Accounting for the "Green": A synoptic view!

RAJESH KUMAR NIGAH
Faculty: Accountancy and Finance
Academy of Commerce
Satyaniketan, Dhoulakuan,
New Delhi (India)

Abstract:
Over the centuries nature got neglected from the corporate panorama. The civilized world took its strides on the wings of natural powers bestowed on it. The mounting pressure to redefine the life-styles across the globe grossly smudged the interests towards environmental care. Of-late, the care for the nature and its concern revved-up the spirits amongst the global leaders to reshape the lost laurels of the environment. Environmental costs and commitments got significantly growing and the corporations are attuned to be more responsible and accountable as good environmental citizens. A number of environmental legislations have been enacted to address the emergence of a worldwide green movement. Hazardous waste and other such items were considered a cost of a growing economy. This dynamic approach on the part of society and governments has paved way to 'innovate for a better tomorrow' and reduce or recycle the waste products that potentially damage the environment.

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1. Environmental Accounting: The Corporate Framework

As the corporate entered into new millennium, everything has become suddenly environment friendly leaving no 'clouds over the grass' on the accounting aspects too. Many people are willing to pay more for a product that is environment friendly. Many companies are now interested in being "green," as many investors place a high-stakes on environmental responsibility. Some corporations had to bear the clean-up costs on their past "unfriendly" behavior to the nature. Though the concept of environmental accounting is new, the policies of liberalization have catalyzed the need and practice of environment accounting in India. Environmental accounting focuses on costs internal to the company and excludes external costs to individuals, society, or the environment for which a company is not legally held responsible. Thus there is a growing need for a more accurate and comprehensive information system to support the cause of improving environmental performance. While the industrial revolution protected the interests of society on the one hand and improved the life-style on the other but ignored the impact on the environment in which we exist (P. Caggti D. Viaggi G. Zanni 2008). This lackadaisical attitude on the part of industries and companies for the environmental care has proved fatal to the existence of life on earth and disturbed the ecological balance. Environmental Accounting helps determine the role and impact being played by the companies' vis-à-vis socio-economic costs of the country. It provides data highlighting both the contribution of business enterprises to economic wellbeing and the costs imposed in the form of pollution or resource degradation. Every business has an overriding responsibility to make the fullest possible use of its resources – both human and material. Today's environment requires not only innovations concerning policy instrument but also an evolution of tools such as those for environmental accounting and assessment. The current state of the art in environmental accounting research and illustrates the essence of the problem through the reporting of a new analysis of data from an international study of accounting, sustainability and transnational corporations (Rob Gray and Kan Bebbington 2010). Teoh and Thong (1984) investigates corporate social responsibility accounting and reporting from the point of view of a developing country, indicating that social reporting lags behind corporate social involvement and are largely focused on activities relating to employees and products. The studies of Belal (2001) too find the social and environmental disclosure practices of public companies were inappropriate and un-accommodative. Contributions offered by Bhate (2002), De Villiers and Van Staden (2006) who utilize annual report content analysis on the environmental disclosure practice of companies investigated the extent to which consumers are aware of environmental issues and the post-hoc behavior.

Ironically the accounting related disclosure has not been rampant across companies to the extent of expectations as per the legislations and are still ill-prepared to fill the norms. The Environment Ministry issued instructions to adhere the 'green norms' to both existing as well as new applicants and be prepared to furnish statements disclosing the amounts spent on refurbishing their plants and machinery and checking on the pollution levels to balance the same. It was also made mandatory to disclose all such information that helps govern the corporate better for future and check the exploitation of nature. One of the recent studies revealed that modern corporates are fully aware of the environmental issues and reporting (B. B. Pradhan and R. K. Bal) and found the resultant action to be less concerned than expected despite such warnings. Another contemporary research reveals that the costs of environmental accounting are a sub-set of social costs and hence no separate accounting is maintained by companies till date (Jond Seo Choi). Some of the vital observations are such studies are:

- The extent of disclosure on the costs and benefits are disproportionate and uncompromisingly lower;
- No standard levels of disclosure are being found across the globe and the degree of furnishing information is more in advanced countries compared to that of developing ones;
- The larger the size and complex the operations of the company, the greater the information sought and vice versa;
- Very little disclosure would qualify as information under any normal criteria and very little of it indeed will contain numbers, financial or otherwise.

For example, annual reports of three companies that revealed in the past on the environmental issues are thus:

- Asian Paints (India) Ltd: Samples of treated effluents are periodically checked for compliance with standards.
- Good lass Nerolac Paints Limited: The Company regularly monitors measures in force in accordance with the Pollution Control Act for the protection of environment and for ensuring industrial safety.
- Maruti Udyog Limited: Modification of the existing effluent treatment plant was undertaken to take care of additional effluents generated due to capacity expansion.

It was also revealed that most of the companies disclose the environment information in descriptive manner rather than in financial manner i.e., no account is made for the degradation of natural capital when calculating corporate profits.

2. Scope and Significance of the Study

The scope of environmental accounting is very wide. It includes corporate level, national and international level. Investment made by the corporate sector for minimization of losses to environment made into the environment saving equipment. All types of losses are caused indirectly due to business or operational activities. They include degradation and destruction like soil erosion, loss of bio-diversity, air pollution, water pollution, noise pollution, problem of solid waste, and marine pollution; depletion of non-renewable natural resources i.e., loss emerged due to exploitation of non-renewable natural resources like minerals, water, gas, etc. and Deforestation, etc.

Some of the contemporary social and environmental issues such as climate change and green-house gas emissions affecting the global community are also believed to be key issues of research to the scholars in both developed and developing countries. However, the fundamental focus and concern today is about following environmental accounting practices by the companies and comprehending with the costs and benefits derived. Further, it is intended to evaluate the corporate activities that result in environmental changes and be quantified and reported. Besides, the entire evaluation will be made in the light of applicable rules, regulations, standards, etc. And to commensurate the project select sample of companies of different sectors, size and complexity identified and examined. The data so collected through secondary and primary sources for a period of five years down the line and apply reliable statistics to check on the variability, regression coefficients and standard errors of such changes depicted and inferred.

Environmental Accounting needs to work as a tool to measure the economic efficiency of environmental conservation activities and the environmental efficiency of business activities of companies as a whole. Management seldom tries to make proper arrangement to save the environment unless it is required by law as there is no direct relationship between investment and benefits. In many contexts, environmental accounting is taken to mean the identification and reporting of accounting for any costs and benefits that arise from change to a firm's products and processes where the change also involves environmental impact. Business enterprises are facing the challenge of determining their true profits which are environmentally sustainable ones. It may be noted here that this requires companies to account for the environment. Considering the external environmental impacts to determine profit level would be apt as they attempt to stabilize the natural resources at the end of the accounting period. The benefits of undertaking an environmental accounting initiative include the identification and greater awareness of environment related costs providing the opportunity to find ways to reduce or avoid these costs, whilst also improving environmental performance. More elaborately, environmental accounting is an effective tool for placing environmental issues firmly on top management’s agenda, providing useful data to inform environmental and financial managers’ decision making, and concretely demonstrating environmental and financial managers’ decision making, and concretely demonstrating environmental commitment to stakeholders. There is no consensus as to the constituents of environmental costs and benefits and their measurement. This poses a challenge in the form of quantification of environmental costs and benefits. Hence, there is a need to evaluate the procedure followed by the selected companies as to how they quantify the environmental costs and benefits and report the same to the stakeholders.

3. Objectives of the Study

The primary objective of the proposed study is to evaluate the corporate practices relating to measurement, recognition and disclosure of environmental costs and benefits. This primary objective is supported by the following.

- To review accounting regulations relating to environmental accounting practices
- To analyze the corporate strategies towards environmental safety and protection
- To evaluate the corporate practices relating to the quantification of environmental costs and benefits.
- To analyze the recognition procedure – i.e., disclosed through financial statements and annual reports.
- To offer suggestions for the improvement of quantification and reporting system.

4. Methodology

Relevant and time-tested statistical applications will form the part of the study. Other than secondary sources such as annual reports, balance sheets and other relevant financial documents of the companies that reveal the past history of expenditure on environmental protection mechanisms, a separate questionnaire will be designed to address the growing cause to get hold of primary

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information from the concerned departments. Thus, the methodology aims to follow the suit as under for getting desired results:

- Intended to collect the data from both secondary and primary sources.
- After due diligence on the statistical applications, the proposed study intends to select 50 companies of different sectors at random from stratified population across India for the purpose of comprehensive evaluation of environmental accounting practices.

The data so collected will be analyzed and interpreted with the help of appropriate statistical tools such as SPSS and inferences are likely to be drawn thereupon.

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