

# THE ROLE OF CORPORATE ENVIRONMENTAL STATEMENTS

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## Abstract

The objective of the Eco-Management and Audit Scheme (EMAS), which is a voluntary scheme, ensures that identical standards and approaches are adopted in all European Union member states, is to promote continuous environmental performance improvements with industry and other sectors. It aims to achieve this by providing tools for companies to manage their environmental performance, to introduce environmental improvements and to provide information using public environmental statements on their environmental performance to the general public.

*Keywords:* Eco-Management and Audit Scheme (EMAS), environmental management systems (EMS), environmental statement.

## 1. The European Union towards Sustainability

The European Union (EU) is an economic and administrative bloc of fifteen European member countries which have ratified the Maastricht Treaty of European Union. The goal of the Treaty was to create monetary and economic union among member states. In effect, the EU is a single market of 360 million people with free flow of goods, labour and capital.

According to the principle of sustainability based on the common understanding of modern economists and scientists present markets – including EU with almost 400 million – will be unable to prosper ‘*forever*’ the way they do now unless serious measures are taken by companies, authorities, regulators and policy makers to maintain the possibilities for preserving the welfare of people around the World. A healthy environment is a central issue in the quality of life, therefore the must is widely recognised for integrating the environmental dimension into industry, agriculture, transport, energy, service and other sectors. Sustainable industrial development recognises and responds to the tremendous business opportunities offered by high quality environment by pursuing responsible growth. It should aim at cleaner production methods, improving the environmental performance, prevention, continual improving, lowering input costs and adding value to output. It is vital that such development recognises and addresses the concerns and preferences of consumers in an environmentally friendly way. So economies must combine prosperity with protection of the environment [1].

The *Fifth Action Programme 'Towards Sustainability' on the Environment* for the European Union encourages environmental cost accounting of commodities so that environmentally friendly products are at a competitive advantage. This programme was set up for different provinces. The *Sixth Action Programme '2010: Our future, Our choice' on the Environment* calls for the usage of an integrated approach in environmental issues at the different organisations [2, 3].

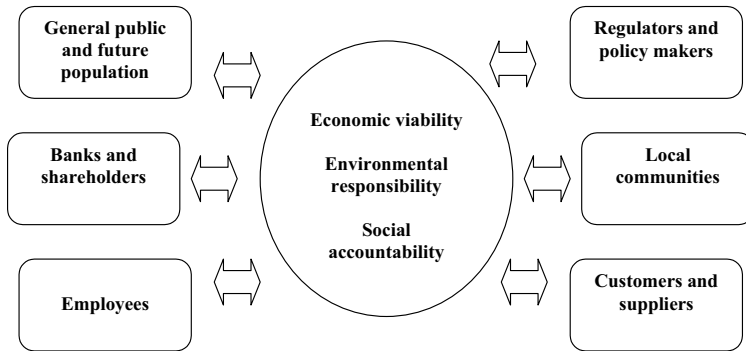
Sustainability issues in relation to industry include land use and impact on landscape, consumption of raw materials, use of hazardous substances, energy consumption, improved energy efficiency, use of fossil fuels, emissions to air (e.g. NO<sub>x</sub>, VOC, CO<sub>2</sub>, SO<sub>2</sub>, odours, metals), emissions to water, waste water, chemicals, heavy metals and production of waste. Some of the actions supporting sustainable development for example:

- **Integrated Pollution Control (IPC)** licensing by the Environmental Protection Agency (EPA) has been extended to existing specified industry.
- The EPA **Best Available Technology Document (BAT)** published in 1994 and updated in 1996, aims to serve as a valuable industry-specific technical reference for environmental auditing and compliance reporting.
- The EPA has completed a Pilot **Cleaner Production** Demonstration Programme under the EU funded Operational Programme for Environmental Services and has published the results for the information of industry and the public generally.
- EU **Eco-Management and Audit Scheme (EMAS)** or **ISO 14001**. The EMAS is a part of the European Union's Environmental Initiatives under the **Fifth Action Programme 'Towards Sustainability'** since 1993.
- **Voluntary agreements**. Legislation is not the only way to achieve environmental benefits – other approaches such as voluntary actions by industry and voluntary agreements between government and the various industrial sectors have the potential to deliver environmental benefits cost effectively.
- **Consumers**. Before buying any goods or services more and more consumers check if the company has any accredited environmental management system, e.g. EMAS or ISO 14001, or can stand over any claims as to environmental performance of its activity or its products or services. They might even check if the product has an eco-label [1, 2, 3, 4, 5].

## 2. External Environmental Management Systems

Certification to an external standard provides a major opportunity for the organisation to demonstrate publicly that it has implemented a responsible approach to the environment and has taken effective steps to address its environmental impacts. This action is a particularly reassuring step to the regulatory authorities, and may dramatically assist in improving and maintaining good relationships. Similarly, it is very useful in promoting the organisation's reputation among its customers and the public as well as other stakeholders. This may especially apply to shareholders who

are giving increasing attention to the environmental performance of an organisation, due to a growing recognition of the implications associated with environmental liabilities. The complex environment (*Fig. 1* [7]) forces the organisations to face different challenges. Thus, companies integrate environmental aspects into their management systems.



*Fig. 1.* Corporate governance facing complex challenges

### 3. Main Environmental Management Standards

ISO 14001, the European Eco-Management and Audit Scheme (EMAS), and British Standard 7750 (BS 7750) are all standards for implementing environmental management systems. BS 7750, developed by the British Standards Institution, was the world's first standard for environmental management systems (EMS). The International Organization for Standardization has developed the ISO 14000 series, which superseded BS 7750 of March 1997. The BS 7750 standard is therefore no longer issued, however, it is worthwhile to use it as a comparison model. The ISO 14000 series are international voluntary standards that were modelled after BS 7750. EMAS was developed for the European Union in 1993 and is also based on BS 7750. Thus all of the standards share the same foundation.

There are more similarities between EMAS and BS 7750 than with ISO 14001. However, since ISO14001 and EMAS are based on BS 7750, all three standards or schemes are fundamentally similar, and rely on third-party certification. All the standards require an organisation to have:

- an understanding of environmental effects or impacts,
- an environmental policy which states the organisation's intentions and principles in relation to its overall environmental performance,
- objectives and targets which define environmental goals and performance targets, an environmental management programme for these, appropriate control measures for activities,

- an internal audit of the environmental management scheme,
- external environmental communication.

Each of the standards requires organisations to implement an environmental policy. The policy should be fully supported by senior management, and it should emphasise management commitment to continual improvement. Internal audits and management review are essential components of each EMS standard that ensure effectiveness and compliance.

Unlike the international ISO 14001 standard, EMAS and BS 7750 are regionally developed. EMAS is only applied across the EU, whereas BS7750 and ISO 14001 are used internationally.

EMAS is the most stringent of the three standards. Germany played a key role in developing EMAS, and their high environmental standards are reflected in the additional requirements. Unlike ISO 14001, EMAS requires the company to produce an annual report on its environmental performance.

In addition to the requirements of BS 7750 and ISO 14001, EMAS prescribes site specific registration, and a regularly updated, publicly available environmental statement based on the preparatory review. The preparatory review includes present, future, and past activities. This means that any previous environmental damage caused by the organisation must be included. ISO 14001, on the other hand, focuses on present processes.

EMAS and BS 7750 place a greater emphasis on ensuring that suppliers and contractors comply with the organisational policy.

EMAS also requires the EMS be audited at least once every three years. The auditing procedure is much more extensive than that of ISO 14001. Auditing is encouraged by both systems to discover new opportunities for improvement and to keep management informed of the system's effectiveness [4, 5, 6].

Due to the reasons mentioned above we describe the EMAS system more detailed.

#### **4. The Eco-Management and Audit Scheme (EMAS)**

The objective of EMAS, a voluntary scheme ensuring that identical EMAS standards and approaches are adopted in all EU countries, is to promote continuous environmental performance improvements with industry. It aims to achieve this by providing a tool for industrial companies to manage their environmental performance, to introduce environmental improvements and to provide information on their environmental performance to the general public.

To participate in the scheme, companies must adopt a company-wide environmental policy committing themselves to

- (a) comply with all relevant environmental legislation,
- (b) prevent pollution, and
- (c) achieve continuous improvements in environmental performance.

A public environmental statement is prepared, and evaluated by independent verifiers.

EMAS is generally a site based registration system with due considerations provided to off-site activities that may have a bearing upon the products and services of the primary site. Originally, EMAS was only open to the industrial sector, although it was possible for EU member states to apply it to other sectors on an experimental basis. Since the revision of the regulation in March 2001 an extension to the scheme has been agreed for local government operations, local authorities and a wide range of industrial and service sectors who may also register their Environmental Management Systems to the EMAS Regulations.

Summarising the process for a company getting the EMAS registration, the company must:

1. Adopt an environmental policy that includes commitment to continuous improvement
2. Conduct a site environmental review
3. From the results, implement an EMS
4. Perform an environmental audit
5. From audit findings, set objectives seeking continuous environmental improvement
6. Prepare and publish an environmental statement
7. Send verified statement to the competent body of the member state.

We present a short description on these steps in the following section.

## **5. Environmental Policy**

EMAS requires an Environmental Policy to be in existence within the organisation, fully supported by senior management, and outlining the policies of the company, not only to the staff but to the general public and other stakeholders. The policy needs to clarify compliance with Environmental Regulations that may affect the organisation and stress a commitment to continuous improvement. Emphasis has been placed on policy as this provides the direction for the remainder of the Management System.

## **6. Conducting an Environmental Review before Implementing an Environmental Management System**

The Environmental Policy provides the initial foundation and direction for the Management System and is stringently reviewed. The statement must be published in non-technical language so that it can be understood by the majority of readers. It should relate to the sites within the organisation encompassed by the Management

System, it should provide an overview of the company's activities on the site and a description of those activities as well as a clear picture of the company's operations.

In addition to a summary of the processes, the statement requires quantifiable data on current emissions and environmental effects emanating from the site, waste generated, raw materials utilised, energy and water resources consumed, and any other environmental aspects that may relate to operations on the site.

The preparatory review is a part of an EMAS Assessment. The Environmental Review must be comprehensive in consideration of input processes and output at the site. This control process is designed to identify all relevant environmental aspects that may arise from existence on the site. These may relate to current operations, they may relate to future, perhaps even unplanned future activities, and they will certainly relate to the activities performed on site in the past (i.e. contamination of land).

The initial or preparatory review will also include a wide-ranging consideration of the legislation which may affect the site, no matter whether it is currently being complied with, and perhaps even whether copies of the legislation are available.

The company will declare its primary environmental objectives, those that can have most environmental impacts. In order to gain most benefit these will become the primary areas of considerations within the improvement process, and the company's environmental programme. The programme will be the plan to achieve specific goals or targets along the route to a specific goal and describe the means to reach those objectives such that they are real and achievable. The Environmental Management System provides further details on the environmental programme. The EMS establishes procedures, work instructions and controls to ensure that implementation of the policy and achievement of the targets can become a reality. Communication is a vital factor, enabling people in the organisation to be aware of their responsibilities, aware of the objectives of the scheme, and able to contribute to its success.

## **7. The Environmental Audit and Review Cycle**

The System requires a planned comprehensive periodic audit of the Environmental Management System to ensure that it is effective in operation, is meeting specified goals, and the system continues to perform in accordance with relevant regulations and standards. The audits are designed to provide additional information in order to exercise effective management of the system, providing information on practices which differ from the current procedures or offer an opportunity for improvement. Under EMAS the bare minimum frequency for an audit is at least once every three years.

## 8. Environmental Statement

Most companies usually produce an annual report and accounts describing the activities of the organisation over the previous year, and its plans for the future. EMAS generally expects a similar system for the company's environmental performance. There should be a periodic statement about performance during the previous period, a set of current performance data, and notice of any particular plans for the future that may have an effect upon the environmental performance of the organisation, no matter whether detrimental or beneficial.

The peculiarity with EMAS is that the policy statement, the programme, the management system and audit cycles are reviewed and validated by an external accredited EMAS verifier. The verifier not only provides a registration service but is also required to confirm, and perhaps even sign, the company's periodic environmental statements [4, 5].

Environmental reporting has traditionally already been a voluntary method of communicating environmental performance to an organisation's stakeholders. However, more and more countries prescribe mandatory environmental reporting. Germany, Denmark, New Zealand and the Netherlands have already introduced legislation on environmental reporting. Environmental reporting is becoming increasingly popular and is now being utilised by companies, universities and local authorities. In EMAS system the role of environmental reports is played by the environmental statement verified by the independent verifier.

Environmental reports often contain the same common elements:

- Introduction by the Chief Executive.
- Background information about the organisation.
- The organisation's Environmental Policy.
- The organisation's overall position with regard to the environment (frequently broken down by smaller business sections for large organisations).
- Progress made towards specific targets established in previous reports. Setting of new targets or actions to improve the organisation's environmental performance in the future.

## 9. General Structure of Environmental Statements

The environmental statements show very similar architecture to each other. The general structure consists of 10 main different parts [8].

1. General information on the company (sites, number of employees, etc.)
2. Environmental policy/environmental guidelines
  - Environmental guidelines
  - Foreword by management
  - Milestones in environmental protection and in the company

3. Organisation of environmental management/environmental management system
  - Overview
  - Environmental management responsibilities
  - Employee information, training and involvement
4. Overview of the most important environmental issues
  - Overview of material and energy flows
  - Relation of company activities to environmental issues and problems
  - Methodology: scope of data collection and evaluation criteria
5. Site and production related environmental issues
  - Material consumption
  - Energy consumption
  - Water consumption
  - Buildings, machinery, soil
  - Residual materials and waste
  - Atmospheric emissions, noise and odour pollution
  - Wastewater
  - Accidents and accident prevention
  - Transport
6. Products and services
  - Products or services sold
  - Product life-cycles
  - Product development
7. Overview of the environmental programme and main objectives
8. Influence of environmental management on profit
9. Dialogue with target groups
  - Previous contacts and activities with target groups
  - Questions and advice for target groups
  - Statements from external parties
10. Conclusion
  - Statement from the environmental verifier
  - Deadline for the next environmental statement
  - Responsibilities for writing the environmental statement
  - Explanation of important technical terms
  - Contact person, address, offer of additional information

The Internet allows organisations to be even more flexible in the type and amount of information available, and they can utilise the interactive and multimedia capabilities to attract a wider range of stakeholders and potentially receive greater feedback from them. Organisations that have made a commitment to produce annual environmental reports will require new information and data each year which can be used to demonstrate progress. Therefore, they not only do environmental reports



communicating the environmental initiatives of an organisation, it also focuses their environmental efforts.

The Association of Chartered Certified Accountants (ACCA) recommends three main issues to have a characteristic role in environmental reports: completeness, credibility and communication [7].

### **10. Completeness**

An excellent environmental report should enable the reader of that report to form a complete view of that organisation's operations and environmental impact. In summary, what is being sought in a report by the reader to develop a complete mental picture of the organisation: what does it do, what is the extent of its operations and the scope of the report in conjunction with its entire activities. Once the completeness of the reporting entity has been established, the credibility of the information presented becomes important. A complete view has two parts. First, there should be clarity with regard to the definition of the reporting entity as for the purpose of that environmental report. There is an expectation that entities which have been reporting for some time would include all their operations in an environmental report unless they produce a range of reports. The second aspect of completeness is the extent to which all significant aspects of environmental impact are presented by the reporting entity in the report. Where reports are not complete in the manner outlined above, there should be some indications of the extent to which completeness has not been achieved and some estimate of the impact of this lack of completeness should be attempted.

### **11. Credibility**

There are two aspects of credibility: internal credibility and external credibility. With internal credibility one would be seeking assurance (from the presentation of evidence) that there are organisational structures, processes and controls in place to enable the organisation to accurately present information on its environmental impacts. This includes having an environmental policy, appropriate personnel in place, an EMS, ways of gathering environmental impact data and having targets which are designed to meet the environmental aims of the reporting entity. External credibility relates to the extent to which there is evidence that the internal systems and information have been tested and the views of external parties have been incorporated into the report. This includes stakeholder interactions as well as third party statements on the report.

### **12. Communication**

The final area that should be evaluated is the extent to which the environmental report communicates to the declared target audience. This is, at least in part, an assessment of the media by which communication has been attempted.

### 13. Benefits

The annual report is an important marketing tool for communicating vital information on company activities and support corporate and financial strategies. Therefore, an annual report should include the company's strategic and financial philosophy, forecasts and marketing strategy. Without any form of external reporting of an organisation's environmental endeavours, stakeholders are unable to assess the adequacy of measures taken to protect the environment. Therefore, discussing environmental issues would aid in fulfilment of the organisation's accountability and increase its environmental transparency. To accommodate to this, companies are beginning to publish not just an annual report but also an environmental annual report. It has been suggested that both reports should include an environmental policy statement, environmental contingencies, and environmental spending and emission statements.

Different presentation formats give different opportunities to stakeholders to evaluate information in which they are interested. Reports are addressing environmental issues for a majority of stakeholders although the environmental product and safety concerns of the consumers are not discussed so often as other issues. Although there is a rich literature on corporate discussion of environmental competitive advantages and sustainable development, discussion of these two issues is not reflected in external reports. Using the corporate environmental position as a part of a company's marketing strategy may lead to a competitive advantage if communicated properly. Stakeholders who are involved in environmental issues need to be able to properly assess corporate commitment. Corporations should evaluate these needs and continue to comply with them through external reporting.

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