

Corporate Environmental Governance: From Shareholders to Stakeholders

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The primary goal of corporations would be redefined in this millennium. Instead of only maximizing the shareholder value, the corporate goal would be enlarged to encompass maximizing green stakeholder value as well. Corporations would increasingly recognize the multiple environmental stakeholder groups involved in corporate environmental governance. Barely ten years ago, the stakeholders for corporations were fairly well defined. They were local, state and federal regulatory agencies- those who issue permits, monitored compliance, and if necessary, issue notices of violations and fines. Corporate environmental governance is all about conducting the corporate environmental affairs of a company in such a way as to meet and exceed the expectations of all environmental stakeholders. These stakeholder groups comprise regulators, governments, financial institutions, end-use consumers, employees and local community. In order to improve corporate relationships with the various stakeholder groups, organizations need to identify and assess their environmental concerns. The paper presents the current environmental governance framework for Indian industry and also proposes a conceptual framework to achieve total stakeholder satisfaction for better corporate environmental governance.

Key words: Environmental Stakeholders, Environmental Governance, and Total Stakeholder Satisfaction

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Introduction

The primary goal of corporations would be redefined in this millennium. Instead of only maximizing the shareholder value, the corporate goal would be enlarged to encompass maximizing green stakeholder¹ value as well (Schaltegger and Figge, 1997; Figge and Schaltegger, 2000). The stakeholder concept is often publicly discussed as an alternative for the shareholder value. Due to stakeholder concept, enterprise must take into account the stakeholders' concerns, when it wants to accomplish its goals. Generally, such goals maximize company's value. On the contrary, the shareholder value² is a valuation approach, which measures the company's value from the perspective of private capital providers and therefore to which extent this goal was achieved (Figge and Schaltegger, 1998). By using shareholder value approach with regard to stakeholder concept the contribution of the stakeholders to a value-oriented business goal become clear. At the same time, it is important to manage stakeholder relationship, in order to contribute to the corporate value. Corporations would increasingly recognize the multiple environmental stakeholder groups involved in corporate environmental governance. Barely ten years ago, the stakeholders for corporations were fairly well defined. They were local, state and federal regulatory agencies- those who issue permits, monitored compliance, and if necessary, issue notices of violations and fines.

There are five key assumptions that hold true for all environmentally well-managed corporations across the globe. First, there is a need to elevate environment as a strategic issue from its current recognition as a technical or operational issue in the corporate boardroom. This implies that there is a need to integrate environmental concerns into all the other business functions of organization. In another words environment must be an integral part of corporate business strategy. On the business and environment front, competitive advantage appears to be possible for organizations strategically positioning

¹ For details on the concept of stakeholder value see Figge, F. & Schaltegger, S. (2000): What is "Stakeholder Value"? Developing a catchphrase into a benchmarking tool. Lüneburg: Center for Sustainability Management (CSM) and Bank Pictet & Cie in association with UNEP. (ISBN 3-935630-03-4)

² See overview on shareholder value Figge and schaltegger, Environmental Shareholder Value, WWZ/Sarasin Basic Report, March 1998 and Donald J Reed, Green Shareholder Value: Hype or Hit? WRI publication, September 1998

not only their products and services in marketplace but also through the character of their organizational processes³. Academics and practitioners have suggested that management of industrial risks through environmental management systems (EMS) have the potential to become source of competitive advantage (Berry and Rondinelli 1998; Reinhardt 1999). Second it is the ability of a company to improve its profits and environmental performance⁴ simultaneously (Hart and Ahuja, 1994; Cohen et al, 1995; Wagner 2001; Wagner. & Wehrmeyer, 2001). This will happen, when corporations would identify those profits profit centers in business operations where improvement in environment leads to more profits. (resource conservation, pollution strategy and pollution control strategies). Third, the ability of a company to transform environmental opportunities into a major source of revenue growth (Stuart Hart, 1997; Feldman et al, 1997). This implies that companies would increasingly look for ways to generate wealth from waste, waste utilization, dematerialization, and substitution of raw material and substances having environmental impacts by the environmentally benign ones. This will trigger integration of environment with strategy and technology development. Fourth, company's ability to maximize its total stakeholder satisfaction (TSS) (Sangle, 1999). Total stakeholder satisfaction is the ultimate pressure that can be exerted on an organization for improving its environmental performance. Generally, one cannot expect any organization to improve its environmental performance beyond the expectations of its stakeholders. The total stakeholder satisfaction of a company is all about the legitimacy of its existence, which implies that the company conducts its business in a manner that maximizes shareholders' wealth⁵ while meeting environmental and social expectations of all the stakeholders (Donald J Reed, 1998; Dupont, 1999). This implies that companies in the 21st century would work towards achieving triple bottom-line i.e. economic prosperity, environmental

³ The concept of organizational processes employed here encompasses both the activities of controlling production processes, as well as generic organizational (bureaucratic) activities, such as the documentation of EMS. For an overview of organization processes, see: Hall (1999)

⁴ For a fairly thorough overview of the body of research on this topic, see Roger Adams, "Linking Financial Performance and Environmental Performance", "Environmental Accounting and Auditing Reporter, Vol 2, Issue 10. For a synopsis of this article and several others on the topic, see the web site of the Innovest Group (www.innovestgroup.com).

quality and social equity. And finally, the ability of a company to identify and develop new products, services and markets that barely exists today (Stuart Hart, 1997). These new generations of environmentally benign products and services would earn million perhaps billion of dollars to the company.

Corporate environmental governance is all about conducting the corporate environmental affairs of a company in such a way as to meet and exceed the expectations of all the environmental stakeholders⁶. These stakeholder groups comprise regulators, governments, financial institutions, end-use consumers, employees and local community. First, regulatory agency's primary concern is environmental compliance. Second, financial institutions whose concern is environmental liability (current, potential and future) a company carries with itself. Third, employees concerns are related with the occupational hazard and safety. Fourth, local community's main concern is efficient use local resources, risk in the vicinity of industrial operations and economic welfare. Finally, the government's concerns are regional environmental quality and economic prosperity the company brings. This definition of corporate environmental governance transcends the traditional narrow one that defines the concept as legal compliance i.e. fairness to regulators. The Indian corporate environmental governance was, for long, dominated by reactive approach as opposed to active/proactive approach. That apart, weak enforcement of environmental laws and acts resulted in still weaker corporate commitment to corporate environmental affairs. The onus of environment related responsibilities were restricted to environmental managers who are usually not empowered as compared to their counterparts in other functional areas such as production, engineering, sales, etc. This resulted in restricting corporate environmental governance to ensuring environmental compliance by unfair means also. As a result, these factors did not encourage adherence to strong corporate environmental governance norms. However, several ecological imperatives will drive the move towards higher levels of corporate environmental governance in the 21st century.

⁵ For improving shareholder value and societal value while reducing environmental footprints, Dupont found a useful metric to help guide our thinking and decisions. This metric is "shareholder value added per pound of production".

⁶ Environmental stakeholders can be any individual, group of individuals, entity or organization affected directly or indirectly by the activities of an organization. The stakeholders' list defined in this article is only a partial one and is not an exhaustive one.

One, as India moves down the path of globalization, companies will increasingly face the international pressure-to improve their environmental performance and as well assume a larger role in protecting environment and natural resources and solving social problems. To respond⁷ to this international urge of environmental concern, there is no alternative but to subscribe to the highest standard of corporate environmental governance. Second, as a result of competition, customers have choices and they could well prefer organizations, which they perceive as maintaining the highest level of transparency in all environmental matters. Third, organizations are unlikely to work with suppliers and contractors that do not have demonstrable environmental performance. Fourth, the government, in an indirect sort of way, provides an excellent reason to practice good corporate environmental governance. The government does this, to encourage compliance and responsible behavior of companies. And at one level, corporate environmental governance is all about environmental compliance. The final reason concerns society. This millennium will witness as increase in the gap between the haves and have-nots. Companies will have to find a way to involve the have-nots in their business. If the companies continue to function in 'business as usual' scenario i.e. without any concern for the environment and society, the result could well be to the dislike of company. This is another level at which corporate environmental governance will operate.

Environmental Governance in India

With the environmental problems persisting, it is only expedient on the part of Central and State Governments to impose a multitude of regulatory and legal interventions. As a result, India today boast of over 200 statutes that directly or indirectly deals with the environment protection aspects. Such a proliferation of command and control measures may be justified from coverage point of view but effective enforcement is difficult. It is

⁷ The overview of how firms have responded to environmental pressure, see Cohen, M. A. "Firm Response to Environmental Pressures, Managerial and Decision_Economics". Volume 18 (1997).

worth noticing that the laws cover almost all the environmental dimensions of a project viz. siting, choice of product and waste treatment technologies, mode of operation and discharge of wastes. Obviously all laws are not applicable to all industrial sectors. However, it is necessary to clarify those 29 categories of developmental, industrial, mining, hotel projects etc. require environmental clearance from the Ministry of Environment and Forests (MoEF) before they can be established in the country. Even for the expansion and modernization of existing projects in these categories, prior to MoEF clearance is mandatory. In any case, all the projects have to seek “Consent to Establish” from the concerned State Pollution Boards (SPBs).

Once the project is operational, the project authorities are required to obtain “Consent to Operate” for the discharge of effluent, emissions or solid wastes. If the wastes are hazardous, an “Authorization” for storage, handling, transport, treatment, sale, or disposal is additionally required. They are granted by SPCBs.

India has over 3 million small, medium, and large industrial firms. All of them, except certain categories of small-scale industrial units in some states, are required by law to obtain consent, clearances or authorizations. As per the latest information available, only 113, 760 industrial firms have been granted consents/authorizations, which constitutes about 45% of large and medium industries. However, the compliance record of units in 17 highly polluting industrial sectors is far above the national average. In these sectors over 85% of the units are complying with environmental regulations. While compliance record of smaller firms is poor, but where they exist in clusters, they are being catalysed to put up “Common Effluent Treatment Plants” (CETP). It is estimated that over 80 such CETPs are either in operation or are in the process of being installed. It is recognized that lack of awareness as well as financial and technical capabilities are constraining factors in this industry segment. To overcome this, innovative ideas and initiatives are being promoted. One such concept is Waste Minimization Circles, where firms are introduced and trained to identify and exploit waste minimization opportunities. The results of such circles, at Surat, Ludhiana, and Kanpur have already been very encouraging.

India today is at a very interesting stage of economic and environmental developments. On one side, the process of liberalization is boosting economic performance where both industrial output and GDP are witnessing a unprecedented growth. At the same time, enforcement and compliance of environmental regulations is also improving. However, environmental challenges still seem insurmountable, despite positive steps taken by MoEF and SPCBs to promote preventive measures such as waste minimization, recycle, reuse, recovery, waste utilization, cleaner production, etc. along with conventional curative strategies.

The Central and State Governments now offer a varied mix of incentives such as, 10% depreciation on pollution control equipments, reduced excise tax and custom duties, sales tax holidays etc. It is expected that India henceforth would depend more on Market-Based Instruments (MBIs) instead of Command and Control approach.

Industrial Response: Current Trends

Control of pollution is now an integral part of industrial growth process. However, due to media specific nature of environmental laws, the water and air pollution problems are increasingly getting transformed into solid waste problems. While the thrust on air and water pollution continue, the trend is very clear that industries are increasingly asked to manage their solid waste-hazardous or non-hazardous, in an environmentally sound manner.

The Ministry of Environment and Forests is now laying more emphasis on “preventive” measures as opposed to practicing “curative” ones. Industries are now being asked to adopt cleaner technologies and this is achieved through procedures relating to “Environmental Clearance” or “Consent to Establish” as explained earlier. Industrial base in India is therefore getting restructured both in terms of scale of production and technology choice. Even otherwise, as the process of Indian economy is opening up to

international markets strengthens –which inevitably will, industry in India has no choice but to become more eco-efficient or perish. Indian Industry is taking notice of this trend.

Framework for Achieving Total Stakeholder Satisfaction (TSS)

The emerging corporate environmental management paradigm is characterized by broadening of environmental stakeholder base and their expectations. The model of environmental management, subscribed to by both government and industry, was one in which regulatory agencies representing the interests of society controlled the actions of industry. Industry acted in its own narrowly defined self-interest.

Today, the stakeholders for environmental programs are much more broadly defined. They include, in addition to regulatory agencies, residents of communities where facilities are cited, employees, product customers, shareholders, and board of directors, as well as national and local environmental organizations. While regulators remain the ultimate representative of society's interest, corporate environmental performance is seen as a responsibility of the corporation to its environmental stakeholders. Each stakeholder group represents an aspect of society's interest.

With the change in stakeholder group, has come a change in stakeholder expectations. Regulatory agency's interests in compliance with applicable regulatory requirements have been augmented by concerns that go well beyond compliance. These expectations encompass the organization's overall performance in reducing risks to workers and facility neighbors, in reducing emissions of pollutants that have global or regional effects (e.g. sulfur oxides, green house gases, and ozone depleters), and in preserving material and nonrenewable energy resources for future generations. Similarly, investor's interest encompass besides, ability of corporations to pay loans, the ability to assess future liability and requirement of its implications.

With the widespread diffusion of life cycle thinking, environmental concerns have crossed the boundaries of corporations. Corporate environmental governance must address environmental aspects having direct impacts (due to manufacturing) as well as aspects that are under its influence viz. its suppliers-extending back to raw material sourcing, and of its customers-extending forward to end customer product use and disposal.

As environmental performance has itself become a stakeholder expectation, the factors in corporate environmental decision-making have become more complex. Compliance with regulatory requirements and protection against imminent threats to environment remain sine qua non elements. If regulatory customers are not satisfied, the organizations efforts to address customer environmental needs will be in vain.

Assessing environmental performance (ISO 14031: 1999; _sa Skillius and Ulrika Wennberg, 1998; Epstein, 1996) of an organization is becoming very complex and challenging particularly in view of multiple stakeholders. The contemporary performance indicators (James and Bennett, 1995) viz. impacts, emissions/wastes, financial risks, efficiency, input, socio-economic and resources use intensity etc. largely conform to regulators expectations. These environmental performance indicators do not evaluate an organization's environmental performance relative to stakeholders' needs. Evaluating environmental performance is, at bottom, a process of measuring how well corporate performance satisfies stakeholders' expectations. In this paper, a generic framework is provided to assess total stakeholder satisfaction. Further, conformance to environmental stakeholders' implicit and explicit expectations throughout the life cycle of a product can also be used to evaluate the efficacy of environmental programs.

Assessing the Total Stakeholders' Satisfaction

This section delineates a framework for assessing total stakeholder satisfaction (TSS). The methodology herein is akin to value chain analysis, but for the inclusion of life cycle

stages involving 'consumption' and environmental aspects that have little relevance to calculation of 'value'.

Identification of stakeholders along life cycle or products and services and eliciting their expectations are two salient tasks in this step. Assessment of stakeholders' expectations involves establishment of communicative linkage with the customers to identify both implicit and explicit ones.

Identification of Salient Life Cycle Stages of Product

Determining which life cycle stage to be included or considered can be a daunting task. In principle, all the stages of product in question should be considered, however, some stages can be omitted if the environmental impacts /aspects are not significant. A thumb rule to choose life cycle stages is to identify:

- stages where legal requirements have to be met
- stages whose environmental impacts are significant (emissions are high/exceeding standards or limits, scarce resources are used)
- stages where key environmental stakeholders are affected.
- stages which are under the direct influence of product manufacturer
- stages which are not under the direct control of product manufacture, but are critical to the overall environmental performance across the life cycle of a product in question

Prioritization of Salient Life Cycle Stages of Product

After identifying the salient stages of product for the evaluation of stakeholder satisfaction, the next step is to seek stakeholders' prioritization of salient stages i.e. to

know preferences of all stakeholders from the view point of environment. This could be based on the following criteria:

- potential impacts of emission/wastes/discharges/resources use
- past occurrences of non-compliances and incidences of conflict
- cost-effectivity of environmental performance improvement possibilities

Identification of Key Stakeholders

Determining who the environmental stakeholders are for an organization is a critical for evaluation of stakeholder satisfaction. Stakeholders may be formal, readily identifiable groups, or they may be people who have been inadvertently pulled into an issue—such as parents of children at a school located in the neighborhood of a contaminated site. Failure to identify or include groups or persons that have an interest in an issue can have grave consequences. Thus a major portion the customer satisfaction process is devoted to identifying stakeholders and gaining insights into their attitudes and agendas.

Generally key stakeholders:

- can affect the operations of factory, site or project i.e. regulators
- are directly involved because of their proximity to a facility, site, or project, such as neighbors
- use the products and services of the organization
- have financial stake in the organization such as banks, insurance organizations and investors, shareholders
- have an interest in an environmental issue because of the positions they hold, such as elected and appointed officials and other local government staff
- want to be part of the dialogue concerning the issue

Ranking of the Stakeholders

Organizations can have it's own set of criteria to prioritize stakeholders or preferences. However, following considerations would aid the ranking process

- Statutory or Legal authorities with powers to close/penalize industry for not meeting legal requirements
- Population directly affected by the operations of the industry (who are in the vicinity or factory, site, project)
- Employees affected by working conditions (health and safety) in the organization
- Institutions and individuals with financial stake in the organization
- Environmental and consumer groups in the neighborhood, region or anywhere in the globe
- Consumers or users of the product or service
- Suppliers of goods and services to the organization
- National government and other public interest organizations advocating and / or concerned about sustainable development

The first three stakeholder groups have direct linkages and their satisfaction is of the paramount concern. The next four stakeholder groups have indirect interest with the environmental performance of the organization and are not covered by the regulations in many countries. While the last stakeholder group is important for the environmentally committed organizations preparing for future. The suitable and relevant criteria to internalize organization's sustainable business concerns are context specific.

Identification of Expectations of Stakeholders

One of the most important questions that must be answered about environmental stakeholders is, what are the explicit and implicit expectations of stakeholders with regard to the environmental performance of the organization and the state of the environment in the region. Understanding the environmental needs hold the key for a successful evaluation of environmental expectations of diversified stakeholders and is challenging as the:

- misinformation or lack of information or understanding about a situation, substance or process
- difference of opinion or belief as to for example, the way facility should be operated, the risk posed by activities or the way natural resources should be used
- incidents, such as spills, adverse effects or threats (or perceived incidents, adverse effects, or threats) to human health and environment
- lack of information, ignorance about environmental issues

To understand the stakeholder' expectations, one may need to provide adequate information and knowledge to them on environmental problems in the region and their severity, feasibility and cost of control, effect on health and eco system restoration costs etc., without introducing bias and influence. A feasible way to map environmental expectations is questionnaire survey. The generic environmental expectations of various stakeholders are at **Table 1**.

Table 1. Environmental concerns of stakeholders

Customer	Concerns	Life Cycle Stages	Performance Measure
Regulatory Authority	Compliance with regulation	Entire Life Cycle	Impacts, and Emissions/Wastes
Financial Institutions	Reduced profits due to environmental liability	Entire Life Cycle	Financial and Risks
Employees	Occupational Hazards	Manufacturing and Service	Efficiency and Input
Consumer (end user of product)	Environmental Liability	Use and Disposal	Health impacts and Disposal
Neighborhood	Concerns related	Manufacturing	Resources and

	to local resources and benefits	and Distribution	Socio-economic
Government	Concerns related to region's environment and economy	Raw material extraction, manufacturing and disposal	Resources and economic

Identification of Environmental Improvement Programs

Once the environmental expectations are known/prioritized, the organization needs to select environmental programs that can meet the environmental expectations of each stakeholder.

The environmental improvement programs are identified through a comprehensive environmental audit and are based on the environmental objectives and targets of the corporation. However, these may not be related to the stakeholders' satisfaction. The extension of TQM principles of conforming to customer satisfaction to environmental sector ensures that the process of TQEM maximizes stakeholder satisfaction and subsequently improves this continuously through total employee involvement. Hence, the basis to select a set of environmental programs should be to maximize total environmental stakeholder satisfaction in an economic manner and ensure its continuous improvement.

Prioritization of Environmental Programs

The improvement in satisfaction of each type of stakeholder can be computed for all the selected environmental programs and then individual scores can be aggregated to compute improvement in total stakeholder satisfaction.

The evaluation of alternative environmental programs involves the considerations of legal, social, image, competition, market forces, economical and environmental factors, and it is a multi-judge, multi-objective and multi-criteria decision making problem.

There exists large number of multi-criteria decision making methods available in the literature, viz. Elimination and Choice Translation Algorithm (ELECTRE) (Nijkamps et al., 1977), Preference Organization Method for Enrichment Evaluation Method (PROMETHEE) (Brans et al., 1984), Analytic Hierarchy Process (Saaty, 1980). Multi-Attribute Utility Theory (Dyer et al., 1992), Multi-Objective Linear Programming or Goal Programming (Zeleny, 1982). Out of all these, AHP seems to be most appropriate method and a large number of applications of AHP in the area of environment exist (Riza Banai-Kasani, 1989, Bloemhof et al., 1995, Saaty and Gholamnezhad, 1981, Lewis and Levy, 1989, Fatti, 1989).

Final Remarks

In future, organizations can improve their standard of corporate environmental governance in a phased manner. Initially, corporations can focus on achieving environmental compliance with all the relevant laws of the land. This is quite simple for organizations having environmental management systems in place, as the identification of all the applicable environmental laws and acts is requirement for ISO certification. Although, full compliance is not mandatory for ISO certification but acknowledgement of non-compliance and a time bound program to seek compliance is essential. For companies oblivious of applicable laws, identification of environmental laws is essential. Further, due to the increasing volume of environmental regulations, companies should keep a track of regulatory requirements. In the second stage, the corporate environmental governance in terms of achieving compliance can be spread along supply chain. This implies, companies would increasingly look for suppliers and contractors having demonstrable environmental performance. Finally, in the highest level of corporate environmental governance would require companies to meet and exceed the environmental and social concerns of all the stakeholders across the production-consumption chain.

What roles do owners have to play in corporate environmental governance? Essentially, they need to bring about an attitudinal change in themselves, and identify with the aspirations of each stakeholder. They should adhere to the principle of looking for public good-private good will, automatically, emanate from that. The 21st century's corporate environmental governance template would define enlarged role for all the environmental stakeholders viz. regulators, financial institutes, representatives of society, local community, end-use consumers, government, employees, and NGOs. These stakeholders should be involved in all major corporate environment related decisions, all specials resolutions need to be consulted by these stakeholders and the company should send them not just the annual report, but also corporate environmental accounts. The financial institutions should, if needed, appoint functional experts to represent them on the boards of companies in which they have substantial holdings.

The role of government will be to define the quality of information that the management has to share with its board and stakeholders. It also has to define the level of transparency that is expected in all the environmental and social reporting. In conclusion, good corporate environmental governance is a state of mind. It cascades from a set of core values that needs to be instilled at all levels of the organizations. In my opinion, the values on which good corporate environmental governance is based are time and context invariant.

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