

TOWARDS THE NATURAL ENVIRONMENT AGENCY THEORY (NEAT)

ABSTRACT

Drawing on insights from theories in management, economics, finance, and accounting, we develop the natural environment agency theory (NEAT) to study the agency relation between business and society in the context of natural environment. Based on public property rights to clean air, water, and land, we argue that a business (agent) has an implicit contract with society (principal). Under this contract, it agrees not to impose on society natural environmental agency costs (NEACs) of pollution, depletion, and degradation while producing and selling goods/services in return for its license to operate. Building on agency and stakeholder related concepts, we propose and test the effectiveness of NEAC-reducing mechanisms, including monitoring, bonding, and incentives. We find support for NEAT predictions. Our findings open novel directions for future research and inform policy and practice.

Keywords: agency theory; stakeholder theory; natural environment; corporate social responsibility; environmental performance; environmental disclosures