Why does the Talk of Positive Environmental Values not match the Walk of Environmental Accountability in Shanghai?

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ABSTRACT

Most research in corporate environmental management and environmental accounting indicate a substantial gap between the espoused environmental attitudes of business leaders and the actual practices of their companies. In this paper, we apply institutional theory in an effort to explain this gap. In exploring the emerging embryonic stage of China’s environmental management issues and more specifically, in attempting to explain the scanty corporate environmental reporting phenomena in discharging accountability in Chinese enterprises, cognitive dissonance model is being employed from an institutional theoretical perspective.

The environmental problems created by China’s unbridled economic boom now threaten the nation’s fragile social, political and economic infrastructure. Accounting and business operations have key roles in contributing to the careful environmental management of balancing between the short-term economic growth and long-term sustainability of the eco-system. Social and environmental accounting commands a pivotal role in the “greening” of business accountability.
INTRODUCTION

Increasing concern and interest in environmental issues coupled with the challenge of globalisation have propelled environmental management and its accountability into the core business of organisations. Some of the international initiatives contributing to this phenomena are: United Nations Local Agenda 21, International Standards Organisation (ISO) 14000 Environmental Management systems series, the World Bank and IMF funding of environmentally friendly projects in developing nations. Endeavours to provide additional account of environmental impact of business operations and their responses to environmental issues in the last two decades witnessed the emergence of environmental accounting. The reporting of environmental accounting issues will encourage behaviour that will improve the environmental impact of organisational operations.

Social and environmental accounting commands a pivotal role in the “greening” of corporate accountability. It is a channel by which the mediation of relationship between the organisation, society and the environment is enhanced ((Gray, Bebbington, & Walters, 1993); (Elkington & Fennell, 1998); (Bennett, Jones, & Morris, 1999); Glen Lehman, 1999). Perusal of the literature suggests that this escalation in research interest is mainly centred on advanced industrialised countries (Guthrie and Mathews, 1985; Guthrie and Parker, 1990; Gray et al., 1995; Adams et al., 1998; Deegan et al., 2000). With a few exceptions (Singh and Ahuja, 1983; Choi, 1998, Disu and Gray, 1998) as noted by Wallace (1990) there is a lack of environmental accounting studies in developing nations.

Most research in corporate environmental management and environmental accounting indicate a substantial gap between the espoused environmental attitudes of business leaders and the actual practices of their companies. In this paper, we apply institutional theory in an effort to explain this gap. In exploring the emerging embryonic stage of China’s environmental management issues and more specifically, in attempting to explain the scanty corporate environmental reporting phenomena in discharging accountability in Chinese enterprises, cognitive dissonance model is being employed from an institutional theoretical perspective.

There are substantial reasons why businesses should and do improve their environmental performance. Conversely, there are also strong factors that hinder or impede the facilitation of sound environmental management accountability in companies. However, the vast majority of companies do not involve themselves with environmental management and least of all, report on environmental impacts of their operations. This is particularly the case with Small-Medium sized Enterprises (SMEs) and firms in developing nations.

There is a dilemma. If there are entrenched factors, and if these are frequently similar for firms with similar external environment, then why do we not find a much broader acceptance and inclusion and disclosure of environmental management issues in companies? We attempt to shed light onto this dilemma from an Institutional perspective by undertaking a study on the business management of environmental issues in China.
The astounding pace at which China’s economy is escalating, provides “telescoping history, enabling us to better understand a future in which other developing countries reach the development levels likely to be achieved in the not-so-distance future in China” (Brown et al., 1998: 12).

Environmental concerns, economic growth and social interests are pivotal to the concept of ‘sustainable development’, particularly in the advancement of socio-economic progress in a developing country like China. Corporate accountability through the reporting of environmental management activities provides a worthy focus for investigating contemporary developing countries.

Balancing China’s goals in economic growth, social equity and environmental protection require strategic policies, planning and greater corporate accountability. Stakeholders are increasingly applying pressure on companies to be more transparent regarding the wider aspects of their operations, including environmental impacts. Company environmental reporting (CER) is one way of demonstrating such accountability. Hence, CER is “best described as a tool to spur corporate policies, strategies and management systems geared to minimising adverse environmental impacts” (SUSTAINABILITY/UNEP 1998: 5).

No developing nation better typifies the confluence of rapid economic growth with the corresponding effects of social development and environmental challenges, than present-day China. This most populous nation on earth with one fifth of humanity possesses a prominent role in solving global environmental challenges. Burgeoning economic growth with a population of more than 1.2 billion people and energy demand that will more than double the next decade, China is arguably taxing the earth’s environmental limits.

The impetus for management of environmental pollution and resource degradation has reached prominence at national policy level. In 1983, China’s central government developed their first national environmental protection policy. A comprehensive program followed this in 1992 to gradually implement the sustainable development commitments of Agenda 21, which was formulated at the United Nation Environmental Protection conference in Rio.

In the 13 March 1999 National People’s Congress (NPC) and CPPCC sessions, Chinese President Jiang Zemin stressed that China must “pay close attention to coordinating economic construction efforts with population control and resource and environmental protection efforts in order to realise China’s cross-century goals for sustainable economic and social development.” - People’s Daily, 14 March 1999.

These are momentous issues confronting China’s sustainable economic growth. The crucial problem is whether decision-makers in enterprises fully understand the gravity of their actions or lack of in striving towards the national policy of environmental protection. For China perhaps more than for any other country, the need to industrialise (and disseminate the benefits of increased economic output to a wider population) and maintain environmental standards - sustainable development in short - is a very complex and seemingly intractable problem. For instance, the dynamic developments of Special Economic Zones have been sprouting out with such momentous pace and without serious attention in the past to environmental planning and effective monitoring means that economic developments may outstrip
infrastructure resources let alone the capacity of ecosystems to maintain functioning despite increased human stress.

In fact, rapid economic growth and industrial development in certain areas are already constrained by natural resources such as, water supply and electrical power. In dry areas like the north-western region and the mountainous areas in the south-western region, shortage of water restricts economic and social development. Water resources are insufficient in meeting the required supply of more than 400 cities in all 671 cities nation-wide (Jiang, 1999).

The World Bank estimated that air pollution will increase significantly whilst water pollution will stabilised at just under the 1995 level, due to more treatment, more widespread application of improved technologies and management techniques. Under the business as usual scenario, it is forecasted that by 2020, health care costs will have tripled to US$112 billion (World Bank, 1997). Thus, the call for action is imperatively obvious; not only to reduce monetary cost of industrial pollution to society, but also to minimise human suffering from sickness and death caused by pollution.

Nevertheless, it must be noted that in recent times, massive environmental rehabilitation of polluted cities and towns have been implemented. For instance, in Shanghai, some 140 seriously polluting enterprises have been shut down and 244 pollution control projects have been completed within a specified time. In 1997, three ‘Trans-century green plan’ projects have been accomplished in Shanghai, namely the removal of flares in Gaoqiao Petrochemical Company, Wastewater Treatment Plant of Taopu Industrial Quarter and the comprehensive environmental rehabilitation of Taopu Industrial Quarter (SMEPB 1998).

Against this general backdrop of rapid and seemingly confused industrialisation and rapid environmental degradation that seem to be the accepted sacrifice for increases in welfare and living standards, the question remains: should enterprises be held accountable for their actions or the lack of actions in environmental management? To answer this question, we should be alerted as to what constitute ‘corporate accountability’, how could environmental reporting assist in the discharge of accountability and transparency, thereby, encouraging positive environmental practices in business, and what is the relationship between environmental activities and the way they are reported.

**ACCOUNTABILITY AND TRANSPARENCY**

In a society of pristine liberal democratic economy, individuals are theoretically better informed and more empowered, whereby, the inequalities of wealth are potentially exposed and such inequalities of power are somewhat minimised through greater accountability and transparency of information.

What is meant by ‘accountability’? This concept is not fully comprehended by managers and few people agree on its definition due to the broad context within which the word accountability has been used – business, law, government, politics and morality. There are those who maintain that the “true test of an accountable organisation is specific: whether it measures performance quantitatively – with financial and nonfinancial numbers – and reports it publicly to audiences inside and outside the organisation. Anything less than hard numbers, broadly disclosed, reveals an organisation hesitant to commit to full accountability. The act of one party
answering to another in qualitative terms alone is not enough. Accountability requires data.” (Epstein and Birchard, 1999, p. 5).

The notion of accountability is commonly described in regards to an organisation’s legal compliance and its financial reporting to shareholders and governmental authorities, and only very recently extended to social, environmental and ethical reporting.

Epstein and Birchard (1999) have defined an “accountable organisation” as comprising of four approaches to accountability: governance, measurements, management systems, and performance reporting. An accountable organisation initiates independent governance; balanced financial and nonfinancial systems of measurements; incorporates closed-loop planning, budgeting, and feedback systems; and comprehensive transparency through regular public reporting activities.

Accountability in the accounting literature is being defined as: The duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible (Gray et al, 1996, p. 38). Thus, accountability is concerned with the responsibility of supplying information and the right to receive it. Central to deep green perspective, is the principle of personal accountability from which, the duty to supply information is founded. The right to receive information is a fundamental ingredient of any neo-pluralist or participatory democracy (Gray, 1992).

However, do organisations have a social responsibility over and above Milton Friedman’s, (1962) definition “to make as much money for their shareholders as possible.”? Are shareholders the only stakeholders that count in business who have the right to be heard and receive information about management performance? On the contrary, when a party is affected by an organisation, it has the right to be heard and be informed of that company’s operation. Put it simply, stakeholders are owed some say in the direction of a firm due to their being affected by that company. In short, their stake earns them the right to be counted in decisions that affect them directly or indirectly (Pruzan and Zadek, 1997).

Therefore, it has been asserted that the public at large has a right to information about the extent to which companies complied with the minimum standards of law and other regulations (Gray et al, 1987, 1991). Perhaps, the most obvious rights and responsibilities emanate from legal promulgation. The law establishes the minimum level of responsibilities and rights and therefore, the minimum level of legal accountability at any given time in any given country (Tinker et al, 1991).

Moral and natural rights and responsibilities in a society are unremittingly shifting over time and so is the degree of accountability. What is considered to be responsibility is constantly varying and developing (Tinker et al., 1991). Nevertheless, just because the philosophical (natural/moral) responsibilities are difficult, if not impossible to account for with certainty does not mean that such issues have to be neglected. The current waves of response to the natural environment are example for this.

Social responsibility is part of the reason for seeking greater accountability from corporate management. Increasingly, individual and institutional investors, as well as other stakeholders (e.g., employees, government, and community) are motivated by the belief, evidence by recent studies, “that well-managed companies, including their environmental aspects, are those companies producing the best bottom-line results. An increasingly significant source of these data is corporate (voluntary) environmental reports” (Piasecki, Fletcher, & Mendelson, 1999, p. 280).
**Greening Influences on Companies, Managers and Accountants**

A literature review has identified a number of reasons why firms might be influenced to adopt more environmentally responsible attitudes and behaviour (“positive influences”). These include external pressures from stakeholders like governments, institutions, customers and competitors (Ullmann, 1985; Roberts, 1992; Gray et al., 1993); market opportunities to provide new environmentally friendly products (Elkington and Burke, 1989; Brown, 1995); the need to conserve finite physical raw materials or resources used by companies (Owen, 1992); Jenner and Smith, 1989; Brown et al., 1998); a desire to invest in prevention activities rather than incur future liabilities (Schmidheiny & Zorraquin, 1996; Bijsterveld et al., 1998); the perception of environmental issues as a source of innovation (Porter and van der Linde, 1995); a personal set of ethical and moral view that see environmental protection as a virtuous activity per se (Hill et al., 1994); the demand of government laws, licenses, or policies (Charlesworth, 1998); the need or desire to comply with environmentally friendly industry standards, such as ISO 14000 (Sheldon, 1997); Sharma-Fleet, 1998); cost savings and improved profitability through reduced resource consumption, cleaner production and/or waste management (Bennett & James, 1997; D’Abbs, 1998; Rondinelli and Berry, 2000); the desire to improve risk management policies within the firm (Bijsterveld et al., 1998); and the belief that it may help improve employee motivation (Mirvis, 1994; Wehrmeyer, 1996).

The literature review has also identified a number of reasons why firms might be influenced not to adopt environmentally responsible behaviour. These include a perception that such measures will create unnecessary additional costs (Charlesworth, 1998; Shiraz, 1998); a fear that such activities may lead to the loss of an existing strategic, competitive or price-based market advantage (Reding, 1993); internal barriers to change within the organisation, such as employee resistance, technological and production problems, or management apathy (Hartman and Stafford, 1997); lack of requisite skills and/or knowledge (Friedman 1980; Porter and van der Linde, 1995; Wang et al., 1997); a fear that it increases the standards by which stakeholders and the public judge the performance of the firm (Mirvis, 1994; Barnes, 1994; Brown, 1995) and the perception that environmental management is outside the core competence of the firm.

**Why do so many companies choose not to report?**

In *The Non-Reporting Report* of SustainAbility/UNEP (1998, p.9), the survey of more than 50 non-reporting companies highlights reasons for not producing an environmental report. Some of the main reasons are: doubt about the advantages it would bring to their companies; they already have a good reputation for their environmental performance; too expensive; and fear of damage to company reputation. The perceived obstacles include: data gathering problems, lack of indicators, lack of resources and lack of management interest. However, the extents to which the actual obstacles to reporting are being experienced by reporting firms vary. Non-reporters tend to believe that these barriers are more significant than actually experienced.

Some of the more dominant reasons for non-disclosure identified by Gray, Bebbington and Walters (Gray et al., 1993; p. 211) are as follows: the absence of
demand for the information; the absence of a legal requirement; costs outweigh benefits; data availability (and related costs); secrecy; wait and see; never thought about it.

However, it seems that good intentions on environmental management, which refers to the perceived importance of the natural and corporate environment, their level of willingness to do something to preserve and protect it, and their inclination to devote firm resources (or possibly even forego some profit) in order to help alleviate environmental problems. Generally speaking, the level of enthusiasm for protecting the environment is high among corporate leaders, just as it is among the general community (Hukkinen, 1999). It appears plausible that a high level of positive intentions would serve as a meaningful indicator of the actual environmental activities undertaken by corporations.

Paradoxically, the generally positive attitudes towards the environment do not appear to be reflected in corporate leaders’ knowledge base or their actual business practices in China (Wang et al., 1997). Generally, and despite many very laudable exceptions, Chinese businesses are overwhelmingly ignorant or inactive when it comes to environmental management. This phenomenal gap between business leaders’ and accountants’ positive espoused environmental attitudes and the lack of sound environmental practices in business, least of all the reporting of such actions in discharging accountability may be attributable to institutional theoretical constraints. These are discussed in the following section.

**Institutional Theory**

*Institutions* have been defined by institutional theorists since the early 20th century, to mean rules – the predetermined patterns of conduct that are generally accepted by individuals in a society (Berger and Luckmann 1967; Rutherford 1996). There are informal rules, such as norms, habits and customs, and there are formal rules, such as written laws, regulations and standards. Participants in organisations act in accordance with the rules set out in institutions by devising strategies to survive or win in society (North 1992).

Young (1982) aptly elaborates the institutional concept by viewing environmental institutions as social institutions operating within the regime of environmental policy and management. The formal rules of environmental institutions relate to environmental legislations, regulations, performance standards and various formal administrative guidelines. Informal environmental institutions, however, relate to the routine ways of conceptualising environmental policy and management. For instance, the policy debates on the relationship between economic and environmental concerns or the allocation of technologies required to achieve environmental management objectives, are ways in which we conceptualise the notions of ‘conventional environmental management’ (Hukkinen, 1999).

Research and theory on institutional analysis have generated valuable insights into the causes of changes in the features of organisations and the processes by which organisations secure legitimacy endorsement through conformity with norms and expectations of the institutional environment (Zucker 1977, 1983; Meyer and Rowan 1977; DiMaggio and Powell 1983; Myer, Scott and Deal 1983; Tolbert and Zucker 1983; Scott 1987; Oliver 1991).
Institutional Theory exemplifies a paradox. The concepts of institution and institutionalisation possess disparate meanings in different disciplines with substantial variations among approaches, even within the organisational theoretical arena. DiMaggio and Powell (1991) attribute this ambiguity to: scholars’ casual definitions of institutionalism, institutionalist researchers’ diverse emphasis on micro and macro features, the level of cognitive and normative aspects of institutions, and the importance they place on relational networks in the creation and diffusion of institutions.

From the institutional viewpoint, the history, custom and force of habit within the organisation establish value congruence among organisational associates around the decorum of recurring routine. These re-enacted activities eventually attain a rule-like status that becomes resistant to change (Berger and Luckmann 1967; Zucker 1983). The state, profession and society also exert institutional influence for organisational conformity, thereby maintaining observance of legitimated organisational routine (DiMaggio and Powell 1983; Tolbert and Zucker 1983; Scott 1987; Oliver 1988, 1991, and 1992). State and professional bodies are the two primary types of actors shaping institutional environments, and institutional features (Scott 1987) shape them, in turn.

The emphasis on how activities become rule-like or become social facts renders institutional theory plausible for understanding how definitions of environmental sustainability are generated and accepted (Meyer and Rowan 1977; Zucker 1987). Institutional theory is useful for describing how organisational activities may over time come to contribute to sustainability and environmental reporting because of its focus on the process by which these activities become embedded in institutions or accepted practices.

The underlying reality, that is, the basic source of stability and integration is the creation of social commitments or entanglements. According to Berger and Luckmann (1967), through human actions (externalisation) in some part of everyday life, we commence with some conscious recognition of the idea. Then through the use of language we interpret our actions as having an external reality separate from ourselves (objectivation of the idea). These interpretations or “typifications” are attempts to label the behaviour into categories that will enable the participants to respond to it on the same wavelength. Thus, “institutionalisation occurs whenever there is a reciprocal typification of habitualized actions by types of actors” (Berger and Luckmann 1967, 54).

This concept of exterior and objective theoretical approaches to institutionalisation in organisations is mirrored in Zucker’s (1977, 728; 1987, 444) contention that the two defining institutional elements are:

(a) a rule-like, social fact quality of an organized pattern of action (exterior), and
(b) an embedding in formal structures, such as formal aspects of organizations that are not tied to particular actors or situations (nonpersonal/objective).

Other institutional theorists such as Meyer and Rowen (1977, 341) also subscribe to Berger and Luckmann’s general conceptual framework, whereby, “institutionalisation involves the processes by which social processes, obligations, or actualities come to take on a rule like status in social thought and action.” The development of ISO14001 is an example in the environmental management field of such institutionalisation, where normative approaches to environmental management are solidified in a set of guidance rules about the design and operation of an environmental management inside a certified organisation.
A fundamental requisite of ongoing conformity to institutional practices must then be the consensus or “reciprocal typifications” among participants in relation to the meaning, value and validity of an organisational form or activity (Berger and Luckmann 1967; Meyer and Rowan 1977; Scott 1987).

Jennings and Zandbergen (1995) identified two main sources for the meaning or value of environmental sustainability. First, humans possess a zealous need to construct their bond with the surrounding world in partially biological and ecological terms (Berger and Luckmann 1967; Schein 1987). Hence, concepts such as “sustainability” which assist us in the linkage between the social and ecological system, become meaningful or valued. Second, the term “modernity” is becoming affiliated to some degree, with “sustainability” (Meyer and Scott 1983). Economic development is not the only performance measure of success from the modern perspective. A modern nation’s economic development must be balanced with social development and biophysical environment (Dunlap 1980; Meyer and Scott 1983). The extreme “deep green” version of modernity belongs to the New Environmental Paradigm (e.g., Dunlap and Van Liere 1978; Dunlap 1980).

The main theme emanating out of these institutionalisation definitions thus far, tend to focus on the “social process by which individuals come to accept a shared definition of social reality – a conception whose validity is seen as independent of the actor’s own views or actions but is taken for granted as defining the ‘way things are’ and/or the ‘way things are to be done’” (Scott 1987, p.496). The key focus is based on institutionalisation as a distinctive process, be it the infusion with value or with taken-for-granted meaning.

**Institutional Constraints**

Institutional theory by its very definition invariably emphasises on the pressure and constraints of the institutional environment. Institutional theorists recognise that organisational participants can be constrained by institutional arrangements that limits the choices available, restraining certain patterns of resources allocation and prohibiting certain courses of actions (Powell and DiMaggio, 1991).

In terms of institutional structures, *institutions* have been defined as regulatory structures, educational systems, laws, courts, governmental agencies and professions (Scott, 1987: 498). It is the view of most institutional theorists (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Meyer and Scott, 1983; Zucker, 1987) that besides the state and professions, institutional constituents such as public opinion and interest groups also exert pressures and expectations on organisational actors.

Organisations may employ actions that are less motivated by self-interested behaviour by acting on that which are ‘obvious’ and ‘proper’ especially when external norms or practices achieve the status of a social fact. For instance, corporate environmental accountability and the maintenance of sound ethical organisational actions may not be attributable to anticipated positive gain (eg, more resources or greater prestige) but simply because it would be unthinkable to do otherwise. Thus, preconscious acceptance of institutionalised values or practices induce organisational behaviour not the processes of self-serving advantages (DiMaggio, 1988).

However, from an institutional point of view, interests tend to be institutionally or socially defined (Hinings and Greenwood, 1988: Scott, 1987). As pointed out by DiMaggio (1988: 9), “self-interested behaviour tend[s] to be smuggled into
institutional arguments rather than theorized explicitly.” In response to institutional expectation of professions, or collective norms of the institutional environment, emphasises are placed on the imitation or reproduction of organisational structures, activities, and routines (DiMaggio and Powell, 1983; Zucker, 1977: 728). These are explanatory processes underlying motives of stability in institutional theory.

As a result of orthodoxy to institutional rules or expectations, several studies have illustrated how institutional characteristics become articulated, enduring, and resistance to change over time (Tolbert, 1985; Tolbert and Zucker, 1983). In fact, “the general theme of the institutional perspective is that an organization’s survival requires it to conform to social norms of acceptable behaviour” (Covaleski and Dirsmith, 1988: 563).

Nevertheless, Selznick (1992: 232) contends that “when actions touch important interests and salient values or when they are embedded in networks of interdependence, options are more limited. Institutionalisation constraints conduct in two main ways: by bringing it within a normative order, and by making it hostage to its own history.”

It has been suggested that there is an inverse relationship between formal institutional constraints imposing a price on decision makers for acting according to their convictions and the willingness of these decision makers to follow their beliefs (Scott 1987; North 1992). Hence, the likelihood of revealing one’s convictions and acting accordingly are dampened if formal institutions demand a high price from a decision maker for following his/her beliefs, such as losing professional position or prestige.

The theory of cognitive dissonance in accordance with Festinger (1962) relates to inconsistency between individual decision makers’ predilection (i.e., policies they think should guide decisions) and operating assumptions (i.e., policies they think will guide decisions). It is the occurrence of conflict between the espoused values of an individual and the values of the institutions from which the participant operates.

Whilst cognition sometimes refers to a wide range of mental activity, Powell and DiMaggio (1991) refer to it as both reasoning and the preconscious ground of reasoning such as classifications, representations, scripts, schemas & production systems. The theory of cognitive dissonance predicts that when the price is too high, be it losing prestige, power or even position, the individual will reduce the dissonance by not acting on his/her professional beliefs but is compelled to obey the prevailing institutional rules (North 1992; Festinger 1962; Hosking and Morley 1991).

In the final analysis, the informal rule of cognitive dissonance envisage that whenever confronted with an environmental decision which involves a choice between short-term economic well being and the long-term environmental sustainability of a nation, the former will prevail over the latter. This informal rule according to Hukkinen (1999) is in response to a set of formal institutional rules that embrace the maximisation of the short-term economic growth of the nation. Business decision makers tend to reduce the dissonance by electing to act on the basis of short-term economic concerns because of the pressure emanating from the institutional framework that is dominated by profit oriented operating assumptions.

**Institutional Isomorphism**
The preceding section portrays institutional theory as a system of constraints, evidence by the existence of expectations impeding the organisation from fully utilising the strict rationality of its realm (Meyer and Rowan 1977, 343-347). The theory predicts that a particular form of social change occurs in response to societal expectation (Lincoln 1990, 269-270). Institutional elements invariably derive from outside the organisation. The consequence of which is that this externally endorsed social change generates constraints preventing organisational development in other course of action (Fogarty, 1992, 333). But the impetus for action is unclear as the organisation is in an “iron cage” (Zucker, 1987).

Isomorphism has been described as a constraining process that compels a unit in the population to resemble other units that encounter the same set of environmental conditions (Hawley, 1968). It has been defined as a process through which organisations in the same line of business become homogeneous (DiMaggio and Powell, 1983). Extending on Hawley’s conception, Hannan and Freeman (1977) assert that isomorphism is attributable to the selection of non-optimal forms of organisation or as a consequence of organisational decision-makers adjusting their actions upon learning the appropriate responses.

The next section highlights the plausible institutional approach using the cognitive dissonance model in explaining why the positive espoused environmental “talk” by business leaders and accountants does not match their “walk” in business environmental practices.

A Case In Point: Shanghai

During May 1999, exploratory research interviews with chief executives and accountants in Shanghai covered the range of their current environmental management activities as well as their underlying rationale for that programme, however large or small it is. The interviews provided a rich fabric of business leaders’ positive beliefs and values for environmental practices, yet the interviews also identified a paucity of managers to act on their personal convictions, predominantly due to institutional constraints.

For instance, interviews with environmental decision-makers from the Shanghai Municipal Bureau of Environmental Protection and World Bank Shanghai Environment project office during a recent assignment, supports Hukkinen’s theory of institutions of environmental management concept. Whilst they would like to undertake environmental sustainability by enforcing environmental regulations, they tend not to do so for fear that strict enforcement might trigger mass unemployment. In line with the Cognitive Dissonance concept, the behavioural response was inaction on the environmental management side, but busy efforts to maintain (or even widen) the distance between ethical norms and institutional constraints - a classical pattern labelled Dynamic Conservatism by Argyris & Schön (1978).

Most of these polluting manufacturing companies are State-Owned Enterprises (SOEs), which provide more than jobs. There is a pull between conflicting policy to shut down inefficient, subsidised and polluting SOEs (on the individual level), and the operating economic assumption that shutting down is not feasible, due to SOEs’ provision of important social services. In effect, managers evaluate and justify their choices at two levels: At the social level the trade-off is between pollution affects and social benefits, at the temporal level, the trade-off is between industrialisation now
and the environmental consequences of such industrialisation in the future. At the level of decision-makers, the trade-off is between tangible private gains (income, benefits from social capital) and diffuse social problems (environmental degradation).

The theme emanating from this exploratory research interview of accountants and business managers is that at the current stage of China’s economic development, short-term economic prosperity prevails over long-term sustainable environmental concerns. Some initial reasons for non-environmental disclosures are: the absence of a legal requirement (in annual financial reports); costs outweigh benefits; doubt about the advantages to their companies; will disclose if competitors are doing it; already have a good reputation for environmental & safety performance; and secrecy. These factors that hinder transparency are similar to those identified by Gray, Bebbington and Walters (1993: 211) and of SustainAbility/UNEP (1998: 9).

Hukkinen’s (1999) posit that societies prioritise short-term economic benefits over long-term environmental concerns, which persuades decision-makers to adopt “cognitively dissonant mental models”. The central proposition is that the actions of decision-makers are predominantly dictated by a feedback mechanism between the institutions within which they operate and the mental models with which they understand the environmental challenges they are confronted with.

Notwithstanding the above-mentioned “dissonance”, instituting corporate environmental management and disclosure of such performance will be increasingly more relevant in the near future. China’s eagerness to enter the World Trade Organisation and continuing “opening up” to industrialised business have already witnessed increasing voluntary compliance with ISO 14000 series of environmental management systems and auditing. There were 32 ISO 14001-certified companies in China as at June 1998. China is one of the most aggressive advocates of ISO 14001 in the Asia-Pacific region as far as developing nations are concerned (Di, 1999).

Conclusions

Millions of people in China have been lifted out of poverty and have been able to increase their standard of living. Yet this same unbridled growth has also caused serious environmental pollution and depletion of natural resources, both of which threaten the long-term welfare of the people.

Dynamic economic growth averaging 8.4% per annum in the past two decades (World Bank, 1993) has brought immeasurable benefits to China. In Shanghai, the Gross Domestic Product (GDP) in 1997 was 12.7% higher than in 1996 (Shanghai Municipal Environmental Protection Bulletin, 1998). The real GDP growths according to the Economic Intelligent Unit were 8.8% (1997) and 6.1%(1998). It has been forecasted that between 1990 and 2030, China will increase its population by approximately 490 million people to 1.6 billion. This is an equivalent to the birth of a city like Beijing every year for 40 years.

China is paying a high environmental price for economic growth. This is evidence from World Bank (1997) revelation of China’s pollution impact. Each year an estimated 178,000 people in major cities of China suffer premature deaths due to pollution. In rural areas, indoor pollution from burning coal and biomass for cooking and heating causes 111,000 premature deaths each year. Acid rain in the high sulphur
coal regions of southern and south-western China threatens to damage 10% of the land area. Water pollution has contaminated 52 of the 135 monitored urban river sections. Children in Shanghai, Shenyang and other major cities have blood-lead levels averaging 80% higher than levels considered dangerous to mental development. Air and water pollution damages, especially the dangers fine airborne particulates pose to human health, have been estimated to be at least US$ 54 billion a year, or nearly 8% of GDP. However, China as a nation only invests approximately 1% of GDP on pollution control compared to the Netherlands national average of 2.5% of GDP (World Bank, 1997).

The environmental problems created by China’s economic boom now threaten the nation’s fragile social, political and economic infrastructure. Accounting and business operations have key roles in contributing to the careful environmental management of balancing between the short-term economic growth and long-term sustainability of the eco-system.

From a theoretical perspective, institutional theory presents a heuristic opportunity to understand and interpret to discrepancy between environmental beliefs of managers and their environmental activities at the workplace. Accumulating the lack of environmental activities despite the aforementioned incentives to do so does not only present a sizeable environmental problem for the future, it also demonstrates the power of institutional forces and of cognitive dissonance.

In addition, it shows that rationality of organisational behaviour constructs must be contextualised to the institutional framework under which (and with which) accountants and managers work, be this in China or elsewhere. Finally, if institutional theory and cognitive dissonance is appropriately interpreting business leaders’ actions (or lack thereof), then the conclusion for environmental reporting of such management should be to introduce environmental accounting management dimensions into the decision-making frame of accountants and managers (in China).

This, in effect, calls for greater standardisation of environmental criteria into the accounting and reporting standards as applicable. Hence the pivotal role of accounting in promoting environmental practice, as outlined above.

However, more research is necessary to allow such a bold step. Firstly, it is necessary to further evaluate the use and utility of Institutional Theory in the environmental behaviour of accountants and managers. Secondly, research is needed to identify how and to what extent is the institutional context of environmentally active firms different (or at least perceived to be different) from those of environmentally inactive firms. Finally, the results of such research need to be evaluated for accounting, in particular how accounting can, through Institutional Theory, support and drive environmental improved behaviour, in China as well as other countries.
References:


