

A study on environment accounting practices in Indian corporate units

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Abstract

Environment is becoming a much more urgent economic, social and political problem all over the world. World is facing the twin problem of promoting economic development and protecting the environment. In this juncture the proper accounting of environmental effects on economic development is pre-requisite to have a sustainable development. It is observed that many efforts have been done to develop a mechanism of incorporating environmental data with national income to compute economic development. Moreover, all such attempts do not address the micro economic aspect of environmental data as such interaction between a specific firm and environment. The accounting of interaction between firm and environment is a pre-requisite to find out sustainability gap in micro level. This study attempts to address the development of corporate level environmental accounting and the problems associated with that. The study is under taken considering the environmental accounting and reporting adopted by sample companies in India.

Keywords: environment, accounting and reporting, environmental cost, liability and assets

Introduction

Climatic change is one of the greatest challenges that world is facing today. Climatic change is the variation in the earth's global climate over the time. This variation may be due to dynamic process on the earth and some of the external influences. The climatic change create manifold problems like global warming, glacier meltdown, soil erosion, land degradation, deforestation, loss of biodiversity and all kinds of pollution. Human influence on the nature is one of the major causes of such problems. Indiscriminate use of resource and undue influence on nature in name of development can be identified as prime causes of this climatic change. As a result, since last few decades the adverse environmental effect of economic development has become a public concern all over the world.

The issue had been repeatedly discussed in a series of international summits right from the sixties. Between 1968 and 1972, two international conferences held to assess the problems of global environment and to suggest corrective action. The UN conference on human and environment (Stockholm conference) which was held in June, 1972, was considered as the pivotal event in the growth of the global environment movement. It was the first occasion on which the political, social and economic problems of the global environment were discussed at an inter-governmental forum with a view to taking corrective action. It aimed at creating a basis for comprehensive consideration with the United Nations on the problems of the human environment and focusing the attention of governments and public opinion to various countries on the importance of problem. United Nation has also made an attempt by developing Integrated System of Environmental Economic Accounting (SEEA), a Central multi-purpose conceptual framework that describes accounting of interactions between the economy and environment, and the stocks and changes in stocks of environmental assets. Many countries try to incorporate environmental accounting data with national income to compute economic development.

Moreover, all such attempt does not address the micro economic aspect of environmental data as such interaction between a specific firm and environment. The accounting of interaction between firm and environment is a pre-requisite to find out sustainability gap. It is a recognized fact that most of the activities of the economic development have unfavorably affected the environment. As corporate bodies are the major contributors of the economic growth the role of corporate bodies in environmental degradation is also comparatively high. It is often seen that such bodies always try to maximize profit. As a result in the recent time there is a growing tendency among the corporate stakeholders to know environmental effects of business. Considering present state of environmental destruction civil society is increasingly demanding that business should play a pro-active role in societal and environmental objectives in addition to increase in shareholder wealth. This makes environmental accounting and disclosure system paramount important for accounting discipline. It is expected that accountant should play a proactive role to recognise effects on environment of business activity to have a control over sustainability gap. It has been noticed that environmental accounting in macro level as well as in micro level is gaining its importance. In macro level National environmental Accounting focuses on accounting of natural resources stocks & flows, environmental costs externality costs etc. In micro level corporate environmental accounting tries to account for environmental impact on corporate activities. The practice of corporate level environmental accounting has been growing during the few decades around the globe.

In India also corporate bodies are increasingly disclosing environmental reporting in their annual report. In a study Paul and Pal (2001), on the basis examination of environmental reporting practices, concludes that it has gained momentum with the passage of time even in the absence of any compulsion and standard guidelines. Chatterjee and Mir (2008) examined the status of environmental disclosure made by top 45 Indian companies in terms of market capitalization and concluded that

most of the information disclosed by the sampled firms was narrative. Similarly, Sen (2011) examined the nature and extent of the environmental disclosure practices of Indian core sector companies and found that information disclosed was more qualitative than quantitative and varied across industries as well as companies. On the basis of study on environmental accounting and reporting policy of ONGC and BPCL Shukla & Vyas (2013) concluded that commitment that companies shows in the narrative disclosures for environment protection through environmental reporting were not transformed in accounting practices and it lacks quantitative information. The existing literature on environmental accounting gives enough evidence that though environmental accounting and reporting has gaining momentum but it is not developed as it is desired by stakeholder. Therefore, it is important to find out the challenges faced in sound development of environment accounting and reporting practices.

Objectives of the study

The objectives of the study can be highlighted in the following issues:

1. To identify the development of the corporate environmental accounting and reporting.
2. To highlight the corporate accounting and reporting practices in this regards.
3. To find out the major obstacles in the sound development of that practice.

Methodology

The study is based on both primary and secondary data. The primary data for the study is the existing environmental accounting and reporting practices of the corporate entities in India. For such data annual reports of twelve (12) sample companies have been consulted for financial year 2014-15. These companies have been selected from the list of top 50 companies of National Stock Exchange. Purposive sampling method has been used to select sample unit and due care have been taken to select companies having presence in the sectors like power, cement, and pharmaceutical sectors as they considered comparatively highly polluted. Out of companies selected as sample unit four (4) companies belongs to cement industry, five (5) companies from energy industry and three (3) companies from pharmaceuticals industries. To have guidelines on environmental accounting and reporting various books and journals have been consulted as secondary source. The study is divided in two parts. Part one: Deals with the corporate accounting practices in India and Second part: is the challenges faced by accountant in the sound development of the issue.

Environmental accounting and Reporting practices in India

From the study of annual reports of the sample companies it has been evident that Indian corporate bodies are very much sensitive in the environmental issue. They want report about their environmental care to the stakeholder. All the sample companies have reported their environmental initiatives in their annual reports in addition to their mandatory disclosures as required by the Companies Act. However, important fact is that the base of reporting is not uniform. Companies have reported such information either in the director's report, in sustainability report, in management discussion analysis report

or any one of them. Table I reflects the distribution of environmental reporting of the sample companies. From the study, it reveals that 25% of sample companies reported such information only in the directors' report. 25% of the sample companies reported only in separate sustainability report. Contrary to that 16.66% of the sample companies reported such information in directors' report and management discussion & analysis report and 25% of sample companies reported environmental information in directors' report as well as separate sustainability report. Again few companies used to report such information in all of above sections. Study reveals that 8.33% of the sample companies reported such information in directors' report, management discussion & analysis and separate sustainability report. Such variation in the format of reporting may distort the utility of the information as it leads to spreading of information and in many cases there is repetition of information.

Table 1: Place of Environmental Reporting

Place of reporting	Companies
Only in directors report	3(25%)
In separate sustainability report	3(25%)
Only in management discussion & analysis	Nil
In directors report and management discussion & analysis	2(16.66%)
In separate sustainability report and directors report	3(25%)
In directors report, management discussion analysis and sustainability report	1(8.33%)
Total	12(100%)

Source: Annual reports

Themes of information reported

The growing awareness among the stakeholder about environment and global development of environment disclosures leads the company to disclosure of environmental initiative in addition to the compliance of mandatory requirement. In such disclosures it has been noticed that conservation and management of water is one of important issue. Study reveals that 75% of the sample companies disclosed their effort for conservation of water. Under this area they reported their efforts about recycling and reuse of water, recharge of ground water by rain water harvesting and by reduction of water consumption. Energy consumption is one of important issue for business. Due to consumption of energy, not only the energy reserve of the earth is sinking but also it contributes to environmental degradation. The solution to that lies on the reduction of energy consumption and use of renewable source of energy. 58.33% of the sample companies reported about their effort to generation of renewable source of energy like wind energy, bio-diesel etc. Only few sample companies includes information about amount of such power generated by the company. This gives ample evidence about their environmental consciousness. Another important issue in the environmental degradation is the waste management. Business unit generally generate more waste, hence proper management of waste is necessary to protect the environment. 50% of the sample unit has reported about their effort to management of waste by reduction, recycling and reuse of waste. Deforestation is one of the important issues for environmental imbalance. Due to establishment of industrial unit, green coverage has been sinking which may be one of the causes of ecological imbalances. It is the duty of business to spend some amount of revenue to create and conserve the green belt. It comes to light that 50% of sample unit has reported that

they made effort to increase the green belt and conservation of bio-diversity. However, such information does not include amount of money spent for such initiatives. Another important issue of environmental degradation is global warming. The global warming has been increasing due to emission of greenhouse gas. The study reveals that 75% of the sample unit has reported about their effort to reduction of emission level as their environmental initiatives. Most of the companies reported that they made effort to reduce emission level with improvement of production process and use of improved technology. It is noted that such reports grossly neglect to report the current level and previous level of emission data. Table 2 depicts a summary of the environmental accounting and reporting themes used by the sample units.

Table 2: Themes of information Reported

Nature of information	Number of companies
Water preservation /recycling	9(75%)
Generation of renewable sources of energy	7(58.33%)
Waste Management and recycling	6(50%)
Bio- diversity conservation and generation of green belt	6(50%)
Effort to reduce green gas	8(75%)

Source: Annual report

From the analysis of the environmental accounting reporting practices in India it is clear that Indian companies are used to disclose environmental protection effort in their annual report, however, there is a wide variation in respect of the place of report and the theme selected for report. Another important fact is that the most of the information are non-quantitative in nature. Only few sample companies express quantitative disclosures i.e. percentage of reduction of carbon footprint and emission of greenhouse gas in comparison to previous year. It is also pertaining to note that no information has been found in the annual report about recognition of environmental expenses and liability in financial information of the business. Moreover, such initiatives may have financial implication which may be positive or negative, but it should be properly recognized in the financial information to have a true and fair of financial results and state of affairs of the business. Again if any corporate body has already policy of recognition of such with financial results it should have proper disclosures in the note to the accounting and accounting policy. But such information is not found in the accounting and reporting practices of the sample units.

Considering the present state of environmental accounting and reporting practice used by corporate bodies one cannot conclude that the present state of environment accounting is useful to users to make an assessment about involvement of corporate bodies on environment protection as such information are not verifiable and also it does not properly reflected in financial information of the business.

Challenges for environmental Accounting and reporting

Environmental accounting is very important issue. As economic development as well as environmental protection is equally important but contradictory issue therefore a careful assessment of the benefits and costs of environmental damages is necessary to find the tolerance limit of environmental degradation and the required level of development. For that there is need for proper framework which can provide guidelines on the issue of environmental cost, environmental liability, environmental assets, capitalization of such cost and

liability and reporting framework. Again environmental costs have impact on reported profit in the financial statement as well as product pricing. Study of corporate reporting practices reflects that there is an increasing tendency among the corporate managers to disclose some information in their annual report to inform about their efforts to shareholders and public in general. It is also clear that most of such environmental information reported by the companies is found to be non-financial. Such information is mere description of the efforts made by the company. The information on amount of money spent for such initiatives and its material effect on financial results is grossly missing in such information. Again there is wide variation noticed in the style of reporting and theme the companies selected to report. This can add to other dimension of the problem of lack of comparability and verifiability. So it is felt that such information should be integrated with financial accounting information to have reliability. For integration it is necessary for monetary measurement of environmental cost and benefits. But all cost and benefit to the environment cannot be suitably measured in monetary unit, at least at micro level. Internal cost, like investment made by the corporate sector for minimization of losses to Environment by product development, process development can be possible for monetary measurement but cost of externalities like degradation and destruction like soil erosion, loss of bio diversity, air pollution, water pollution, noise pollution, problem of solid waste, depletion of nonrenewable natural resources i.e. loss emerged due to over exploitation of non-renewable natural resources like minerals, water, gas, deforestation etc. and the environmental assets created by business like a forestation, bio-diversity conservation, water preservation etc cannot be suitably measured in monetary terms. Further, it is very hard to decide that how much loss has occurred to the environment due to establishment of a specific business unit. This makes obstacles in the total integration of environmental accounting within the framework of existing GAAP. However, it is possible to disclose internal cost and benefit of environmental measures that is undertaken by a business unit and its material effects in reported profit by disclosing the way of recognition. In case of externalities, like level emission, waste generation, a forestation etc. though monetary assessment is not possible but business can make some sort of quantitative measurement like for water management cubic kilometers, for emission level concentration of specified particles in terms of ppm., area of land afforested, quantitative facts on expenditures incurred of such activities, and targets set and achieved. This kind of information can enhance authenticity and reliability of environmental information. However, for such kind of assessment involvement of some technicalities is necessary. On the other hand for such recognition of inter cost and other externalities a specific set of regulatory pronouncement is pre-requisite to have uniformity of accounting information. As in the present state environmental accounting and reporting is a voluntary rather than mandatory, in such situation everyone have tendency to depict the strength rather than the weakness.

Conclusion

Corporate reporting is one of important vehicle for the corporate bodies to communicate with external world. With the increases of the complexities of the business world the role of information has been gradually increasing for making

economic decision. It is also recognized fact that due to increase in level of environmental awareness of stakeholders environmental reporting now becomes a part of financial reporting. But after the study of sampling units, it can be concluded that, though environment reporting has been developed in corporate reporting in India, It is found to be lack of comparability and verifiability, the basic characteristics of accounting information.

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