

# Sustainable (Green) Initiatives in Corporations

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## INTRODUCTION

The increased public awareness of sustainable initiatives as well as the social, economic and government implications have become vital factors in the decisions of corporations. This awareness has driven corporations to change their product designs, re-brand their image and institute other sustainable changes. Some corporations are enacting measures in an attempt to be more environmentally responsible while other firms are simply jumping on the bandwagon. Still others are enacting measures in an effort to receive economic benefits or simply to comply with federal, state and local regulations. These investments are forcing companies as well as their stakeholders to evaluate whether sustainable initiatives are positively correlated with increased value to companies and to their stakeholders as well as to measure the associated costs and benefits of these initiatives.

The implementation of sustainable initiatives in corporate organizations raises many relevant questions, such as: 1) Does the enactment of sustainability measures by corporations indeed result in increased value of the companies? 2) Is there a relationship between sustainability reporting and a company's value? 3) What are the relevant variables that should be included in a framework to accurately measure green initia-

tives in corporations? 4) How should sustainable initiatives be reported in the financial statements of companies? 5) Can a set of independent sustainability standards be developed that would lead to sustainable certification of companies? 6) How can the credibility of sustainability reports be increased? Hence, our focus is to examine whether sustainable initiatives are worth it to corporations and to their stakeholders.

Answers to these questions on sustainability can be of considerable benefit to companies, their investors, creditors, regulators and a host of other interested parties. However, insight into these questions requires considerable research and analysis.

## BACKGROUND

The increased awareness of the need to protect the environment along with human rights issues have been part of society for many decades. These issues were highlighted by the Civil Rights movement in the 1960s and the first Earth Day in 1970. Jeffers and DeGaetano (2012) noted the increased attention on the ethical behavior of corporate officers by consumers occurring in large part to the shift of personal savings from traditional bank accounts to mutual funds and pension accounts.

This shift created financial incentives to track the performance of companies and when combined with the expansion of the Internet created a mass communication network which facilitated the easy dissemination of information to average investors and the general public. The craving for information was heightened by a string of environmental catastrophes such as the Three Mile Island accident in 1979, the Bhopal Gas Tragedy in India in 1984, the Chernobyl Accident in 1986, the Exxon Valdez oil spill in 1989 and the British Petroleum oil spill in 2010. These disasters called into question the responsibility of management to their stakeholders as well as to the general public and highlighted many company's alleged disregard for the environment. The 1989 Exxon oil spill led to the Valdez Principles which later became the 10 CERES Principles for protection of the biosphere.

The demand for reliable financial information and management accountability further intensified and increased in importance as a result of a pattern of financial irregularities committed by management and large scale corporate scandals that cost investors billions of dollars. Companies involved include Global Crossings, Arthur Andersen, Enron, WorldCom, AIG and Lehman Brothers. These scandals occurred in the 2000s and were exacerbated by the subsequent global financial crisis that started in 2008. The huge number of corporate irregularities as well as the volatility of the U.S. stock market further highlighted the need for and importance of high-quality financial reporting and assurance services and the need to restore investor confidence in financial reporting. Following the devastating effects of the corporate irregularities, the U.S. Congress enacted the Sarbanes-Oxley Act of 2002 (SOX) aimed at enhancing the reliability of financial reporting and making corporate executives more accountable.

The evolution of corporate social responsibility (CSR) reporting differs globally. The European Union adopted an active role in requiring countries to develop legislation to enhance CSR (European Commission, 2005, 2011). As a result, Europe

has been a leader in CSR. Utilizing a sample of countries from all over the world, Romero, Ruiz & Fernandez-Feijoo (2013) studied the evolution of CSR reporting following the standards developed by the Global Reporting Initiative (GRI). They found that Spain is the country with the highest increase in the number and quality of reports since the first set of standards was released. It was noted that Japanese companies are at the beginners' level and that CSR reporting in the US peaked in very recent years. In 2010, the GRI opened an office on Wall Street with the purpose of promoting CSR reporting in the US.

### **Increased Environmental Focus**

Issues associated with the environment and global warming received considerable publicity after former Vice President Al Gore received an Academy Award in February 2007 for his documentary film entitled "An Inconvenient Truth" which addressed environmental issues. The film asserts that we are facing a deepening global crisis that requires us to act boldly, quickly and wisely in order to protect the earth (Gore, 2006). The environmental focus grew even greater when Gore subsequently received a Nobel Prize for his efforts to enhance awareness of and the need to protect the environment.

The focus on green issues is seen in every aspect of our daily lives. The increased use of environmentally friendly products by individuals and corporations and the enactment of green programs are encountered in almost every industry. It is seen in the increased use of biodegradable products aimed at decreasing the environmental damage to the air, water, the earth and its inhabitants. It is also evidenced by the proliferation of programs to protect the biosphere and ensure the sustainable use of natural resources. These include conservation and recycling programs designed for the reduction and disposal of waste; energy conservation or the use of alternative energy; a focus on safe products/services; and environmental restoration. Green initiatives are seen in the auto

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