy within the context of sustainable development, international trade and the global economy and points to an urgent need for a reassessment of the way we do business.

In examining these four approaches to business-related environmental policy, we look closely at the constraints and opportunities that influence environmental policy in an international context. We also consider the extent to which international action can achieve sustainable development. The focus will be on Northern industries and interests since these have a dominant influence on the global economy and environment. The argument applies to pluralistic societies where policy-making can be influenced by the relative power of different interests acting in a relatively open and

democratic political context. Business is a powerful influence in any society and an underlying assumption of this chapter is that business is a powerful operator on a world stage and will clearly want to see environmental policy implemented in a way which will do least harm to its own interests.

3.2 Alternative approaches to business-related environmental policy

The four approaches

One of the most important debates which we will return to again and again in this chapter relates to the style and approach of environmental policy which may be pursued in relation to business. Four broad approaches can be recognised. The first three are, to varying degrees and in different contexts, applied in the development of international environmental policy-making. The fourth stands alone as an approach that would require fundamental social and economic change.

1 The free market approach and self-regulation

This stance would be taken by those who believe that markets work well and can deliver the desired outcomes of citizens through the desire of businesses to remain profitable. Thus it might be argued that when consumers put more emphasis on the environment, then businesses will follow since their customers will prefer environmentally responsible goods. Not to provide such goods and services will mean a company losing market share, profitability and eventually going out of business. Equally, at an international level, those companies with 'environmental credentials' will find themselves with a new competitive advantage. Environmental policy, it is argued, should therefore be directed at allowing the free market to operate, whilst providing education and information to consumers to allow them to make more informed choices. A common view amongst businesses is that they will 'go green' when their customers demand it of them. In addition, we see the development of voluntary schemes and codes of conduct for businesses which allow them to respond to the environmental challenge in a flexible way over a time-scale which most suits them, bearing in mind the many competing objectives facing the enterprise (profits, sales, public relations, employee protection, etc.).

2 The reformist approach and financial incentives

Whilst still accepting that the market mechanism has a very strong role to play and that environmental management strategies can be a source of competitive advantage, the reformist approach suggests that firms, consumers and markets need incentives in moving towards more environmentally superior outcomes. In this approach the market mechanism is supplemented with appropriate financial incentives for businesses to make better decisions. The emphasis here is on the use of taxes and subsidies to encourage environmentally responsible behaviour by both companies and consumers. The more agreement there is between governments about appropriate fiscal arrangements and the more codes of conduct can achieve international recognition, the more it will be

possible to affect the activities of a wide range of businesses. That, of course, relies on the development of an international consensus on environmental issues.

3 The interventionist approach and legislation

Whilst not wishing to throw away the improvements which can be made through market instruments, interventionists would also want to see direct controls on businesses. They would argue the need for legislation to force the most polluting branches of industry to improve their performance. They would argue that this approach to environmental policy is superior to other forms because it is legislation which has been primarily responsible for companies integrating environmental considerations into their activities. At the international level, interventionists recognise that there needs to be a 'level playing field' and that a lack of environmental legislation in one country may give that country's companies an unfair relative cost (and therefore competitive) advantage. They would therefore argue for increased international regulation, co-operation between governments and, where necessary, a degree of protectionism against countries not adhering to agreed international standards.

4 The radical approach

A rather different approach to the way we frame environmental policy is provided by more radical thinkers. Ostensibly this approach argues that we need to re-examine the fundamental ways in which we do business, the way the capitalist system forces businesses to operate and the way we organise enterprises (and the people within them) which are responsible for so much environmental damage. Radicals would put an increased reliance on co-operation and partnership (rather than competition and individualism). They emphasise the gross inequalities between countries that are a major impediment to the achievement of sustainable development. They are also concerned about the long-term impacts of contemporary industry on future generations. Their approach is one which questions whether the present structure of capitalism is capable of bringing about sufficient environmental improvements on an international scale to reverse current destructive trends.

Each of these generalised approaches has its advantages and disadvantages, which are discussed below. The first three are not, however, mutually exclusive and we can see elements of one or more of these in some of the environmental policies introduced recently. The major debate surrounds which style of policy is most able to bring about the outcome of sustainable development. On the face of it, the debate is not about ends since most will accept the aim of sustainable development, although there will be different conceptions of what it means in reality. At this stage the debate is over the means by which the elusive goal of sustainable development may be achieved.

Policy approaches compared

The free market approach

Like most free market solutions, the first approach to improving the environment relies very much on full information. Thus, to rely solely on this approach, we would have

to assume that consumers had perfect information about the products and services they were buying and all the alternatives available and that firms had full information about the activities of competitors and were also scrupulously honest. This is clearly difficult to achieve and particularly so when we consider firms and markets in a more international context. Such a *laissez-faire* policy towards business also relies on consumers consistently preferring environmentally responsible solutions, not being tempted to buy (perhaps cheaper) imports where environmental concerns may have been neglected and having the time to weigh up different alternative products and different prices.

The free market approach is often used as an excuse for businesses when they decide not to follow a particular course of action. 'When our customers demand us to be more environmentally responsible, then we will respond' is a common excuse made by senior managers when under pressure from campaigners and commentators. This approach puts the emphasis on the consumer to change and, implicitly, puts the blame for inaction at the feet of the individual. However, it ignores the wider social responsibilities which the business has as a major institution in a pluralist society. In other words, as a major actor and source of influence in society, businesses should make a more positive contribution to the environmental problem.

With its emphasis on providing consumers with education and information to make better informed judgements, the free market approach to environmental policy assumes that such unbiased information is available and internationally transferrable. Certainly, one of the roles of the European Environmental Agency, established in the European Union in 1994, is to collect and disseminate information about the activities of companies so that consumers and other customers can make better informed judgements. The extent to which that will be successful remains to be seen, but it is impossible that it can hope to provide information about all product categories to all consumers very quickly. Moreover, the dishonest and misleading environmental claims made by some companies are still able to distort the market either by confusing consumers or by making them increasingly cynical about environmental claims.

The reformist approach

Reformists would not disagree with using the market to influence the behaviour of consumers and firms. They would want to introduce incentives to achieve a swifter response. They would argue therefore that, if harnessed correctly, the market mechanism can be utilised to develop the solutions which are so vital if the environment is to be protected. This requires co-operation between governments, who must provide fiscal incentives for environmental improvement which may be applied directly on industry or aimed at influencing consumer behaviour. This means, for example, using the fiscal system to impose taxes on the most damaging products and services so that their consumption (and consequent production) falls.

Within the European Union the European Commission has proposed shifting fiscal arrangements in member states away from taxes on work (income taxes and National Insurance contributions) towards carbon taxes (on energy sources and other environmentally damaging raw materials and processes). To date, however, governments have been unable to reach agreement on such a course of action, mainly

because it would mean substantial increases in indirect taxation which may be politically unpopular.

Critics of this sort of approach can often take a very radical position. They often argue that reformist efforts tinker with the market mechanism and merely forestall the impending collapse of the industrial economies, a collapse which may need to occur before the real work of reconstruction can begin (Tokars, 1987). Reformers are often optimists who still put a great deal of trust in both the market mechanism and the willingness of firms to react. They rarely consider any action appropriate which forces change outside the market system or which envisages alternative economic systems. Elkington and Burke (1987), who we might consider as representatives of the reformist approach, argue that:

> [...] what we are seeing is the emergence of a new age of capitalism, appropriate to a new millennium, in which the boundary between corporate and human values is beginning to dissolve. It is now clear from the results who won the nineteenth-century argument about capital and labour. Socialism, as an economic theory, though not as a moral crusade, is dead. The argument is about what kind of capitalism we want. (Elkington and Burke, 1987, p.250)

Such an approach represents the view that we can adjust the system to bring about our desired objectives. It suggests that we should introduce new 'eco-friendly' codes of conduct and appropriate taxes and that we can use the price mechanism to bring about desired change. Theirs is a view which sees 'business as usual', supplemented by changes in business operations to bring about incremental environmental improvement.

The interventionist approach

The trust which reformists put in both the market mechanism and the altruism of companies is challenged by those who would see a role in intervening through increased legislation. It is argued that only by the introduction and enforcement of legislation will we be able directly to control, regulate and prevent the environmentally harmful effects of production and consumption. Indeed, within most industrialised countries this sort of approach has dominated environmental policy to date. For example, within the European Union, up until 1987 environmental policy was centred on the application of nearly 200 command and control directives in areas as diverse as lead in petrol, industrial emissions and aircraft noise.

The objectives and nature of EU environmental policy have since been expanded within the Single European Act and the Fifth Environmental Action Programme. Realising that environmental policy is of little use unless enforced, EU environmental policy has given increased emphasis to the improved enforcement of existing legislation rather than the rapid adoption of new legislation. Emphasis has also shifted from the use of command and control instruments in environmental policy to the application of (reformist) economic market-based instruments such as the proposed carbon tax and voluntary (free market) agreements such as the eco-labelling and the eco-management and audit scheme (see below). It is argued that the aim of such measures is to encourage change in all sectors of industry and society in a more general way than can be achieved through the use of tightly defined legislative instruments. However, within the EU

Fig. 3.1 The EC developed its 'eco-label' in 1992. It is awarded to those products which are regarded as being more environmentally friendly than others in a given category and which comply with the latest environmental regulations.

context, the use of economic instruments and voluntary measures is seen as a complement to rather than a substitute for the more traditional application of command and control measures.

The radical approach

The first three general approaches to environmental policy can and do, sit quite happily side by side with each other. Encouraging consumers to make more informed choices through information provision such as eco-labelling, taxing non-renewable raw materials and legislating against air pollution are all examples of policies from the first three approaches which are fully consistent with one another. The arguments between the different 'camps' will relate to their *relative* effectiveness. At the root of all of these approaches, however, is the acceptance that the current form of capitalist system and its associated model for the organisation of industry is the most advantageous arrangement. More radical approaches to environmental policy would argue that this view, no matter the extent to which it integrates environmental costs, is still largely alien to the sustainability of the planet. They would argue that we need to recognise that human life and economic activity are an interdependent part of wider ecological processes that sustain life on Earth. We must therefore operate within those ecological processes or they will, in turn, bring about the demise of industry. That requires fundamental reforms of the structures and processes which have caused the problem in the first place. That means finding new ways of doing business, of emancipating workers, of protecting the developing countries and indigenous populations and of sustaining all other life forms on the planet. The argument made here is that the dominant ideology of capitalism, based on the exploitation of valuable resources (including people), needs to be fundamentally reassessed.

Radicals would also argue that we cannot rely on established structures to bring about change because they have not done so to date. Change has been slow and piecemeal. Radicals would argue that we can no longer rely on science and technology to dig us out of the holes which we have created. Although in 1798, Thomas Malthus warned that the population was growing so fast that it would eventually outstrip food supply, technology eventually rescued us in the form of fertilisers and refrigeration. Now, as the population rises exponentially, Malthusian voices are raised again. Faith
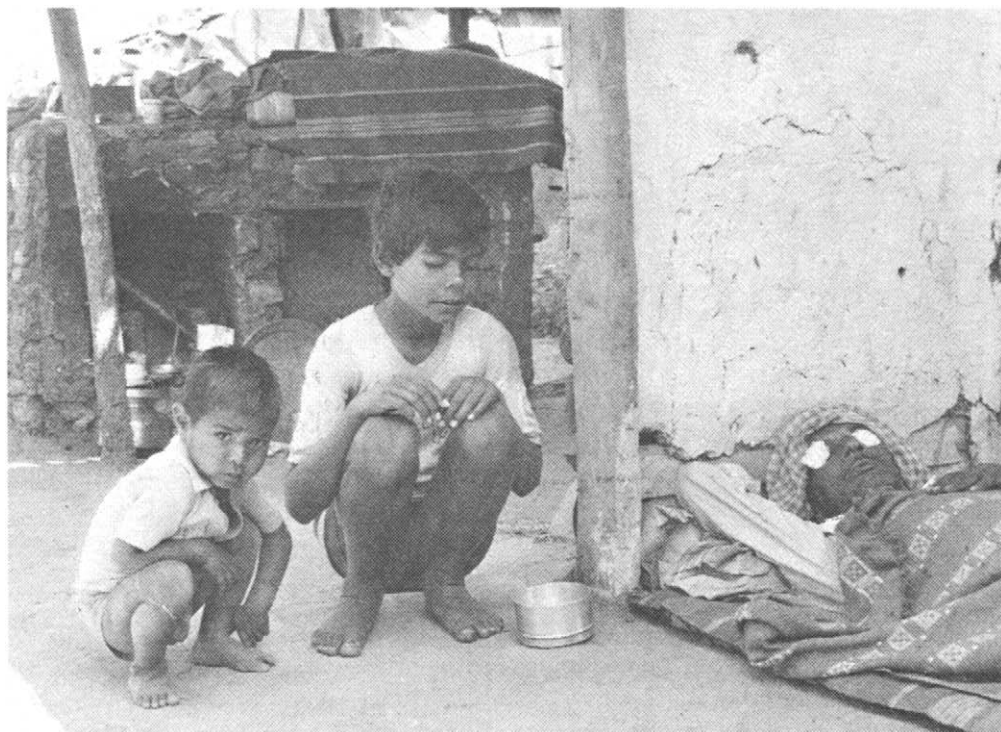
Plate 3.1 Two children keep watch over their grandfather, who has been blinded by poison gas. The photograph was taken in a camp near the Union Carbide pesticide plant in Bhopal, India. Over 2500 people died and tens of thousands were injured as a result of a poison gas leak in December 1984. Photo: ANP Foto

in the technological fix has become more tentative. The science and technology which initially provided deliverance can lead to sick plants with inadequate resistance to pests, to water contaminated by pesticides and to consequent loss of biodiversity, desertification and erosion.

3.3 Constraints and opportunities

Environmental policy as a constraint and an opportunity

The rapid growth of public environmental awareness in recent years has placed constraints on both industry and policy makers. These pressures can take many forms as individuals collectively exercise their environmental conscience as customers, employees, investors, voters, neighbours and fellow citizens. At the same time, this environmental awareness has opened up opportunities for the development of international policy-making and for the development of enviromentally friendly industrial processes and products.

Throughout the world the approach of governments has been to respond to increasing public concern for the environment by developing policy frameworks for

environmental protection. Environmental policies and any associated legislation obviously impose new constraints on activities but also generate new opportunities for industry as they change the competitive climate in economies. In the market place, profits and survival are often linked to the ability of companies to be flexible and to respond to the new pressures put before them. Rather than being seen only as a significant contributor to environmental degradation, industry can also respond and show itself to be part of the solution to the problem.

Companies often strive to minimise the costs of their operations and in doing so they may transfer the burden of environmental degradation from one area to another. This is especially relevant in the case of the production of wastes. As the ability of the environment to supply raw materials and accept waste is diminished, industrial costs will rise. Faced with increasingly stringent legislation and higher charges for landfilling and incineration, waste generators may look for the cheaper option of exporting it. For example, prior to German reunification, waste was often transported from West to East so that the environmental damage done as a result of increased consumption was simply traded across borders. Such trade still occurs, however, with many underdeveloped countries finding that foreign currency can be earned from accepting waste. This is just one example of the need for more co-ordinated, international approaches to environmental legislation.

An alternative response to cost increases and tighter legislation has been to increase industrial efficiency. A more efficient use of raw materials and a decrease in the amount of waste generated will allow industry to minimise its environmental impact. If waste is viewed both in terms of physical waste generated and the less tangible losses experienced through an inefficient use of resources, then avoiding these losses improves both the business and environmental performance of a company. Indeed, many companies have found it profitable to pursue a strategy of waste minimisation for a number of years and have experienced short payback periods on investment in waste management. Legislation has often provided the impetus for improved environmental performance from which companies have eventually achieved commercial benefit.

At the same time, however, we must recognise that in other areas costs may have to increase to bring about the more efficient use of resources and new technology may have to be introduced to reduce emissions. Increased costs in a competitive international market place may therefore act as a constraint to businesses wishing to improve their environmental efficiency. Indeed, there is often a perception amongst businesses that 'going green' will cost money and managers are therefore reluctant to move forward on their own, especially where they are already facing competition from developing countries where wages are significantly lower. By working together and perhaps even sharing some research and development costs, firms will be less likely to feel the constraints of a 'go it alone' strategy. However, for many, such co-operative strategies are hardly consistent with the essentially competitive strategies to be found within modern capitalism.

Roberts and Wheale (1991) argue that companies are unlikely to innovate and introduce 'clean technology' within such a competitive environment if they feel that competitors will bring in better innovations before they have achieved payback. Thus there exist so-called 'cartels of refusal', consisting of firms waiting around for

someone else to move first. Being a leader in industry is often not nearly as attractive as being a follower. Such cartels will often continue to exist until they are broken by governments decreeing particular standards to be achieved within a set time period. It will be national governments and international agencies, such as the European Union, the United Nations and other intergovernmental institutions (for instance, the World Trade Organisation), which will have a role in shaping the rules, regulations and norms which steer and influence business activity.

To date, the main impact of government on the environmental performance of industry has been through the development of environmental legislation. Environmental considerations have been built into the legislative framework for many years. Initially, in feudal times, establishing rights of ownership over natural resources led to the development of a legal system to protect those rights and subsequently, the impact of industrial activity on the health of employees and the surrounding community led to the creation of public health and safety legislation. Arising from industrialisation, measures have also been introduced to control the use of products, processes and wastes which may harm the environment.

As the strain placed upon the environment mounts and knowledge of the causes and effects of environmental degradation becomes more complete, the extent and impact of environmental policy will continue to develop. The relationship between governments and industry is a two-way process. On the one hand, industry responds to legislation by planning to meet the demands of current and forthcoming environmental policies. On the other hand, industry also seeks to influence policy-making by becoming part of the process that formulates policy. Thus, although governments have power over industry through legislation, industry also exerts its power over governments. Indeed, there is a mutual dependence between governments and businesses; they need each other to carry out their own respective tasks. Unlike environmentalists who, much of the time, must rely on pressure applied on governments through the media, public protests and lobbying, business often has a privileged, routine access to government because of its power within the domestic economy. It can exert its power in various ways, ranging from persuasion to the threat or application of sanctions. Direct threats by business to move out of one country to another with fewer environmental regulations and warnings that more environmental legislation will affect costs (reducing profits and tax paid to the government, as well as having an impact on domestic unemployment) will make governments themselves think very carefully about just how far they can go, particularly without international co-operation. Thus the worries about the socioeconomic impacts of more direct regulation of business have encouraged governments to explore other, more market-based approaches to environmental policy.

Thus, in parallel with the development of environmental legislation, governments are increasingly applying market instruments to achieve environmental objectives. Examples include the imposition of taxes on environmentally damaging goods, subsidies on new 'clean' technology or the provision of information relating to the environmental performance of companies or products (e.g. through eco-labelling schemes). Market instruments are intended to channel the choice of consumers towards better environmental options. Through a combination of legislative and market instruments, aimed at encouraging certain activities and discouraging others,

governments seek to bring about improved environmental efficiency in the economy as a whole.

The stakeholder approach to environmental policy

Individual businesses interact not only with their customers and governments but also with a range of other 'stakeholders'. These stakeholders include individuals, groups or institutions which have an interest in the performance of that company in one way or another. Each stakeholder imposes its own constraints and opportunities on the firm, but these are often contradictory. Traditionally the main focus of stakeholder interest has been upon the financial performance of the company because of the prominent position given to shareholders. Increasingly, however, businesses are recognising their wider responsibilities and attention is being paid to the environmental performance of the company. From the perspective of environmental policy, it is possible to use the growth of this environmental concern to influence the activities of the firm. The range of stakeholders which can be encouraged to demand high environmental standards from companies is displayed in Figure 3.2 and it would be useful to deal with each one in turn.
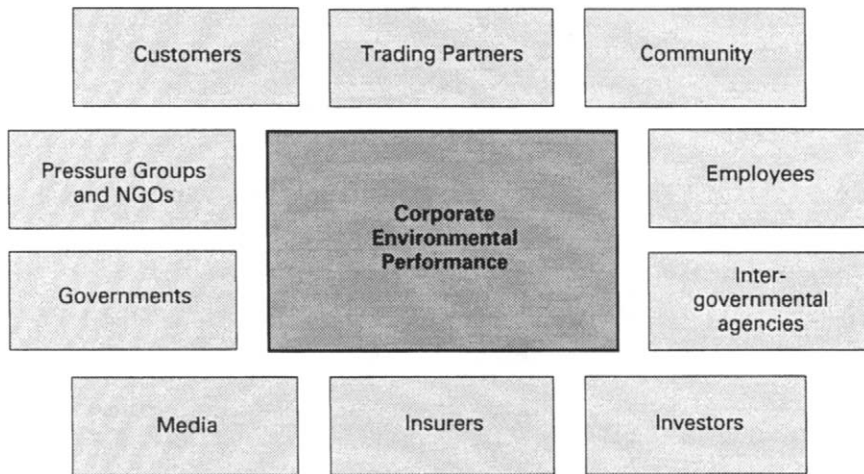

Fig. 3.2 Stakeholder pressure and environmental performance

Customers

The relationship between a company and its customers is obviously of paramount importance. In relation to environmental considerations, the potential importance of green consumerism cannot be overstated and once again provides both constraints and opportunities for the firm. The range of factors that underlie the purchasing decision are a fundamental consideration for all businesses. The environment is being accepted as one such factor by consumers, although its precise degree and form will vary from one country to another, being influenced, in part, by cultural differences.

According to surveys by MORI (Worcester, 1994) 'green' issues were nominated as being the most important issue facing Britain by over one-third of the population in 1989. However, by 1991 this percentage had fallen to under 10%. Nevertheless, 73% of the public suggest that 'pollution and environmental damage are things that affect me in my day-to-day life'. Sixty-five per cent of the population believe that manufacturers need to provide much more information to assess environmental damage or impacts of their products.
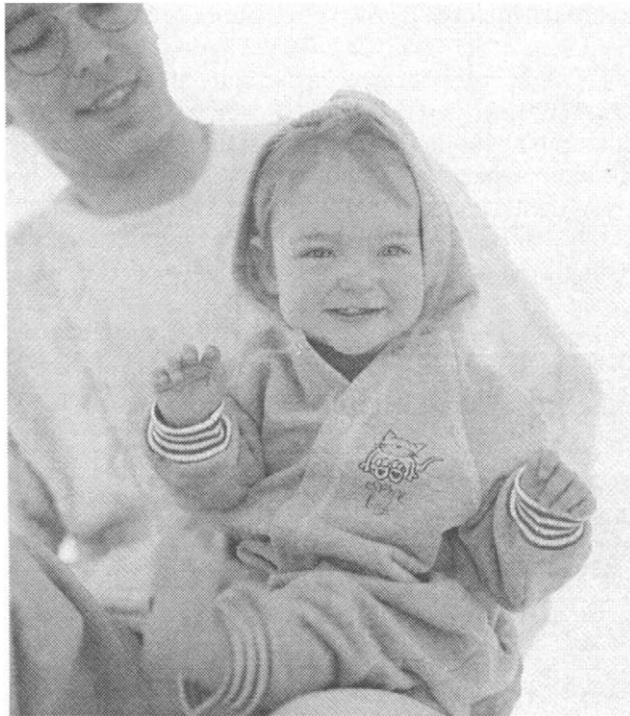

Plate 3.2 Esprit ecollection:'Esprit baby', Spring 1996. The Esprit clothing company decided in 1992 to apply environmentally friendly principles to its manufacturing process. These include the use of organic cotton and low-impact dyes. Photo: Vicky Pearson

At present, however, the influence of green consumerism on most businesses is marginal. Of the myriad products that each consumer buys, very few are chosen on the basis of their environmental credentials alone. Nevertheless, it is certain that credible claims relating to environmental performance constitute one positive element amongst the many characteristics upon which consumers base their purchasing decision. Helping customers to make more informed decisions through the provision of accurate information about a product's environmental attributes can therefore be an effective policy. Successful eco-labelling initiatives have been operating for some years in countries such as Germany, Canada and Japan. However, many companies have gone further than this in trying to educate their customers about environmental issues.

Leaflets and briefings about products and production processes are a common feature within The Body Shop's outlets, for example.

Trading partners

Many businesses do not sell into 'end-consumer' markets and may therefore perceive themselves to be remote from any consumer pressures to improve their environmental performance. Particularly for smaller businesses who may be quite dependent on one larger trading partner, the pressure to improve environmental performance often comes from larger companies rather than the ultimate consumer. In efforts to improve overall environmental performance, many companies are exercising their own rights both as purchasers and vendors and are demanding that all the companies within their supply chain seek to reduce their own environmental impacts. Companies such as the UK-based do-it-yourself retail chain B&Q send out questionnaires on environmental policies and environmental performance to all their suppliers. In using suppliers with the best environmental credentials, they are able to improve their own environmental performance.

Demands to improve environmental performance at all stages in the supply chain are therefore being diffused beyond companies that are directly exposed to the pressures of green consumerism. This is particularly true of companies operating in international markets where environmental standards are often quite different. In order to cut down on needless duplication, the obvious strategy is simply to adopt the highest standards in existence anywhere. Thus, the standards imposed in one country can often become the norm for another. For a long time, for example, IBM has had a policy of adopting the highest environmental standards in existence (usually regulatory-driven US ones) wherever they operate. Forcing (or encouraging) the largest companies to have high environmental standards therefore can often have the effect of improving environmental performance right along their supply chains.

The community

Industry shares its surrounding environment with the local population. This local community often demands a high level of environmental performance from its industrial neighbours and seeks some degree of reassurance that people are not being exposed to significant environmental risk from a company's operations. This concern has been recognised for many years and was initially recognised in public health legislation. Trends towards freedom of access to environmental information will give greater power to local communities when they question the activities of local industrial cohabitants. A policy of providing information to interested parties can be a powerful motivator for change. It is often asserted that more participatory styles of industrial organisation, where employees have a greater say in the direction of the company, result in greater productivity and lower absenteeism (Welford and Prescott, 1994).

Employees

The community surrounding a company often includes the workforce of that company. The pressure to provide a healthy living environment is magnified within the workplace.

Employees seek healthy and secure working conditions and can draw on an established framework of health and safety legislation in this respect. The concern about the environmental performance of their company may go beyond the impact of operations on the working and living environment. Increasingly, people wish to work for ethical and responsible companies. Many would argue that companies that reflect the environmental concerns of the public will find it easier to attract, retain and motivate a quality workforce.

Investors and insurers

The rapid growth of ethical investment schemes in recent years reflects the desire of many investors to invest only in companies which behave in a responsible manner. There are also a number of very good business reasons why investors prefer to work with companies that have a proven track record of environmental integrity. The structure of legal liability for environmental damage dictates that any party that causes environmental damage may be fined and required to bear the costs of repairing that damage and to compensate the affected parties for any associated losses. It is increasingly difficult and expensive to obtain insurance to cover such issues. Consequently, companies associated with a significant environmental incident may suffer significant financial losses. These losses are then translated into reductions in the share price and the associated dividends. Therefore, policies aimed at making the polluter pay for damage done (central to the policies of most countries) can be very effective.

Some banks and other financial institutions have found a profitable market niche in providing services to customers committed to what may be deemed socially responsible corporate policies. Thus the UK based Cooperative Bank promises not to invest any money in companies involved in experiments on live animals or in those which are major polluters.

Media, pressure groups and NGOs

A combination of increased public awareness of environmental issues and freedom of access to information on the environmental performance of companies will serve to magnify media and pressure group interest in the environmental performance of industry. In order to manage media and pressure group attention, companies must be able to state that they have made a commitment to reduce their environmental impact. However, while it may be tempting to allow the public relations or marketing departments to lead the way in convincing all stakeholders of this effort, any shallow or spurious claims will soon be uncovered. Claims which cannot be substantiated are likely to be seized upon and will be very detrimental to a company's public image.

Governments and intergovernmental agencies

One of the key roles for any government is to attempt to maintain a stable and healthy economy. To some extent it can only achieve that by promoting a partnership with industry. The largest employers, investors and even purchasers in any economy are often found in the private sector. Any destabilising situation in a world of free trade and easy capital movements can lead to companies simply moving out of certain countries.

An environmental policy which is so restrictive that it forces industry to move to other parts of the world where policy (or its implementation) is weaker might simply translate an environmental problem into a social crisis based on unemployment. Moreover, its effect is that global environmental damage might actually increase as firms do not even have to bother with minimal environmental standards in the unregulated economy.

Increasingly larger companies (particularly those operating at a transnational level) influence and are influenced by intergovernmental organisations, set up to represent interests which are not related only to the nation state. Many of these organisations would like to see environmental policies in all countries brought up to the best standards prevailing. Others would even go as far as to challenge free international trade, preferring local production, purchasing and consumption. There is often tension, therefore, between the transnational corporations and intergovernmental organisations operating across national boundaries.

The relative power of stakeholders

Whilst we have laid out the idea that there are many stakeholders whose demands constitute differing constraints and opportunities to which the firm must respond, it is also important to recognise that those stakeholders will have differing amounts of power. Within the capitalist system common in the Western world, where the state does intervene, the two most important groups influencing businesses are governments who have the power to legislate and shareholders to whom managers are ultimately responsible for the operation of the company.

Through their ability to withhold funds, dismiss senior management and their ability to shape the overall strategy of the firm, shareholders have enormous amounts of power. Senior management knows that without the support of shareholders, the operation of the firm is impossible. In a worst case scenario, where shareholders lose confidence in a company, they can sell their shares, depressing the price of the company and leaving it open to a hostile takeover. However, since embarking on this (almost suicidal) strategy would inevitably mean them losing money, shareholders are more likely to dismiss boards of directors. Institutional shareholders such as pension funds and insurance companies have enormous amounts of power because of their often significant shareholdings. Such institutions may have representatives on boards of directors, forcing the strategy of a single company to be consistent with the strategy of the large institution itself.

Governments and their agencies, on the other hand, may impose completely different constraints on the company. Their aims will, in part, reflect environmental concerns. This will involve meeting the requirements of international environmental conventions and, through the use of the fiscal system, redirecting economic activity away from the most polluting branches of industry towards less harmful ones.

At the same time governments will have pressure put upon them by industries, industrial associations and other international organisations. These are likely to push for less legislation and more voluntary action by businesses, for example. Governments are particularly influenced by transnational corporations which can exert enormous power over policy makers and challenge their environmental strategies.

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Particularly in the Third World, the investment decisions of transnational companies will often be based on doing deals with governments to reduce the amount of legislation to which the company is subject.

3.4 The debate over self-regulation

Although there has been an increasing amount of legislation, covering a range of environmental issues, there has been a tendency, partly resulting from the power exerted by industry, to put more and more emphasis on market-based and voluntary measures. Coupled with this, the introduction of widespread deregulation by more right-wing governments to appease industry has meant even more emphasis being put on voluntary codes of conduct and standards. Industry, in general, prefers a voluntary approach based on self-regulation because of the flexibility it offers.

The Business Charter for Sustainable Development

One of the best known codes of conduct relating to business and the environment has been drawn up by the International Chamber of Commerce (ICC) and boldly named the *Business Charter for Sustainable Development* (see Box 1). Given that the ICC is an international agency funded by businesses and best known for its campaigning work on free trade and deregulation, the development of an environmental charter has been seen by many as an attempt to move debates away from command and control instruments, such as legislation and towards voluntary action and broad codes of conduct.

The Business Charter for Sustainable Development is the most widely supported code of conduct of its kind with over 1200 corporate signatories worldwide. Companies who sign up to the Charter are expected to express their commitment to the ICC and the wider public, work towards improved environmental performance and demonstrate and communicate progress.

Since there is no established mechanism for monitoring or ensuring compliance, those who recognise the Charter are therefore putting trust in industry to adhere to its principles. However, whilst Principle 16 asks organisations to measure environmental performance and conduct regular audits, there is no strict requirement to report this to the public. Background notes to the Charter suggest that the role of environmental auditing is to serve as 'an internal tool, the results of which are for company use'.

The Eco-Management and Audit Scheme

Another voluntary approach to environmental improvement adopted within the European Union is the Eco-Management and Audit Scheme. In 1990 the Environment Directorate of the (then) European Community began discussions about a scheme which would provide a benchmark for the assessment of environmental performance in industry. Initial proposals were that over 50 industrial sectors would be covered by a mandatory scheme whereby companies within those sectors would be required to undertake annual environmental audits and publish a detailed environmental statement. However, after considerable pressure from industry, which claimed that the

The 16 principles of the ICC Business Charter for Sustainable Development

1. **Corporate priority** – to recognise environmental management as among the highest corporate priorities and as a key determinant to sustainable development; to establish policies, programmes and practices for conducting operations in an environmentally sound manner.

2. **Integrated management** – to integrate these policies, programmes and practices fully into each business as an essential element of management in all its functions.

3. **Process of improvement** – to continue to improve corporate policies, programmes and environmental performance, taking into account technical developments, scientific understanding, consumer needs and community expectations, with legal regulations as a starting point; and to apply the same environmental criteria internationally.

4. **Employee education** – to educate, train and motivate employees to conduct their activities in an environmentally responsible manner.

5. **Prior assessment** – to assess environmental impacts before starting a new activity or project and before decommissioning a facility or leaving a site.

6. **Products and services** – to develop and provide products and services that have no undue environmental impact and are safe in their intended use, that are efficient in their consumption of energy and natural resources and that can be recycled, reused or disposed of safely.

7. **Customer advice** – to advise and, where relevant, educate customers, distributors and the public in the safe use, transportation, storage and disposal of products provided; and to apply similar considerations to the provision of services.

8. **Facilities and operations** – to develop, design and operate facilities and conduct activities taking into consideration the efficient use of energy and raw materials, the sustainable use of renewable resources, the minimisation of adverse environmental impact and waste generation and the safe and responsible disposal of residual wastes.

9. **Research** – to conduct or support research on the environmental impacts of raw materials, products, processes, emissions and wastes associated with the enterprise and on the means of minimising such adverse impacts.

10. **Precautionary approach** – to modify the manufacture, marketing or use of products or services to the conduct of activities, consistent with scientific and technical understanding, to prevent serious or irreversible environmental degradation.

11. **Contractors and suppliers** – to promote the adoption of these principles by contractors acting on behalf of the enterprise, encouraging and, where appropriate, requiring improvements in their practices to make them consistent with those of the enterprise; and to encourage the wider adoption of these principles by suppliers.

12. **Emergency preparedness** – to develop and maintain, where appropriate hazards exist, emergency preparedness plans in conjunction with the emergency services, relevant authorities and the local community, recognising potential crossboundary impacts.

13. **Transfer of technology** – to contribute to the transfer of environmentally sound technology and management methods throughout the industrial and public sectors.

14. **Contributing to the common effort** – to contribute to the development of public policy and to business, governmental and intergovernmental programmes and educational initiatives that will enhance environmental awareness and protection.

15. **Openness to concerns** – to foster openness and dialogue with employees and the public, anticipating and responding to their concerns about the potential hazards and impacts of operations, products, wastes or services, including those of transboundary or global significance.

16. **Compliance and reporting** – to measure environmental performance; to conduct regular environmental audits and assessments of compliance with company requirements and these principles; and periodically to provide appropriate information to the board of directors, shareholders, employees, the authorities and the public.
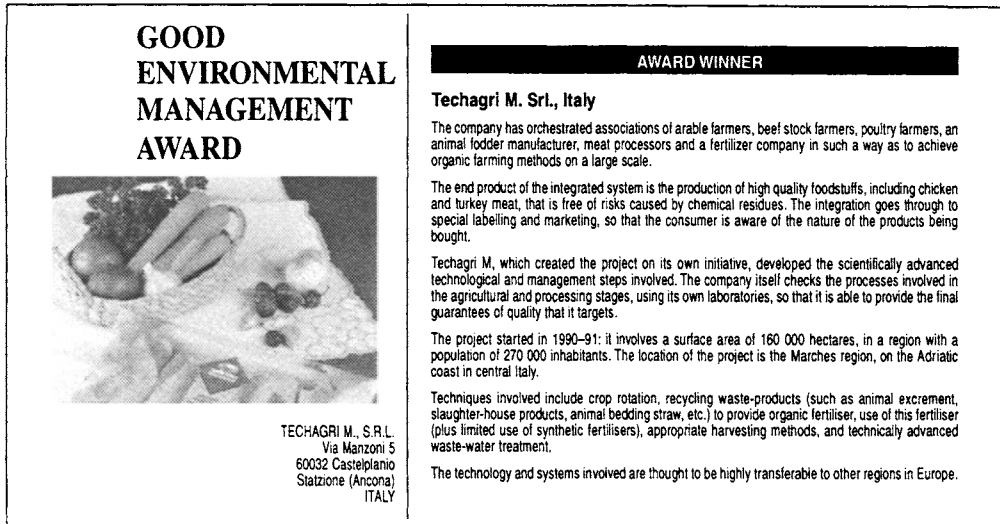
GOOD ENVIRONMENTAL MANAGEMENT AWARD	**AWARD WINNER**
	Techagri M. Srl., Italy
	The company has orchestrated associations of arable farmers, beef stock farmers, poultry farmers, an animal fodder manufacturer, meat processors and a fertilizer company in such a way as to achieve organic farming methods on a large scale.
	The end product of the integrated system is the production of high quality foodstuffs, including chicken and turkey meat, that is free of risks caused by chemical residues. The integration goes through to special labelling and marketing, so that the consumer is aware of the nature of the products being bought.
	Techagri M, which created the project on its own initiative, developed the scientifically advanced technological and management steps involved. The company itself checks the processes involved in the agricultural and processing stages, using its own laboratories, so that it is able to provide the final guarantees of quality that it targets.
	The project started in 1990–91: it involves a surface area of 160 000 hectares, in a region with a population of 270 000 inhabitants. The location of the project is the Marches region, on the Adriatic coast in central Italy.
TECHAGRI M., S.R.L. Via Manzoni 5 60032 Castelplanio Statzione (Ancona) ITALY	Techniques involved include crop rotation, recycling waste-products (such as animal excrement, slaughter-house products, animal bedding straw, etc.) to provide organic fertiliser, use of this fertiliser (plus limited use of synthetic fertilisers), appropriate harvesting methods, and technically advanced waste-water treatment. The technology and systems involved are thought to be highly transferable to other regions in Europe.

Fig. 3.3 Good environmental management award, awarded by the European Community in 1992 to Techagri M. Srl., Italy.

costs of imposing such a scheme would make them uncompetitive in relation to competitors outside the European Community, the requirements were relaxed and the mandatory nature of the scheme was abandoned.

Thus at the end of 1991 the European Commission approved a proposal for a Council Regulation to establish the Eco-Management and Audit Scheme and the final details were published in 1993. The scheme provides a framework for companies to assess their own environmental impacts and commit themselves to a policy of reducing them. It also requires firms to keep the public informed by regularly making statements and reporting progress (see Box 2).

The problem of self-regulation

The ability of firms to set themselves targets that are honest and realistic yet challenging and attainable and which result in significant improvements in environmental performance will ultimately be the benchmark against which the efficacy of this voluntary approach is measured. Self-regulatory approaches are backed by industry, possibly because voluntary action is perceived to be less costly than compliance with regulations and they are considered to be more easily achievable. Moreover, when other corporate objectives (e.g. profits) are under pressure, the voluntary approach allows for a loosening up of other (perhaps secondary) objectives (Shayler *et al.*, 1994)

Environmental policy based on codes of conduct such as the ICC Charter and voluntary standards such as the Eco-Management and Audit Scheme provide industry with the opportunity of demonstrating its commitment to the environment whilst not imposing the rigid constraints more associated with legislation. However, the adoption of codes of conduct and standards within any organisation necessarily raises a number of questions. The most obvious one concerns the type of subculture which a standard brings with it. Does it represent a piecemeal attempt to placate demands from pressure

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The EU's Eco-Management and Audit Scheme

The objective of the Eco-Management and Audit Scheme is to promote improvements in the environmental performance of industry by requiring companies to:

○ establish and implement environmental policies, programmes and management systems on a site-specific basis
○ carry out periodic, systematic and objective evaluations of activities through an environmental audit
○ provide information about environmental performance to the public.

The purpose of the scheme is not to confirm compliance with legislative requirements, although this must be achieved. The scheme aims to recognise efforts to improve environmental performance over time, given a baseline established by an environmental review of the firm. Thus the scheme highlights the need for a continuous cycle of improvement.

Essentially, there are seven stages to be undertaken by those sites wishing to register with the scheme. The firm must:

1 adopt an environmental policy
2 undertake an environmental review
3 establish environmental programmes
4 install an environmental management system
5 undertake an environmental audit
6 prepare an environmental statement
7 seek verification.

All of these steps (except verification) can be internal to the company if there is sufficient expertise available to perform the various tasks adequately. Indeed, the intention of the Eco-Management and Audit Scheme is that the discipline of having to follow these steps should help the company to manage its own environmental performance better. The scheme requires that an environmental statement is prepared based on the findings of the audit or initial review. Validation of this statement must be made by external accredited environmental verifiers. The validation will confirm that the statement has covered all of the environmental issues relevant to the site in enough detail and that the information presented is reliable.
   There are of course criticisms which can be made of this voluntary standard. The most common criticism is that basic environmental performance requirements are not specified. Instead, compliance with the standard is centred on each firm specifying and reaching its self-imposed performance objectives. In other words, the only requirement seems to be to demonstrate a capability for marginal environmental improvements within a self-determined framework of policies, targets, systems and assessment methodologies. Moreover, we should recognise that industry often acts defensively, anticipating changes in attitudes and making marginal adjustments to 'business as usual'. It rarely acts in a proactive way, adopting the highest possible environmental standards.

groups and consumers or is it a more serious attempt at ethical behaviour? We ought also to ask how effective the codes are in promoting what they stand for. Taken together, these questions provide a measure of the extent to which the standards are genuine and operational, rather than cynical and self-deluding.

Codes of conduct and particularly standards, which become accepted across firms in an industry or even across industries, are very powerful and we often see them written into contracts between organisations. We might be inclined to think that a standard promoting some sort of environmental improvement is a huge step forward and that companies who follow others in adopting such standards should be congratulated. But rather more analysis of the content and purpose of such a standard is necessary before we can judge whether they are really effective. If codes of conduct are set up as 'smoke screens' which hide environmental damage whilst purporting to be effective remedies then they are clearly misleading.

There is very little research on the generation, operation, monitoring and amendment of codes and standards. However, it is argued forcefully by Donaldson (1989) that because codes tend to be expressions of mixtures of technical, prudential and moral imperatives and because they tend to vary in the extent to which they are or can be enforced, they cannot be regarded as the major vehicles for identifying and encouraging the practices which will improve the environmental performance in business and industry. Moreover, codes and standards are defined outside the normal democratic framework which determines laws. They are constructed by agencies (often professional bodies or representatives of senior management in industry) with their own motivations, values and interests. On this subject Donaldson and Waller (1980) point to a statement of Bernard Shaw when he asserted that professions can be conspiracies against the laity and their codes are widely held to be primarily aimed at the protection of the members of the profession, rather than the public. Much the same accusation might be levelled against industry standards. Moreover, the matter of the development of codes and standards is bound up with the matter of enforcement. Codes which are not enforced or which fail to deliver their expected outcomes, for whatever reason, might be thought of as little more than expressions of pious hopes.

The Responsible Care Programme

Much of what has been discussed here can be illustrated by reference to the Responsible Care Programme, which provides a standard for firms in the chemicals industry. The Responsible Care Programme can be seen as one of the earliest environmental management standards used across companies. It is a voluntary code where performance is measured in terms of continuous improvement. Responsible Care is unique to the chemical industry and originated in Canada in 1984. Launched in 1989 in the UK by the Chemical Industries Association (CIA), the cornerstone of the system is 'commitment' (see Box 3). Chief executives of member companies are invited to sign a set of guiding principles pledging their company to make health, safety and environmental performance an integral part of overall business policy.

A company operating the Responsible Care Programme is required to have a clear company policy and the communication of this is seen as vital. The key principle being

The Chemical Industries Association's Responsible Care Programme

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Adherence to the principles and objectives of Responsible Care is a condition of membership of the Chemical Industries Association (CIA). All employees and company contractors have to be made aware of these principles. The guiding principles also require companies to:

○ conform to statutory regulations
○ operate to the best practices of the industry
○ assess the actual and potential health, safety and environmental impacts of their activities and products
○ work closely with the authorities and the community in achieving the required levels of performance
○ be open about activities and give relevant information to interested parties.

used in the Responsible Care Programme is self-assessment. However, the CIA does assess the effectiveness of the programme across all firms by collecting indicators of performance from the firms. Companies are encouraged to submit six classes of data to the Association. Individual company data are not published but a national aggregate figure is published annually. This shows industry trends and enables individual companies to assess their own placing accordingly. The six indicators of performance are:

1 environmental protection spending
2 safety and health (lost time, accidents for employees and contractors)
3 waste and emissions: discharges of 'red list' substances; waste disposal; an environmental index of five key discharges by site
4 distribution (all incidents)
5 energy consumption (total on-site)
6 all complaints.

A key element of the Responsible Care system is the sharing of information and participation of employees and the local community. Local Responsible Care 'cells' operate for the exchange of information and experience between firms. Employee involvement is also encouraged and the CIA has established training programmes which set targets for appraisal. Firms are also encouraged to have community liaison groups and initiatives recognising the continuing need to forge improved relationships with the public.

In its three-year report of the Responsible Care Programme (ENDS, 1993), the CIA was implicitly forced to admit that the programme was not functioning in accordance with its aims. The main reason for this is that sites claiming to adhere to the Responsible Care standard were simply not adhering to its principles. Over the three-year reporting period only 57% of firms made returns for all three years and only 74% made any returns at all. Even more importantly, the third indicator of performance

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deals with waste and emissions where firms are supposed to present an environmental index by site designed to give a composite picture of gaseous, liquid and solid releases. Only one-third of the total firms supposed to be operating Responsible Care reported these data in full and of those who reported the index, over 30% reported a worsening environmental impact.

Codes of conduct are therefore nothing if they are not adhered to and voluntary approaches often slip down a list of priorities when other pressing issues arise. It is perhaps not surprising that the lack of response from the chemical industry over Responsible Care occurred during a particularly bad economic recession. However, at the core of any strategy for environmental improvement has to be commitment and no standard or code of conduct will survive without that commitment. Whilst some chemical companies are clearly committed to improving their environmental perform-ance it seems that too many are not adhering to the spirit of Responsible Care. Indeed, whilst some make efforts to follow the guidelines of the programme many more seem to treat Responsible Care as a smoke screen. Many of those managers in the chemical industry who appear confident of their procedures to improve environmental perform-ance are either unaware of the environmental impacts or are deliberately trying to hide their environmental impact in an attempt to hang on to market share and profitability.

That raises two questions. The first relates to whether legislation which forces companies to be more environmentally responsible is therefore superior to voluntary approaches. The second, more fundamentally, relates to whether in the capitalist system, where the number one priority is the maintenance of profitability, the environ-ment can ever be sufficiently important to an individual firm to give it the priority which it needs. To answer both of these questions we need to look at the international dimension of both business activity and environmental policy.

3.5 Sustainable development, international trade and the global economy

The conditions for sustainable development

The continuing ability of the environment to supply raw materials and assimilate waste whilst maintaining biodiversity and environmental quality is being increasingly undermined. The concept of sustainable development implies that, as a minimum, all human activity must refrain from causing any degree of permanent damage through its consumption of environmental resources. Sustainable development stresses the inter-dependence between economic growth and environmental quality. The achievement of sustainability requires policy makers to tackle the problem of inequality throughout the world. In part, this requires a proper consideration of the future impacts of present activities.

For industry, policies for sustainable development have several implications. Firstly, the environment must be valued as an integral part of the economic process and not treated as a free good. The environmental stock has to be protected and this implies minimal use of non-renewable resources and minimal emission of pollutants. Ecosys-tems have to be protected so the loss of plant and animal species has to be avoided.

Secondly there is a need to deal with the issue of equity. One of the biggest threats facing the world is that the developing countries want to grow rapidly to achieve the same standards of living as those in the industrialised countries. That in itself would cause major environmental degradation if it were modelled on the same sort of growth experienced in postwar Europe and North America. Therefore, there needs to be a greater degree of equality and the key issue of poverty has to be addressed. But equity applies not only to relationships between the North and South, but also within countries between people. A major source of inequality exists between those who are employed and those who are unemployed and this must also be tackled within the context of sustainability.

Thirdly, in an economy based on sustainable development society, businesses and individuals should operate on a longer time-scale than is currently the case. This is the issue of futurity. While companies commonly operate under competitive pressures to achieve short run gains, long-term environmental protection is often compromised. To ensure that longer term, intergenerational considerations are observed, longer planning horizons need to be adopted and business policy needs to be proactive rather than reactive.

The Brundtland Report concludes that these three conditions are not being met (WCED, 1987). The industrialised world has already used much of the planet's ecological capital and many of the development paths of the industrialised nations are clearly unsustainable. Non-renewable resources are being depleted, while renewable resources, such as soil, water and the atmosphere, are being degraded. This has been caused by economic development but is also undermining the very foundations of that development.

International interdependence and the capitalist economy

One of the characteristics of postwar Europe has been the growing integration associated with European economic union. But that trend, more recently, has been mirrored in other parts of the world. International trade is dominated by the global triad of Europe, North America and Japan and all the OECD countries have found their economies becoming more interdependent and interrelated through the growth of trade, technology transfer and global communications networks. In the decade between 1980 and 1990 the Worldwatch Institute estimated that gross world output of goods and services grew from US$4.5 trillion to US$20 trillion and international trade grew by approximately 4% per year (Brown, 1991). Through the mass media models of Western consumer culture have been relayed across the planet. This reinforces the perception of gross and persistent inequalities between the higher income and lower income countries and the considerable differences within the lower income countries themselves.

The global spread of industrial activity along with the expansion of information systems means that no country can insulate itself from its external economic climate. Neither can countries insulate themselves from the growing pollution flows caused by industrialisation and consumerism. Perhaps most intrusive, however, are the activities of the transnational corporations (TNCs) who bring with them their own corporate cultures, dominate international trade and production and are therefore to be held responsible for significant levels of transnational environmental damage.

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The rapid evolution of an international economic system has not been paralleled by international political integration or international laws to regulate that system. The consequence is that many transnational corporations operate above the law, beyond national boundaries and are able to set their own international economic agenda. Moreover, by creating a situation where many countries in the South are dependent on their patronage, employment and technology, they often wield considerable political power as well.

Since the 1980s we have seen an increasing move towards the liberal market version of the capitalist economy. By the beginnings of the 1990s there were many former communist countries putting radical and austere policies in place to introduce a market mechanism into their economies and to privatise previously state-run companies. However, the process of reform has taken much longer than expected, has resulted in significant costs associated with human suffering and in some countries has resulted in a nationalist backlash. Foreign investment in Central and Eastern Europe has also been disappointing and is still blocked by political uncertainty, environmental degradation and infrastructural backwardness.

Governments in the developing countries have also been attracted towards the liberal free market model, seeing it as the system which is able to deliver the goods and raise general levels of material prosperity. They have often been encouraged along that path by institutions such as the World Bank and the IMF who link the provision of loans to conditions relating to structural adjustment. This has meant that financial support and advice have been linked to the implementation of market-friendly structural reform in the economy in question.

Despite all the pains of transition, however, it is likely that the countries in the South and in the former Eastern bloc will continue to move towards liberal capitalism, attracted by Western levels of prosperity and consumption. Whilst the time-scales for achieving such targets are uncertain there seems little doubt that some countries will achieve greatly increased levels of national output and per capita income. But, as Carley and Christie (1992) point out, ironically the drive for economic growth and hunger for Western levels of consumption in the newly industrialising countries and the ex-communist world are developing precisely at the point at which consumerism in the West is beginning to appear socially self-defeating and ecologically unsustainable.

The impact of trade

The enormous expansion of world trade has been a characteristic of the spread of capitalism and is fundamental to the internationalisation of the industrial system. The central institution which lays out the terms of engagement in the international trade system and which monitors trade is the World Trade Organisation, formerly the General Agreement of Tariffs and Trade (GATT). The Uruguay round of GATT negotiations on removing trade barriers began in 1986 and was completed in 1993. Environmental considerations were largely ignored during this process, reflecting the fact that issues of international trade and environmental management are seen as separate and discrete. Indeed, whilst at the Rio Summit governments and other agencies made declarations in support of the principles of sustainable development,

when involved in the GATT negotiations, they were making decisions which could undermine progress towards sustainability.

The GATT has consistently acted in favour of free trade and against environmental protection. It has consistently linked environmental issues to the issue of protectionism and has ignored issues of sustainability. For example, in 1991 the GATT overruled an American ban on imports of tuna fish from Mexico (claimed to be fished in such a way as to kill an unacceptable number of dolphins) on the grounds that such a restriction would violate free trade (see Chapter 4). Indeed, the GATT view is that restrictions on trade, claimed on environmental grounds, would be more likely to be mere excuses for protectionism, rather than real attempts to reduce environmental damage.

Thus when we consider the activities of business in a wider context we must question the ability of nationally-based environmental protection policies to make a significant difference. More legislation and higher taxes might drive some companies out of one country, where tough environmental policies have been introduced, into another where they do not exist (although there is little evidence of this having occurred in the past). Tough policies in one country may lead to a competitive disadvantage to domestic companies and replace an environmental problem with an unemployment problem. Moreover, in their constant attempt to keep prices down, large, transnational corporations can often find ways of doing business in developing countries where environmental legislation is weak. Such arguments might be a justification for leaving any change solely to free market forces and to voluntary action by individual firms. Indeed, it is often argued that the liberalisation of trade will encourage the more efficient use of factors of production through comparative advantage, thus helping to prevent environmental degradation (an argument which will be explored in detail in the next chapter). Other, more sceptical commentators would simply see the need for a radical change in the way we do business.

Business strategies for sustainability: the radical agenda

The key question posed by the more radical school of thought relates to the extent to which current environmental policy based on a mixture of environmental legislation, financial incentives and self-regulation can actually deliver sustainability. Certainly, if we rely on free market approaches and broad codes of conduct, sustainability may take a very long time to achieve. Moreover, voluntary standards such as the Eco-Management and Audit Scheme are dominated by self-imposed objectives and targets which may be very marginal. Many firms are embracing voluntary standards and codes of conduct because they are easily achievable, highlighting the idea that an organisation is doing something rather than nothing in order to satisfy the competing demands of stakeholders.

There is a contradiction which arises when organisations commit themselves to sustainable development and then opt for an approach which does not necessarily achieve these fundamental aims, as so many firms have done by signing the ICC Charter. One of the key problems that has arisen, is that by adopting narrow environmental management strategies, firms believe that they are adopting principles of sustainable development. They seem to be of the view that environmental improvement equates to sustainable development. This is clearly not the case, as a closer look at the sustainable development concept reveals.

To begin to deal with the broad issues of sustainable development, many would argue that we need to see a new style of management based on a holistic approach and predicated on a clear world view and an understanding of the need for further 'paradigm shift' in business culture (Commoner, 1990; Welford, 1995; Wheeler, 1993). Organisations committed to sustainability must be committed to integrating environmental performance and wider issues of global ecology (the maintenance of biodiversity, prevention of pollution, etc.) into their business planning.

Thus, as a starting point, energy efficiency should be focused on the need to minimise NOx, SOx and CO_2 emissions and avoid nuclear waste. Waste minimisation, re-use and recycling should be driven by the need to conserve non-renewable resources. Product design should incorporate the use of renewable resources wherever possible. The extraction and processing of raw materials should have no negative impacts on global biodiversity, endangered habitats or the rights of indigenous peoples. Overall corporate policies should examine the business's impact on both the developed and underdeveloped world, both now and into the future.

A radical approach to environmental strategies designed to achieve sustainability would involve significant changes in management attitudes and objectives. Businesses must begin with real commitment on the part of the whole organisation to deal with the wider issues associated with sustainability. This may mean a change in corporate culture and therefore management has an important role to play. In leading that commitment and laying out the organisation's corporate objectives with respect to the environment, management has to be the catalyst for change. Indeed, it needs to rethink its whole rationale and reassess the very structures in its own organisation which act as impediments to change. Moreover, change has to be ongoing and management must be ever mindful of the full range of (often competing) objectives to which it is subject. Management has to find compromise between these objectives if they conflict and design corporate strategies which are operational, consistent and achievable. Change will have to be addressed in a systemic way, dealing with the company as a whole rather than in a compartmentalised way. There is also a need to look towards the 'larger picture' rather than focusing on product-specific considerations. This may involve changes in corporate structures and the abandonment of attitudes that insist on the continuation of 'business as usual'.

When it comes to the integration of environmental considerations, co-operative strategies also need to be considered. All too often competition has been the dominant ideology in business, but increasingly co-operative strategies between businesses and involving the public and regulatory agencies can bring about benefits which are environmentally sustainable. Single-minded competitive strategies run the risk of isolating businesses from new developments, expertise and public opinion which are invaluable to the environmentally aware company.

Companies are faced with a challenge of integrating considerations based on the elements of sustainable development into their production and marketing plans. There is always an incentive, however, for profit-maximising firms seeking short-term rewards to opt out and become a free rider (assuming that everyone else will be environmentally conscious such that their own pollution will become negligible). To some extent, environmental legislation is able to plug the gaps which allows this to happen and firms attempting to hide their illegal pollution are now subject to severe

penalties. However, more radical thinkers argue that what is really required is a shift in paradigms towards an acceptance by industry of its ethical and social responsibilities. In the short term this may require a legislative stance to push companies into action, but in the longer term firms must look at their overall impact on the environment, on equity and on futurity and construct a social and ethical balance sheet. It challenges firms to give greater priority to ecological considerations even if it means some lowering of profits, at least in the short term.

Such a change in ideology is, of course, difficult to achieve because environmental policy in relation to business is increasingly self-regulated. We have seen that environmental management standards and codes of conduct have been set by industry itself. They have been designed to be voluntary and not to conflict with the ideology associated with profit maximisation in the short to medium term. Arguments such as the ones outlined above, suggesting that industry has not gone far enough, will be treated with derision by many in industry and sidelined. The power which industry has in the current economic system may therefore be a barrier to further development of the concept of sustainable development. Thus, radical commentators would argue that the only way to bring about a change in this dominant ideology is to challenge the very basis of that power. Without a fundamental revolution in the way we organise our society, such a challenge can only come about through a legislative process. Not, however, at the level of the nation state, but across the whole world. It is not clear how that might be achieved.

3.6 Conclusion

I began this chapter by exploring four different ways in which international environmental policy might be applied to businesses. We have seen that the traditional approach of imposing command and control instruments on industry through legislation is increasingly being replaced by instruments which attempt to use the market mechanism to bring about a desired outcome. That approach recognises that to leave the market mechanism completely to its own devices is unlikely to bring about environmental improvement in the time-scale required.

The contemporary debate amongst policy makers surrounds the relative merits of the unhindered free market as against a market constrained either by financial incentives or by legislation. These three approaches are not mutually exclusive. Indeed, the use of taxes and subsidies relies on the operation of the market. There is nevertheless considerable tension between those who favour the reformist market-based approach and those who wish to see a more interventionist legislation-based regulatory stance. The former implies using the fiscal system to redirect expenditure and investment decisions, although we have seen very little use of environmental taxes anywhere in the world to date. It also means allowing industry to adopt voluntary codes of conduct and environmental standards based on self-defined objectives and targets. Such approaches are supposed to give the company competitive advantage in the international market place. Once again, there is little evidence to date that such non-regulatory approaches do work and some limited evidence that they do not.

However, we have seen that the biggest constraint to achieving environmental improvement is often the very system in which business operates. This is particularly true when we look at the wider international dimension of capitalism with its emphasis on free trade. If our ultimate aim is sustainable development, then it is difficult to see how we will achieve our desired outcomes without international co-operation over legislation and without a significant change in the way we organise industry. This is consistent with the more radical approach to environmental policy.