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CORPORATE SILENCE: ENVIRONMENTAL DISCLOSURE AND THE NORTH AMERICAN FREE TRADE AGREEMENT

NOLA BUHR†

College of Commerce, University of Sashatchewan, Sashatoon, Sashatchewan, S7N 5A7 Canada

This paper uses the highly politicized passage of the North American Free Trade Agreement (NAFTA) and its environmental side agreement as a venue to explore the nature of accountability and environmental disclosure. The components of accountability (account-giver, relationships, power and conduct that matters) are outlined. While notions of accountability would lead us to expect a modicum of relevant disclosure, the empirical results are otherwise. Environmental disclosure was drawn from the database, *Disclosure*, for US and Canadian companies for year ends covering the period 1990 to 1995. Only nine references to the effect of NAFTA on the ecological environment were found.

The conclusion is reached that managers and companies do not see themselves as accountable for or liable to speak about their environmental performance in connection with NAFTA. Aspects of power and accountability are discussed and a few comments are offered on a way forward.

> All of this is being done silently—the trees are cut down silently and they are exported silently. No one knows anything; everything is hidden.
>
> Homero Aridjis,
> Director, The Group of 100
> as quoted by Ross (1996)

On 1, January 1994 the North American Free Trade Agreement (NAFTA) between Canada, the United States and Mexico came into effect. In addition to establishing the largest free trade zone in the world (Fagan, 1993b), NAFTA has been touted as the greenest trade treaty ever written. It is the first international trade agreement to explicitly consider the environmental impact of free(er) trade through a separately negotiated side agreement on the environment. The passage of NAFTA was a highly politicized process and, therefore, it presents an interesting venue to explore the nature of accountability and the production of environmental disclosure.

This paper investigates environmental disclosure relating to NAFTA as produced by US and Canadian companies for the year ends covering the period 1990 to

† E-mail: nbuhr@commerce.usask.ca

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1995. While notions of accountability would lead us to expect (or perhaps just hope for) a modicum of relevant disclosure, the empirical results indicate otherwise. Very little disclosure (only nine references to NAFTA and its effect on the ecological environment) was found.

A less than desirable level of environmental disclosure is not a new finding. Over the past few decades, there have been several calls (e.g. Freedman & Jaggi, 1981; SustainAbility, 1994) for improved environmental disclosure. Frequently, corporate accountability is cited as the reason corporations should be providing and improving social and environmental disclosure (e.g. Gray *et al.*, 1987). But why is accountability for environmental performance inadequately manifested in financial reporting? Exploring the nature of accountability, herein, will enable an interpretation of the lack of environmental disclosure produced by US and Canadian companies in response to NAFTA. It is hoped that it will also shed light on some of the issues that must be addressed if the state of environmental reporting is to proceed forward.

The paper begins by outlining the elements of accountability (account-giver, relationships, power and conduct that matters). This is followed by an overview of the environmental issues and arguments associated with the negotiation of NAFTA and its environmental side agreement. Next, the collection and extent of environmental disclosure is described. This is followed by an application of the concepts of accountability in order to provide an interpretation of the lack of disclosure. The paper concludes with a few comments about a way forward.

Accounting and Accountability

"Accountability in its broadest sense simply refers to the giving and demanding of reasons for conduct. . . " (Roberts & Scapens, 1985, p. 447). Although straightforward, such a definition begs several questions. Who is doing the giving? Who is doing the demanding? What conduct is to be recognized? A similar, to-the-point definition also begs similar questions. "Simply stated, accountability is the duty to provide an account of the actions for which one is held responsible" (Gray *et al.*, 1997, p. 334). Whose duty? Which actions? What makes one responsible? It is these questions that illuminate the elements of accountability. There must be an account-giver whose duty it is to provide reasons and give an account. Moreover, there must be a recipient who demands the account and holds the account-giver responsible. The relationship between the account-giver and the recipient determines what actions are to be accounted for and what conduct matters. However, in order to develop this relationship and hold the account-giver responsible, the recipient must be in a position of some power, for the account-giver chooses what reasons and what accounts to render and in so doing chooses the conduct and recipients that matter. What is said or left unsaid reveals the nature of the account-giver, the power of the relationship and the conduct that matters.

Account-giver

The account-giver is portrayed in the literature in one of three fundamental settings: (1) individual to individual (see e.g. Roberts, 1991); (2) individual within organization (see e.g. Ahrens, 1996) and (3) organization within society (see e.g. Schweiker,