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"Negotiated" Transparency?

Corporate Citizenship Engagement and Environmental Disclosure

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Abstract

Corporate stakeholder relations are historically typified by power imbalances and mistrust, but in recent times, they are increasingly characterized by ‘dialogue’ based on mutual understanding and creative action. In this paper we consider corporate engagements with two external stakeholder groups, citizenship-focused non-governmental organizations (NGO) and institutional investors, and examine the potential association between these engagements and corporate disclosure of environmental information. Based on a sample of 183 firms over a three-year time period, we analyze the relationships between NGO engagement, investor activism and the quality of corporate voluntary environmental disclosure. Our findings suggest that engagement with skills-focused NGOs and the withdrawal of shareholder resolutions, as mechanisms for dialogue and negotiation, are strongly related to higher quality disclosure. We conclude with discussion of our findings in terms of modern governance structures influencing transparency in the corporate sector as well as comment on how corporate citizenship may, indeed, be making a difference.

Key Words: Transparency, Disclosure, Environmental, NGO, Investor Activism

“Negotiated” Transparency?

Corporate Citizenship Engagement and Environmental Disclosure

Corporate citizenship calls for businesses to not only meet their economic and legal requirements but also the ethical and discretionary responsibilities imposed on them by their stakeholders (Maignan & Ferrell, 2000). In pursuit of the ethical and discretionary, corporate stakeholder relations are historically typified by power imbalances and mistrust (Poncelet, 2003). Recently, however, they are increasingly characterized by ‘dialogue’ based on mutual understanding and creative action (Halal, 2001; O’Connell et al., 2005). Is this dialogue, as a representative outcome of corporate citizenship-inspired policy, having an impact? In this paper we consider corporate engagements with two external stakeholder groups, citizenship-focused non-governmental organizations (NGOs) and institutional investors, and examine the potential association between these engagements and corporate disclosure of environmental information. Evidence of the impact of engagement with stakeholders, in terms of enhanced transparency, might suggest that, indeed, corporate citizenship is making a difference.

Over the past 10 years both NGOs and institutional investors have become increasingly active in pursuing the common objective of corporate environmental transparency (Aguilera, 2005; Busco et al., 2005; Clark & Hebb, 2004; Fombrun, 2006; Mirvis & Googins, 2006). And, corporations are increasingly disclosing environmental, and to some degree social, impacts and performance (KPMG, 2002, 2005). However, the extent to which corporate-NGO engagement and institutional investor activism are leading to greater transparency remains uncertain. Thus, in the search for a partial answer to the overriding question in this special issue, the objective of this study is to determine the impacts of engagement between these two stakeholders and corporations on the quality of voluntary environmental disclosure by corporations.

Environmental transparency infers ‘beyond-compliance’ disclosure of information by a firm; such disclosure increases external stakeholders’, including investors and NGOs, abilities to assess the validity of claims made by firms and thereby make more informed decisions (Perrini, 2006). Collecting and reporting

environmental information provides an opportunity for a firm to identify its level of competence in corporate citizenship as well as engage in dialogue with stakeholders (Perrini, 2006). Examining the impacts of investor activism and corporate engagement with citizenship-oriented NGOs may help understand why some firms disclose high quality non-financial information. These two potential mechanisms for motivating and enabling corporate transparency manifest as direct dialogue, information sharing and negotiations between management and external stakeholders. The question remains, however, if either or both of these mechanisms actually lead to higher quality disclosure by firms.

Dialogue with institutional investors and citizenship-oriented NGOs on key citizenship issues provides corporate management with an understanding of stakeholder information needs and the means to provide the information in a useful, meaningful form (Clark & Hebb, 2004; Lazlo et al., 2005). This dialogue provides an important avenue to learning to corporate management. NGOs are diverse, however, with different missions, objectives and approaches to corporate engagement (Freeman, 1999; Winn, 2001). Thus, we also seek to provide insights into how different types of NGOs may be influencing corporate environmental disclosure. Figure 1 below illustrates the relationships between corporate-NGO engagement, investor activism and the quality of environmental disclosure that we explore in this paper.

Insert Figure 1 about here

Theoretical Model

Voluntary Environmental Disclosure

As a primary manifestation of corporate transparency, reporting informs internal and external stakeholders of the operations and status of an organization. Increased corporate risk associated with environmental and social issues has resulted in increased pressure from shareholders, government agencies, consumers and other stakeholders for information about firms' environmental impact and performance.

Voluntary Environmental Disclosures. Berthelot et al. (2003) define corporate environmental disclosure as “as the set of information items that relate to a firm's past, current and future environmental management activities and performance...and the past, current and future financial implications resulting from a firm's environmental management decisions or action” (p. 1). Even with the emerging efforts to standardize social and environmental reporting, most notably the Global Reporting Initiative (GRI), the disclosure of environmental information remains varied across firms.

Voluntary environmental disclosures (VED) are quantitative and qualitative non-financial measures related to firm-specific environmental issues that provide information beyond that which is required by law. VEDs can address a broad range of environmental issues the firm is confronting in its activities, including procurement, manufacturing, selling, marketing, and other operational elements (Marshall & Brown, 2003). The *quality* of VED is at least partially determined by the form of indicators used to report environmental information (SustainAbility 2002). For example, indicators may present (1) total waste discharged to water, (2) waste discharged to water per unit of production, and/or (3) predicted waste discharged to water per unit of future production. These three indicators differ in information quality, such that a stakeholder is better informed about the environmental performance of the firm when the information is presented as a ratio to production; and even better informed when the information is presented as commitment to future discharges. In this study we examine the quality of voluntary environmental disclosures.

Environmental disclosures may be released in a Corporate Environmental Report (CER), as a component of a ‘sustainability’ report or environmental, health, and safety report, or as disclosures included in the annual report or 10K. Prior research to date has looked at the quality of these disclosures in a general manner (Marshall & Brown, 2003; Lober, Bynum, Campbell & Jacques, 1997; Stanwick & Stanwick, 2000; Noci, 2000; Thomas & Kenny, 1996). However, a detailed analysis of the variation in the quality of environmental disclosures has been lacking. Plumlee, et al. (2007) provide a general analysis of

firm valuation as it relates to overall VED quality. We build upon this by identifying broad categories of VED quality and relating them to stakeholder engagement.

Drivers of Voluntary Environmental Disclosures. Motivations for voluntary environmental disclosure are generally categorized as cost-benefit or legitimacy based (Berthelot et al., 2003). From a cost-benefit perspective, evidence suggests that firms tend to disclose less when 1) there is considerable uncertainty about the information that is withheld (Bewtey & Li, 2000), 2) a firm faces serious environmental problems (Li et al., 1997), and 3) firms are in financial distress (Cormier & Magnan, 1997). From a legitimacy perspective, some researchers argue that VED provides legitimacy to environmental management efforts and prevents social and government sanctions (Deegan et al., 2002; Neu et al., 1998).

Overall, existing research suggests that firms' VED increases with: firm size (Bewtey & Li, 2000; Deegan & Gordon, 1996), membership in environmentally-sensitive industries (Patten, 1990, 1992), the extent to which a firm is widely-held (Patten, 1992; Cormier & Magnan, 1997, 2003), a firm's exposure to environmentally-related legal proceedings (Deegan & Rankin, 1996), media exposure to a firms' environmental activities (Neu et al., 1998; Li et al., 1997), the probability of continuing to have similar environmental accidents in the future (Waiden & Schwartz, 1997), and the extent to which environmental lobby groups express concern about the firm's environmental performance (Deegan & Gordon, 1996). We found no evidence of research considering the possible influence of engagement with corporate citizenship-oriented NGOs on VED.

Next, we discuss the role corporate engagement with NGOs can play in influencing corporate disclosure of environmental information and derive a set of hypotheses from this discussion.

Corporate Engagement with Citizenship NGOs

Maignan & Ferrell (2000) define corporate citizenship (CC) as "the extent to which businesses meet the economic, legal, ethical, and discretionary responsibility imposed on them by their stakeholders" (p. 284). As a technique for engagement with society, corporate citizenship entails proactive engagement

with stakeholders. Proactive engagement across sector lines, including partnerships with non-governmental organizations (NGO) and public agencies, generally calls for corporate leadership that understands and embraces the firm's global interconnectedness (Altman & Vidaver-Cohen, 2000; Carroll, 1998; Davenport, 2000). In this paper we examine corporate citizenship engagement in the context of firms' cross-sector partnering with NGOs² who identify the environment as one of their primary issues of focus.

As firms interact more frequently and intensely with external stakeholders, they become more adept and willing to interact with these groups. Mirvis and Googins (2006) suggest five stages of corporate citizenship: elementary, engaged, innovative, integrated, and transformative. These stages are differentiated, to a significant degree, on the firm's engagement with external stakeholders. The stages range from limited or one-way interaction with external stakeholders at the elementary stage to extensive interaction and dialogue with other businesses, community groups and NGOs. The stage-model suggests that firms increasingly incorporate partnerships with and communication to stakeholders as part of their corporate vision and business strategy. It may be, therefore, that the more a firm interacts with corporate citizenship-oriented stakeholders, the more willing it is to voluntarily disclose environmental information. Overall, we suggest that firms are more able and willing to disclose high quality environmental information when they engage more often with corporate citizenship oriented stakeholders. Corporate engagement with NGOs may lead to high quality VED.

² In the general category of NGOs, we include some organizations that do not technically meet the definition of a non-governmental organization. A prime example is the Global Compact, which is a voluntary program that is sponsored by the United Nations. As it is sponsored by a league of governmental entities, it cannot be strictly considered to be an NGO. The Global Compact functions as an NGO, however, as it applies pressure on firms to voluntarily amend their activities. What we call NGOs, therefore, will include a number of similar-behaving multi-stakeholder initiatives as well as organizations that meet a stricter definition of NGO. We thank an anonymous reviewer for this insight.

Principles- and Skills-Focused NGOs

Distinguishing between two types of NGOs further illuminates the argument for a relationship between NGO engagement and the quality of VED. In this paper we differentiate between NGOs that focus primarily on *principles of corporate environmental citizenship* and those that focus largely on *skill-building for corporate environmental stewardship*.³ Examples of principles-focused NGOs include the UN's Global Compact, the Coalition for Environmentally Responsible Economies (CERES) and Business for Social Responsibility. These NGOs primary function is to create and promote a set of principles for CC behavior. For example, the Global Compact is "a purely voluntary initiative" with two objectives, including (1) internalizing "...the Compact and its principles by making them part of business strategy and operations" and (2) "...facilitate co-operation and collective problem-solving between different stakeholders" (Kell, 2003, p. 36). The objective of obtaining adoption of a set of principles is to 'set in motion changes to business operations' based on the principles. Often the decision to engage with a principles-focused NGO entails a commitment by top management. Adoption of the CERES Principles, for example, requires "(e)xecutive-level commitment to improve environmental and social performance using the Ceres Principles as a starting point" (www.ceres.org, accessed June 23, 2006). Similarly, participation in the Global Compact requires a letter to the UN Secretary General from the CEO expressing support the Compact's ten principles. In summary, engagement with a principles-focused NGO involves commitment by top management to a set of principles and the integration of the principles into strategic decision-making.

While principles-focused NGOs focus on principles that guide firms' environmental objectives, NGOs focused on skill-building for environmental stewardship develop and disseminate specific knowledge, skills, and methods for actually managing firms' environmental impacts. The Global

³ Clearly, the distinction between principles-based and skills-based foci for NGOs is an oversimplification. Many NGOs' missions lie somewhere between being purely principles-based and purely skills-based. Nonetheless, we identify NGOs as occupying the extreme poles of this gradient for purposes of analysis. The relevant factor is the corporate response to the NGO...does a corporate entity look to the NGO as a source of principles by which to engage or a source of technical skills with which to engage?

Environmental Management Initiative (GEMI), the Corporate Environmental Responsibility Center of the Earthwatch Institute, and World Business Council for Sustainable Development (WBCSD) are examples of skill-building NGOs. Although these NGOs are founded on similar principles as advocated by principles-focused NGOs, they focus more directly on knowledge enhancement and skill building to improve firms' environmental stewardship performance. For example, GEMI's mission statement is "(b)usiness helping business improve environmental, health & safety performance, shareholder value and corporate citizenship" (GEMI, accessed June 21, 2006). To achieve its mission, GEMI has developed a number of interactive tools dealing with supply chain management, integration of sustainable development into business processes, and water conservation and climate change initiatives (GEMI, 2004). Similarly, the WBCSD's Energy and Climate project develops methods for business to address global warming, in particular by development practical mechanisms, measurement tools, and market-based solutions. Firms who engage with skill-focused NGOs are likely to gain specific environmental knowledge necessary for improving and reporting environmental performance. Further, a firm's involvement with skills-focused NGOs is usually at the business operations level rather than the top management. While it would be unusual for a company to engage with skills-focused NGOs without at least the tacit assent of top management, the operations level personnel are more likely to be closely involved with the implementation and use of GEMI's water conservation tools, WBCSD's climate change measurement tools, or Earthwatch Institute's field work on specific corporate environmental programs. Thus, in contrast to corporate engagement with principles-focused NGOs, partnerships with skill-focused NGOs generally entail the development of operational level environmental knowledge and the direct involvement of operational level personnel.

Overall, the engagement with and integration of both principles- and skills-focused NGOs into the business permits the attainment of knowledge and skills important to the pursuit of an environmental strategy (Aragón-Correa & Sharma, 2003). However, we argue that the types of NGOs with which a

company partners will be differentially related to the quality of environmental information it discloses. The ability to internalize relatively sophisticated knowledge related to strategic and operational environmental issues through engagement with skills-focused NGOs, vis-à-vis principles-focused NGOs, will likely make firms more capable of collecting and managing the information necessary for high quality disclosures of environmental information (Brown et al., 2005).

Hypothesis 1a: Corporate engagement with principles- and skills-focused NGOs will be positively related to high quality voluntary environmental disclosure.

Hypothesis 1b: Corporate engagement with skills-focused NGOs will be positively related to *higher* quality voluntary environmental disclosure than corporate engagement with principles-focused NGOs.

Next, we discuss the roles institutional investors can play in influencing corporate disclosure of environmental information and derive a set of hypotheses from this discussion.

Institutional Investor Activism

Investor activism is defined by Ryan and Schneider (2002) as “the use of power by an investor either to influence the processes or outcomes of a given portfolio firm or to evoke large-scale change in ... multiple firms through symbolic targeting of one or more portfolio firms” (p. 555). Activism can take a variety of forms – from cooperative, such as behind-the-scenes dialogue and meeting with top management to adversarial such as proxy voting and shareholder resolutions (Waddock, 2000). The role of investor activism in the US governance system has risen dramatically over the past two decades – to the extent that Clark and Hebb (2004) characterize engagement by shareholders, in particular pension funds, as the fifth stage of capitalism.

When corporate management confronts a possible resolution, it often undertakes negotiations with the sponsor or co-sponsors to see if the resolution may be withdrawn (Smith, 2005). In cases where a resolution is withdrawn prior to a proxy vote it is often the result of negotiated agreements on the key issue between the sponsor and the firm. In this case, withdrawn resolutions provide evidence consistent with

management's engagement with activist investors. Historically it is less common for investor activism to reach the stage of proxy voting and shareholder resolutions. However, this trend may be changing, particularly in regard to 'hot' topics such as reporting on greenhouse gas emissions (Graves, Rehbein & Waddock, 2001). For example, in the 2005-2006 filing season, 30 shareholder resolutions were filed with a focus on global warming, while seven resolutions were withdrawn after companies agreed to undertake climate risk assessments and committed to specific greenhouse reduction targets (CERES, 2005).

Previous research regarding the influence of institutional investors on firms' decision-making indicates that the mere filing of a resolution often signals the failure of sponsor-management dialogue to reach agreement on the disputed issue (Hoskisson et al., 2002; Johnson & Greening, 1999; Tihanyi et al., 2003). The subsequent withdrawal of a resolution, however, generally indicates that agreement has been reached on corporate actions to deal with the issue under consideration prior to the proxy vote. If a resolution is disqualified by the SEC it suggests that the target company's argument against the resolution succeeded on technical grounds. Finally, if the resolution reaches the proxy voting stage at the annual shareholder meeting, then no agreement was reached and the sponsor is provided an opportunity to speak to the shareholders present at the annual meeting regarding the resolution issue. Proxy voting represents a contentious form of engagement and dialogue; sponsors and corporate management prepare and present arguments for and against the resolution, respectively. Thus, resolutions provide an opportunity for the sponsor to gain greater attention for the issue among the firm's shareholders as well as generate broader publicity (Waddock, 2000). Withdrawn resolutions suggest a sense of compromise through dialogue whereas disqualification and proxy voting present more acrimonious forms of engagement. Based on these considerations, we suggest that following hypotheses.

Hypothesis 2a: The number of withdrawn shareholder resolutions dealing with environmental issues is positively related to a firm's quality of voluntary environmental disclosures.

Hypothesis 2b: The number of shareholder resolutions dealing with environmental issues disqualified is negatively related to a firm's quality of voluntary environmental disclosures.

Hypothesis 2c: The number of shareholder resolutions dealing with environmental issues voted on at shareholder meetings is negatively related to a firm's quality of voluntary environmental disclosures.

In summary, our hypotheses suggest that several forms of engagement between firms and external stakeholders are associated with the quality of VED. We suggest that firm engagement with NGOs, particularly skills-focused NGOs, leads to higher quality disclosure and that firm engagement with activist shareholders leading to the withdrawal of a resolution will lead to higher quality disclosure. We also suggest the disqualification of and proxy voting on shareholder resolutions is negatively related to VED quality. Next, we discuss the research methods, analyses and results from the hypotheses testing.

Methods

Sample

To test our hypotheses, we included five industries in our sample: (1) chemical, (2) oil and gas, (3) utilities (electrical), (4) pharmaceutical and biotech, and (5) food and beverage. These industries provide a contrast of higher to lower polluters, based on the Toxic Release Inventory (TRI) database (Christman, 2000; Bansal & Clelland, 2004; Kassinis & Vafeas). Based on TRI data averaged for years 2000, 2001 and 2002 on total reported chemical releases and waste produced, chemical and electric utilities represent high polluters, oil and gas and food and beverage represent middle range polluters, and pharmaceutical and biotech represents a low polluter. Including industries across reported levels of pollution provides a comparison of firms that might be differentially driven to voluntarily disclose environmental information. The firms were drawn from the Dow Jones Global Index. From the 416 firms across the five industries, we identified 183 firms, representing 549 firm-years, from which to obtain information to complete our disclosure index. Unavailability of control variables lead to the deletion of 70 firm-years, primarily due to

firm mergers, acquisitions and dissolutions. The final data set included 479 firm-years over the three year time period⁴.

Measures

Quality of Voluntary Environmental Disclosure. Our dependent variable is the quality of voluntary environmental disclosure. We used primary data regarding the VED of publicly traded companies using a self-constructed VED index (see Plumlee et al. 2007). The index (hereinafter called the BMP index, per Plumlee et al. 2007) provided a listing of observations relating to environmental disclosures by the target firm. For each firm in the initial sample, the BMP index provided three years of environmental data (2000, 2001, and 2002) consisting of over 300 possible environmental observations from 62 attributes for each year. From the environmental management literature (Aragon-Correa, 1998; Bansal & Roth, 2000; Hart, 1995; Starik & Rands, 1995; Roome, 1992), we identified four levels of environmental strategy that are reflected in environmental disclosures: compliance, pollution prevention, product stewardship and ecological sustainability. Progression from one to the next strategy requires building socially complex competencies, taking an increasingly holistic approach to product design, production and marketing, incorporating stakeholders into strategic decision-making, and creating and relying upon a vision based in environmental stewardship. Disclosures of environmental information through indicators representative of these four levels display increasing levels of sophistication in understanding, measuring and communicating environmental strategy. We identify the disclosure quality at each level of environmental strategy (compliance, pollution prevention, product stewardship, ecological sustainability) by the total number of observations from the BMP index at each level for each firm-year.

Now we describe the process for determining which indicators from the BMP index relate to each of the four levels of disclosure quality. First, we identified the strategic quality related to the observations of specific environmental attributes from academic (Brown, et al. 2005, Wiseman 1982) and practitioner/

⁴ For further information about the sample, see Plumlee, et al. 2007.

consulting literature (e.g., SustainAbility 2002, AccountAbility 2003). For example, environmental indicators of using renewable energy sources relate to product stewardship (minimizing environmental life-cycle costs) while environmental indicators of reduced per-unit traditional energy use relate to pollution prevention (minimizing waste). Considering the character of each of the four categories of disclosure quality and the primary focus of each of the BMP index indicators, we drafted a preliminary coding scheme. The coding scheme was pre-tested using randomly selected corporate environmental reports and two of the authors independently identified discrepancies in the coding scheme to resolve differences and finalize the index. The index was then run on the BMP index data and the firm-year scores for each level of disclosure quality were determined.

Corporate Engagement with NGOs. The process for measuring corporate NGO engagement entailed six steps. Our first task was to compile a comprehensive list of environmental/citizenship NGOs that met the following criteria: (1) be U.S. or U.S./international in focus (not strictly local or regional), (2) have environmental as a key aspect of its principles and/or programs, (3) maintain corporate partnerships as an important part of its outreach and, (4) be non-industry specific (engage with corporations from a diversity of industries). These criteria minimize the potential bias in terms of the opportunity for all firms in our sample, regardless of size or geographic scope, to partner with the selected NGOs. To construct our initial set of NGOs, three lists were used – from the Center for Corporate Citizenship (Boston College), the National Environmental Database, and Duke University-Perkin's Library's 'NGOs: Environmentally Sustainable Development' database. A total of 18 NGOs met the four criteria set above.

Second, based on Internet and archival documentation, we clarified the primary purpose of NGO. Using the stated missions and primary activities of the NGOs, we classified each of the NGOs as either principles-focused or skills-focused. Third, we collected corporate signatory/membership list from NGOs for years 2000, 2001 and 2002. We then cross-referenced the signatory/membership status information through archival searches of corporate websites, publications, press releases, etc and eliminated any

incomplete or mismatched data. Based on the first three steps, we identified three principles- and five skills-focused NGOs with which at least 2 firms in our sample were engaged during the years 2000, 2001 and/or 2002. For the purposes of this study, the principles-focused NGOs include: Business for Social Responsibility, Coalition for Environmental Responsible Economies and UN Global Compact; the skills-focused NGOs include: Earthwatch Institute, Environmental Defense, Global Environmental Management Initiative, World Business Council for Sustainable Development and World Resources Institute. Fourth, we identified each firm-year in which a firm was engaged with a particular NGO. Finally, we summed both the number of principles- and skills-focused NGOs each firm was engaged with for years 2000, 2001 and 2002. The continuous variables for principles-focused NGO engagement and skills-focused NGO engagement are designated as *Principles* and *Skills*, respectively. A continuous variable for the aggregate NGO engagement was created as the sum of the *Principles* and *Skills* variables and is designated as *All_NGOS*.

Institutional Investor Activism. In this paper we focus on the outcomes of institutional activism once a resolution is filed as an indicator of corporate engagement with activist institutional investors. Although previous research on investor activism has considered the initiation of a shareholder proposal and proxy contests (David, et al., 2001), we focus on the outcomes of resolution filings based on the three stages described earlier where the outcomes serve as proxies for the results of negotiations between the sponsor and firm management (see Carleton et al (1998). The variables used in the analysis are *Withdrawn*, the number of resolutions withdrawn in a firm-year; *Disqualified*, the number of resolutions disqualified in a firm-year; *Voted*, number of resolutions brought to a proxy vote in a firm-year. These data were collected from the Interfaith Center for Corporate Responsibility (ICCR: <http://www.iccr.org/>). The ICCR records information regarding all shareholder resolutions filed each year in the US dealing with social and environmental issues filed, including the target company, sponsor(s), description of the resolution issue, date of filing, and the status of the resolution (withdrawn, disqualified, voted on).

Control Variables. Based on previous literature (Bewtey & Li, 2000; Bansal & Clelland, 2000; Deegan & Gordon, 1996; Johnson & Greening, 1999), we incorporated measures of firm size and profitability into our analysis. Organizational size is represented by the logarithms of *Total Assets* and *Total Sales*. Proxies for profitability include return on assets (*ROA*) and return on sales (*ROS*). These data were obtained from Compustat for the years 2000, 2001 and 2002. Because of the high correlations between the organizational size variables (0.90) and profitability variables (0.59), we included only one of each – Total Sales and ROA, respectively – in our statistical analyses. We also coded the five industries with dummy variables.

Analysis

We used a series of standard linear regression models to examine the effects of corporate NGO engagement and institutional investor activism on the quality of VED. Table 1 presents the Spearman correlation matrix and descriptive statistics. Tables 2 and present the results for our regression model analyses for the four levels of quality of VED, compliance, pollution prevention, product stewardship and ecological sustainability, respectively. Table 2 shows the results for the regression against *All_NGOS* whereas Table 3 reveals the results for the regression against *Principles* and *Skills* variables. For each VED level in both sets of analyses, we ran two models. The first included the dummy variables for chemical, electric utilities, oil & gas and food & beverage; the second replaced food & beverage with pharmaceutical.

Hypothesis 1a examines the relationship between NGO-corporate engagement and the quality of VED. It suggests that corporate engagement with both principles- and skills-focused NGOs will lead to higher quality VED. Our analysis in Table 1 shows that greater engagement with NGOs (both principles- and skill-focused) is related to higher quality VED at all levels, consistent with hypothesis 1a. Hypothesis 1b states that firms that engage with skills-focused NGOs will have quality disclosure than those that engage with principles-focused NGOs. Our results shown in Table 2 indicate that principles-focused

engagement is positive and significant in relation to compliance VED, but not significantly related to higher levels of VED. Skills-focused engagement is significant and positive in relation to VED at all four levels.

Thus, we find support for hypotheses 1a and 1b.

Hypotheses 2a, b, and c consider the relationship between the outcomes of shareholder activism and the quality of VED. The process of formulating, filing, and negotiating around shareholder resolutions represent corporate engagement with shareholder activists. For Hypothesis 2a, both Tables 1 and 2 show that the number of withdrawn resolutions is significantly and positively related to disclosure of compliance, pollution prevention, and product stewardship VED and not significantly related to ecological stewardship VED. Overall, these results suggest that withdrawal of a resolution prior to proxy voting is consistent with higher VED quality. Hypothesis 2b stated that the number of disqualified resolutions is negatively related to the quality of VED. The results in Tables 1 and 2 show that disqualification was found to not be significant for all levels of VED, providing no support for this hypothesis. H2c proposes that the number of resolutions going to a proxy contest is negatively related to VED quality. In both Tables 1 and 2 the results suggest no support for this H2c at any level of VED quality. In summary, the only outcome of environmental shareholder resolutions significantly related to higher quality VED is the number of resolutions withdrawn. H2a is supported; H2b and c are not.

Our results suggest that engagement with skills-focused NGOs and with investor activists prior to proxy contests are strong predictors of the quality of VED. In the following section we will discuss the implications of our findings.

DISCUSSION

Corporations are faced with increasing pressures from a number of external stakeholders to improve their corporate citizenship behaviors. To a noticeable extent, many companies have responded by engaging with external stakeholders in less adversarial, more collaborative relations, leading to the potential for 'negotiated' solutions to enhanced corporate citizenship. Transparency through disclosure of

environmental impacts and performance is considered by many to be a key aspect of corporate citizenship. This study examined aspects of the relationships between firms and two external stakeholder groups, corporate citizenship NGOs and investor activists, and the quality of their VED. In recent times, these specific external stakeholder groups have been particularly interested in higher quality disclosure by firms and our findings suggest that 'negotiated' transparency is rising, in particular in the interaction of corporations with skills-focused NGOs and in the dialogue with shareholder activists prior to resolution proxy contests.

Corporate-NGO Engagement

Businesses often make decisions that ignore their long term impacts, making it essential that they develop environmentally responsible information systems to meet the growing environmental requirements imposed by society and by natural systems (Brown et al., 2005). NGOs engaged in corporate citizenship activities, particularly those with a focus on knowledge and capability enhancement can play a key role in assisting business build these systems. Our research suggests that corporate engagement with skills-focused NGOs is strongly related to the quality of environmental disclosure. Meeting the environmental imperatives of the future requires better and richer information, which depends on the integration of information systems, organizations, and environmental initiatives (Allenby et al., 2001). We suggest that interactions with skills-focused NGOs (1) provides the firm with better systems and knowledge for collecting environmental information (Brown et al., 2005) and (2) encourages firms to externally report this information. While corporate engagement with principles-focused NGOs was significant only at the level of compliance VED, this does not suggest an unimportant role for principles-focused NGOs regarding corporate transparency. Voluntary externally reporting of non-financial information occurs only with top management consent; the number of firms in the world providing VED remains fairly small (KPMG, 2005) and the principles-focused NGOs may serve to engage a broader audience of corporate management regarding the value of transparency (Lazlo et al., 2005). Principles- and skill-focused NGOs, we suggest,

offer complementary roles in furthering disclosure of environmental (and social) information by engaging the corporate sector at all levels – building association and understanding with top management and knowledge and capacity building with operational personnel.

Shareholder Activism

Our results suggest that negotiations between the shareholder activists and target companies that lead to the withdrawal of resolutions are related to higher quality VED. Shareholder activists, in the role of external monitors of corporate behavior, are increasingly able to wield the resolution as a threat to reputation but also as a prod to engage in dialogue (Graves et al., 2001; Waddock, 2000). Counter to our expectations, proxy voting does not lead to lower quality disclosure; these results may suggest that, in the context of the collaborative-conflict tension between shareholder activists and corporate management, a proxy contest represents a 'stalemate' in the engagement process. If a resolution reaches proxy vote, the resolution sponsors and corporate management failed to reach an agreed solution; as a result management may simply maintain the status quo in terms of reporting and disclosure quality and, thus, we would see no relationship between proxy contests and the quality of disclosure (Geltman & Skroback, 1997).

Clark and Hebb (2004) posit a larger, more influential role for institutional investors in monitoring and control of corporate behavior and performance in modern capitalist societies. Our study highlights how investor activism may play out under these contexts – shareholder activism is a means to persuade managers to focus on a firm's long-term prospects and it is the collaborative-conflict tension that pushes both the activists and managers to engage in dialogue prior to the proxy contest (Carleton et al., 1998). Management may not negotiate in the absence of the threat of a resolution and working against the resolution before and during a proxy vote with shareholders is costly and better avoided (Millstein, 1991).

Thus, our findings are consistent with the idea that shareholder activism provides an important avenue for negotiated transparency between members of the investment community and corporations.

CONCLUSION

While corporate actors are faced with increased pressures from external stakeholders for enhancing citizenship-based policies and actions, they are also engaging with these stakeholders in more direct dialogue, knowledge-sharing and negotiated solutions. These developments occur with both the citizenship NGO and shareholder activist communities and they appear to be related to higher quality disclosure of environmental information by the corporate sector. Because of the serious risks and liabilities associated with environmental issues and performance, disclosure of environmental information is becoming more common (KPMG 2005, Kolk 2004). If corporate citizenship becomes increasingly accepted as a corporate imperative and engagement with skills-focused NGOs increases, corporations will develop greater competencies to measure, collect and report high quality environmental (and social) information. As the quality of disclosure improves, a diverse set of stakeholders, including employees, shareholders, consumers, community groups, and regulators, will be better able to make well-informed decisions regarding where to work, what shares to hold, what products and services to purchase, and what companies to welcome into their neighborhoods. A pre-condition of a sustainable and equitable society is transparency, in word and deed; the results in this paper suggest that corporate citizenship efforts, by means of engagement and dialogue, may be useful in driving higher quality disclosure through 'negotiated transparency'.

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FIGURE 1

Corporate-NGO Engagement and Institutional Activism
as Determinants of the Quality of Voluntary Environmental Disclosure

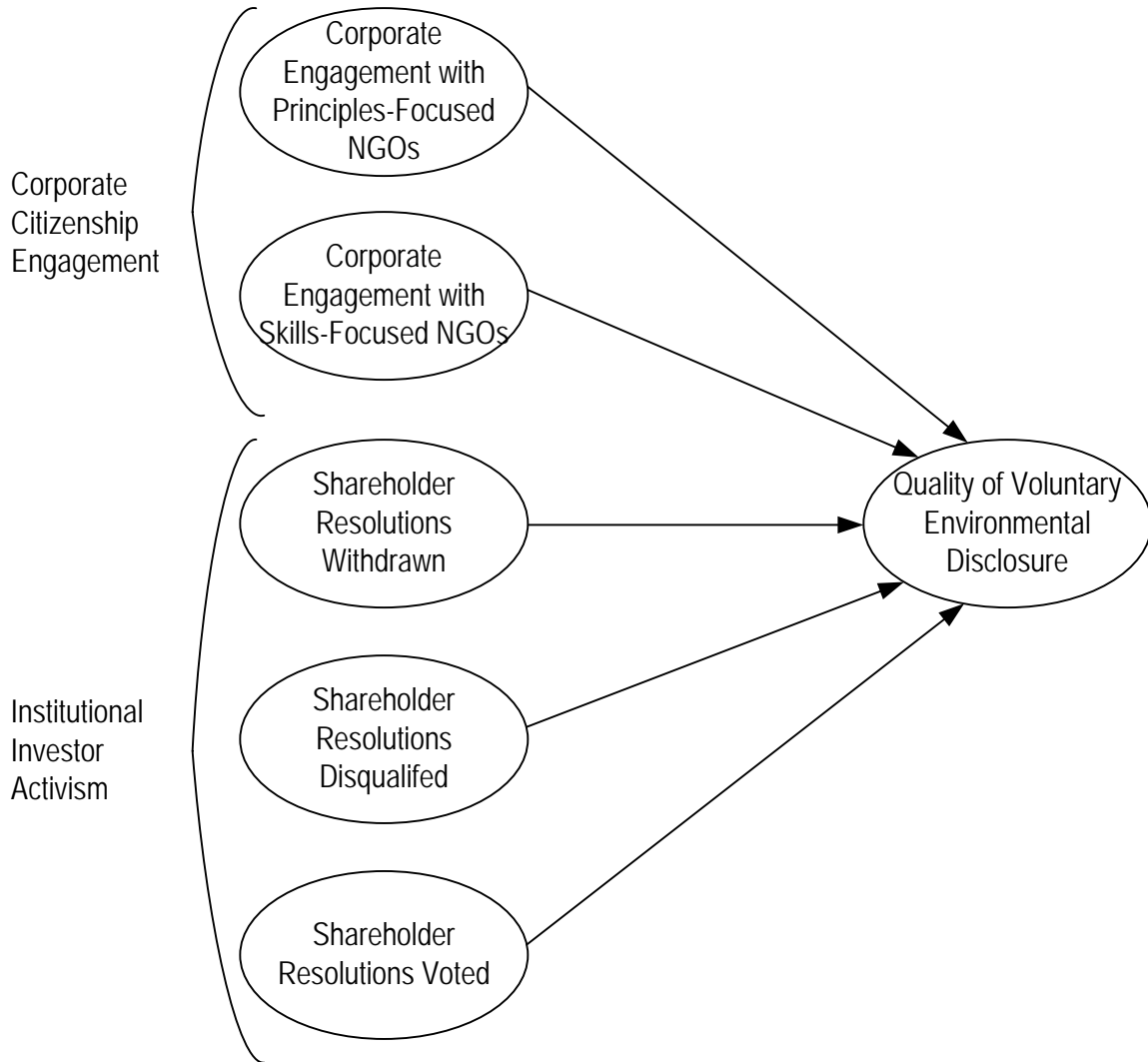


TABLE 1
Descriptive Statistics

	Mean	St. Dev.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.
1. Principles	.11	.89													
2. Skills	.19	.45	.38**												
3. Withdrawn	.02	.14	.03	.13**											
4. Disqualified	.02	.12	.14**	.14**	-.02										
5. Voted	.09	.35	.22**	.14**	.01	.17**									
6. ROA	.16	.09	.14**	.12*	.05	.03	.04								
7. ROS	.25	.20	-.02	-0.04	.03	-.02	-.03	.59**							
8. Total Sales	8.27	1.31	.31**	.45**	.10*	.14**	.33**	.01	-.18**						
9. Total Assets	8.72	1.22	.27**	.42**	.12**	.13**	.33**	-.15**	-.03	.90**					
10. Chemical	.14	.35	-.07	-.11*	-.06	-.05	-.07	-.05	-.16**	-.10*	-.19**				
11. Electric Utilities	.32	.47	-.06	-.14**	.03	.03	.06	-.47**	-.08	.16**	.38**	-.28**			
12. Oil & Gas	.18	.39	.03	-.05	.04	-.01	.12*	.32**	.31**	.08	.05	-.20**	-.33**		
13. Food & Beverage	.15	.36	.11*	.10*	-.02	.09*	-.01	.15**	-.19**	.17**	-.03	-.17**	-.29**	-.20**	
14. Pharmaceutical	.20	.40	.01	.03	-.01	-.06	-.13**	.15**	.10*	-.32**	-.30**	-.21**	-.24**	-.24**	-.21**

* p < .05

** p < .01

TABLE 2
 Regression Models for All NGOs and Environmental Disclosure Quality
N=478

Quality of Disclosure Models Standardized Coefficients	Compliance		Pollution Prevention		Product Stewardship		Ecological Sustainability	
	1a	1b	2a	2b	3a	3b	4a	4c
<u>Independent Variables</u>								
All_NGOS	.29***	.29***	.36***	.36***	.26***	.26***	.30***	.30***
Withdrawn	.17***	.17***	.18***	.18***	.19***	.19***	.06	.06
Disqualified	-.02	-.02	-.02	-.02	.06	.06	.01	.01
Voted	.10	.10	.03	-.03	.10 [†]	.10 [†]	.01	-.01
ROA	.02	.02	.04	.12	.09	.09*	.06	.06
Total Sales	-.02	-.02	-.01	-.02	-.06	-.06	-.02	-.02
Chemical	.11 [†]	.20***	.11 [†]	.20**	.06	.06	-.03	.13*
Electric Utilities	.19**	.32***	.21***	.32***	.30***	.30***	-.11 [†]	.07
Oil & Gas	.06	.17**	.06	.17**	.03	.03	-.09	.06
Food & Beverage	-.09		-.06		-.01		-.13 [†]	
Pharmaceutical		.11 [†]		.11 [†]		.01		.15*
<u>Model Summary</u>								
R ²	.18	.18	.21	.21	.19	.21	.12	.12
Adjusted R ²	.16	.16	.19	.19	.18	.19	.10	.10
F	10.01***	10.01***	12.43***	12.43***	11.15***	8.84***	6.43***	6.43***

† p < .10
 * p < .05
 ** p < .01
 *** p < .001

TABLE 3
 Regression Models for Principles- and Skills-Focused NGOs and Environmental Disclosure Quality
N=478

Quality of Disclosure Models Standardized Coefficients	Compliance		Pollution Prevention		Product Stewardship		Ecological Sustainability	
	1a	1b	2a	2b	3a	3b	4a	4c
<u>Independent Variables</u>								
Principles	.09*	.09*	.06	.06	.07	.07	-.06	-.06
Skills	.17**	.17**	.28***	.28***	.16**	.16**	.32***	.32***
Withdrawn	.17***	.17***	.17***	.17***	.18***	.18***	.03	.03
Disqualified	-.03	-.03	-.03	-.03	.06	.16	.01	.01
Voted	.06	.06	-.01	-.01	.04	.04	-.03	-.03
ROA	.10	.10	.12	.12	.20*	.20*	.17*	.17*
Total Sales	.06	.06	.01	.01	-.04	-.04	-.11	-.11
Chemical	.08	.22***	.10 [†]	.18**	.04	.08	-.03	.12*
Electric Utilities	.15*	.34***	.16*	.29***	.27***	.32***	-.15*	.05
Oil & Gas	.04	.19**	.03	.13*	.01	.05	-.10 [†]	.07
Food & Beverage	-.14*		-.09 [†]		-.04		-.15**	
Pharmaceutical		.16*		.11 [†]		.04		.17**
<u>Model Summary</u>								
R ²	.19	.19	.24	.24	.21	.21	.18	.18
Adjusted R ²	.17	.17	.22	.22	.19	.19	.16	.16
F	7.95***	7.95***	10.69***	10.69***	8.84***	8.84***	7.41***	7.41***

† p < .10
 * p < .05
 ** p < .01
 *** p < .001