Environmental Reporting: A New Dimension

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ABSTRACT

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We live in an age in which companies equivalent in wealth to countries call the shots and control much of the earth's resources. Because corporates intervene in so many areas of social life, they must be responsible towards society and the environment. In India as in the rest of the world there is a growing realization that capital markets and corporations are, after all, created by society and must therefore serve it, not merely profit from it.

Formal corporate reports- voluntary periodic communication by companies of information about the environmental activities and performance in an annual report began to appear at the end of 1980s'.Corporate environment reporting has traditionally being voluntary method of communicating environmental performance to stakeholders. More recently, there has been movement towards making environmental reporting mandatory. Denmark, Newzealand, France and Netherland have already introduced legislation on environmental reporting. The International environment Management System Standard ISO14001 however does not specify that company environment performance data be made public. Environmental reporting in India is at a nascent stage, even though its importance has gained significance world-wide. India has no mandatory or social reporting requirement for public companies. .This paper aims to address theoretical aspect of corporate environment reporting in India to identify the extent and nature of environmental reporting.

Keywords: Corporate Social Responsibility, not-for-profit, social enterprise, a nascent stage, little demand, social creations, hot issue.

INTRODUCTION

Corporate environment accounting and reporting is almost two decade old now. Recent national and international surveys have identified growth in the number of companies reporting on environment issues. Primary purpose of publishing an environment report is to provide specific audience with useful and meaningful information. Researchers around the world show that annual reports are most favoured channel of disclosure. Indian companies have not yet developed a holistic approach to environmental reporting guidelines. Companies are social creations whose existence depends on the willingness of the wider society to support them. For this reason environmental and social accounting has become a requisite part of business management. Creating wealth in an organization and maintaining its success depends not only on how efficiently the business manages the environmental and social issues, but also on how the stakeholders, the public interested in organisation, perceive its role as a responsible business organization. The emergence of corporate environmental reporting in the 1990's has been an important development, not only in terms of environmental management, but also more generally for overall corporate governance. At present, the subject of environmental reporting is gaining prominence as a "hot issue" in the financial reporting community.

CORPORATE ENVIRONMENT REPORTING: A CONCEPTUAL ANALYSIS

Corporate Environmental Reporting can be defined as an umbrella term that describes various means by which companies disclose information on their environmental activities to the users. This should not be confused with corporate environmental reports, which represents only one form of corporate environmental reporting. A Corporate Environmental Report is a tool to communicate a company's environmental performance.

Corporate environmental reporting is the process by which a corporation communicates information regarding the range of its environmental activities to variety of stake holders including employees, local communities, shareholders, customers, and government and environment groups.

NEED FOR ENVIRONMENT REPORTING

Financial Accounting Standard Board (1994, FAS — 1) defines the main objectives of financial reporting as:

"…………to provide information that is useful to present and potential investors and creditors and other users in making rational Investment, credit and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic

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activities and are willing to study the information with reasonable diligence".

The objectives for environmental reporting can be expressed in the light of the above main objectives of financial reporting as follows:

"……………to provide information to present and potential stakeholders in making rational decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities as well as of environmental impacts caused through these activities and who are willing to study the information with reasonable diligence".

Corporate environment reporting serves many different purposes for different stake holders.

1. It empowers the people and information they need to hold corporation accountable, and invite stake holders more fully into the process of corporate goal setting.
2. It permits the investor to harness the power of capital market to promote and insure environmentally- superior business practices.
3. It allows companies and their stakeholders to measure companies' adherence to the standard set forth in their statement of environmental principle, and their various goals and objectives.
4. Environmental risk in the internal part of the risk facing every organization. Reporting can help to identify such risk, and where they could arise, and thus prevent damage to reputation from negative publicity on an environmental issue.

The main reason for incorporation of environmental information within the annual reports is to increase stakeholders' awareness of the company's activities, performance, and interactions with the environment. It was hoped that stakeholders might use the information to assist their decision-making process (Jones 2000).

Nevertheless, annual report has been the primary means of corporate reporting and it is the fundamental source of environmental reporting. The usage of annual reports has grown over the years; environmental information was reported in one of the sections in the report and later as separate section. Subsequently, the practice grew with the introduction of "Stand-alone" environmental reports (0' Donovan 1999).

ENVIRONMENTAL AWARENESS IN INDIA

Following the end of British Rule, India was not in a position to pay proper attention to matters relating environment. Public awareness towards environmental issues like environmental pollution, environmental preservation and environmental development (i.e. protecting the nature) has grown tremendously since the beginning of seventies when the law of protection of environment was passed. In India, the then Prime Minister Mrs. Indira Gandhi, during her participation in United Nation Conference on human environment in Stockholmin1972, expressed her views that rich countries may look upon development at the cause of environment destruction, but to India, it is the primary means of improving the environment of living, of providing food, water, sanitation and shelter for making the deserts green and mountains habitable. During her tenure of service to the country as the Prime Minister, The Waste (Prevention and Control of Pollution) Act, 1974 came into effect to prevent water courses both on surface and underground pollution. Subsequently, The Water (Prevention and Control of Pollution) Cess Act, 1977 was passed. Again in 1981 another act was enacted to prevent Air Pollution, which came to be known as Air (Prevention and Control of Pollution) Act, 1981. The Bhopal disaster was an eye-opener to the Government, resulting in the enactment of a more comprehensive and well-knit act known as Environment (Protection) Act, 1986. In 1991, the Public Liability Insurance Act 1991 was also enacted. The Environment Impact Assessment Notification, 1994, the Bio-medical Waste (Management and Handling) Rules 1998 and Noise Pollution (Regulation and Control) Rules, 2000 are some of the measure to protect environment. In context of requiring environment related information from business on periodic basis the first public announcement was made by Central Government in 1991. The Ministry of Environment and Forests has proposed that "every company shall, in the report of its Board of Directors, Disclose briefly the particulars of steps taken towards adoption of clean technologies for the prevention of pollution, waste minimization, waste re-cycling and utilization, pollution control measures, investment on environment protection and impact of these measures on waste reduction, water and other resource conservation". Even though number of measures have been taken to protect the environment but it is strange that such information are still are not being requires by Government to be publically disclosed through annual reports. Consequently, till date, any disclosures on environment matter in annual reports of Indian companies are voluntary in nature.

Environmental reporting in India is still at a nascent stage, even though its importance has gained significance world-wide. India has no mandatory or social reporting requirement for public companies. The Security Exchange Board of India (SEBI) does not make any mention of environmental and social reporting requirements in "Disclosure and Investor

Protection"guidelines. India's National Environmental Policy (NEP) 2006, has recommended the use of environmental accounting practice and norms in preparation of statutory financial statements for large industrial enterprises. To date no such standard has been introduced. A comprehensive accounting standard on environmental reporting is being worked out by the Institute of Chartered Accountants of India to guide companies in the process. Though the norms are voluntary, they will require companies to report their performance in this regard in the form of disclosures in their annual reports. The Companies Act 1956 (sec 217) also requires companies to report on conservation in the Board of Director's report. The latest Corporate Governance Code (2007) for public sector companies requires them to make environmental and social disclosures in the Director's report. By 1995 over 500 companies issued formal environmental reports. Some companies embrace these reports as internal management tool and external stakeholder communication vehicle. Others have been reluctant to produce such reports citing reasons varying from perceptions that "little demand" exists for such information and questioning the usefulness of these reports.

The ministry of corporate affairs is revising the guidelines on corporate social responsibility (CSR) issued last year to add detailed norms on environmental sustainability. The fresh norms, relate to efforts to prevent wasteful use of natural resources and ensure scientific treatment of industrial waste. The existing guidelines, while urging the companies to be environmentally conscious, left it to them to take the requisite steps. It failed to provide a clear framework for compliance, leading to the companies not taking adequate steps. "The idea is to make companies responsible for the environmental impact of their products and activities".

LEGAL CONSIDERATIONS IN VOLUNTARY CORPORATE ENVIRONMENT REPORTING:

India's first task after the parliamentary elections in 1998 was to prescribe a National Agenda for Governance that included a comprehensive national policy to balance economic development and environmental protection. The concern for the environment has been further stimulated due to economic liberalization and deregulation in India, attaching further significance to production, manufacturing and services. India's existing policy framework concerning environmental protection that is, the National Conservation Strategy on Environment & Development of 1992, the Policy Statement or Abatement of Pollution of 1992, and the National forest policy 1988. The national Conservation Strategy imparts the basis for the integration of environmental considerations in the policies and programs of different sectors. It stresses sustainable lifestyles and proper management and conservation of resources. The Pollution Abatement Policy emphasises the prevention of pollution at the source. It promotes the development and application of the best available technical solutions. The policy embodies an approach by which polluters are held financially accountable for the pollution they generate and accentuates the protection of heavily polluted areas and river regions. The forest policy emphasises the maintenance of the environment through the preservation and restoration of India's ecology. The policy seeks to significantly increase the forest acreage in the country (Prabhu, 1998/99).

The governments of India are promoting more and more regulations to protect the environment and the community in general. In order to emission from production processes, air quality regulations lay down stringent equipment specifications that are required to be implemented by the polluting industries.To minimize the global environmental problems, India has made the production and abatement technology mandatory (Chakrabarti and Mitra, 2005).

The regulatory framework governing corporate disclosure in India includes the Companies Act 1956 and the Securities and Exchange Board of India (Amendment) Act 2002. The Companies Act 1956 has been amended several times, and is now known as the Companies (Amendment)/(Second Amendment) Act 2002. The Companies Act includes detailed provisions concerning the preparation of annual accounts and reporting. The annual accounts of companies are prepared in accordance with Section 211 and Schedule VI to the Companies Act 1956. The Companies Act mandates the preparation of annual accounts of companies in accordance with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI) (Chatterjee, 2005). There is no requirement under either the in companies Act or Accounting Standards to disclose environmental information.

The Securities and Exchange Board of India (SEBI) Act 1992 has led to the establishment of a Board, to protect the interests of investors in securities, facilitate the development of the securities market, regulate the market of securities, and to provide for the incidents or matters in relation to that. The structure of the Securities and Exchange Commission (SEC) of the US guides the formation of SEBI. The stock exchange regulation of accounting in India is not very dominant till now (Banerjee, 2002). There are 23 stock exchanges in India. Each of them has different listing requirements, concerning issued and subscribed equity capital (Chatterjee, 2005). However, there is no requirement from these stock exchanges to disclose environmental information.

It is evident from the above discussion that Indian companies are not bound by any regulations to provide their environmental performance information in their annual reports. Therefore, any information on the environment provided by Indian companies is voluntary.

CONVENTIONAL FINANCIAL ACCOUNTING AND REPORTING MODEL:

The conventional model of financial accounting and reporting is one that emphasises the importance of financial performance. The annual report deriving from conventional model highlights financial assets and liabilities, shareholder's worth, operating income, and changes in financial position of the enterprise over the reporting period. The conventional model contains relatively little by way of productive and forward looking information. The conventional model routinely ignores environmental issues. The conventional model of financial reporting minimises the role to non-financial data. Although the environment has played a larger role in corporate strategy over the last decade, it is nevertheless apparent that annual reports at present fail to convey either the significance of environmental issues to the reporting entity or any adequate description of how corporate management is attempting to integrate environmental strategy into overall corporate strategy.

The objective of financial statements as contained in the "Objectives of Financial Statements" issued by International Standards on Accounting and Reporting is to provide information about the financial position of an enterprise, which is useful to a wide range of users in making decisions and is necessary for the accountability of management for resources entrusted to it. The environment is a resource that is significant to many enterprises, and it must be managed efficiently for the benefit of both the enterprise and the society. And ultimately, issues associated with accounting for the environment have become increasingly relevant to enterprise (whether they be businesses, non-profit organizations or govt. enterprises) become a more prominent economic, social and political problem throughout the world. Steps are being taken at national and international level to protect the environment and to reduce, prevent and mitigate the effects of pollution. As the consequence, enterprise are now expected, or even required, to disclose information about their environmental policies, environmental objectives, and programs undertaken, and expenditure incurred in pursuit of these policies, objectives and programs, and to disclose and provide for environmental risk.

Topics of environmental accounting and reporting have received substantial interest from academic researchers for the past three decades. (Deegan and Gordan 1996; Freedman and Jaggi 1988; Gray and Owen 1988, O'Donovan and Gibson 2000). It is agreed that all parties should play an active role to preserve and maintain the environment. Corporates, especially, are expected to play the most active role since their activities have caused most harm to the environment. Moreover, corporations also have more resources to undertake preservation activities. Past research on environmental management accounting issues looking into on how environmental issue can be incorporated in the overall accounting system of a corporation. In the environmental costing aspect, environment related cost should be assigned to product and processes, since they most probably produce residual that are harmful to the environment.

ENVIRONMENT REPORTING- THE ROAD AHEAD:

There is widespread environmental awareness among all sections of society in India.

Firstly world over companies now realize that natural resources (both renewable and non-renewable) are scarce. Renewable resources- cannot keep pace with the growing demand as the rate of depletion is faster than the rate of replenishment. This realization among today's business world, how so ever late, drives them to make an honest attempt on judicious use of resources, recycling of water, waste reduction etc. at their end.

Secondly with globalization, Multinational Companies (MNC) of European Union, United States of America (USA) and Japan are strengthening their global presence in India. These international companies bring in their responsible-good practices thereby helping Indian companies to set higher international disclosure standards.

Thirdly regulatory efforts are geared internationally towards reduction of the quantum of pollution by making it commercially viable and an attractive unexplored profitable business opportunity.

CONCLUSION

In some of the countries reporting practices in respect of environment issues have become mandatory. But in many countries, no such mandate has been issued. The present status of voluntary reporting should not be continued for long. In India, level of environment relating disclosure in annual reports is not at an encouraging level. Neither the company law nor the accounting standards/guidelines issued by the Institute of Chartered Accountants of India prescribe disclosing norms for the environment related matter in the corporate financial statements. On the whole, the status of voluntary environment disclosure in the annual reports of the Indian companies is not good. Now there is an urgent need to take steps globally and nationally to formulate the reporting guidelines to incorporate this issue in corporate reporting system. For doing business in future, corporate world should turn its attention towards long term sustainability of environment.

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