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Environmental Reporting: Aspects, Objectives and Benefits

Abstract

Increasing public consciousness, high profile environmental disasters and stricter governmental regulations in some countries have resulted in a growing demand for corporate environmental reporting. These days, environmental reporting is described either as a branch of the corporate governance, or as one aspect of the “triple bottom line” whereby data on financial results, environmental performance and social impact are brought together in what might be termed as a ‘Sustainability report’. In this Concept Paper the Aspects of Environmental Reporting are discussed. In addition, the Objectives and Benefits are also narrated. Due to surmounting social and legal pressures and increasing judicial Intervention there has been a growing demand for disclosure of environmental policies, practices and performance of a company to the interested stakeholders in or outside the concern.

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Introduction

Earth's environment is a rich heritage handed over to us by previous generations. The present civilization has involved in varied activities. Many of these activities generated waste with potential constituents.The man-kind has modified certain components according to need and convenience and sometimes the natural constituents gets modified automatically due to natural reactions of our actions which are perceived as unintentional damage to environment.

It has been observed that the term Environmental Reporting can be explained at different levels. National level environmental reporting is a method of keeping accounts of natural resources and other environmental elements. It involves valuation of natural resources, measuring income there from, keeping records of costs relating to them, estimating them and providing depreciations on them. On the other hand, at corporate level, environmental reporting refers to the measurement and communication of information on the environmental responsibility performance of an entity to the interested parties. It is a part of corporate social responsibility and attempts to evaluate impact of organizational activities on environmental resources.

Environment

According to Environment (Protection) Act, 1986, Environment includes water, air and land and the inter-relationship which exists among and between water, air and land, human beings, other living creatures, plants, micro organism and property. This definition covers natural physical environment only.

Environmental Accounting

Various professional bodies and authors have defined Environmental Accounting differently. At macro level, environmental accounting can be defined as, “one of the methods that takes into account environmental resources and services and changes therein and measures their effects on GNP and NNP to reveal true maximum income (True Net Capital Formation) which a nation can consume, while maintaining a sustainable development and growth, without jeopardizing the interests of the present and future generations as well as our neighbors.” [Oza H.S]

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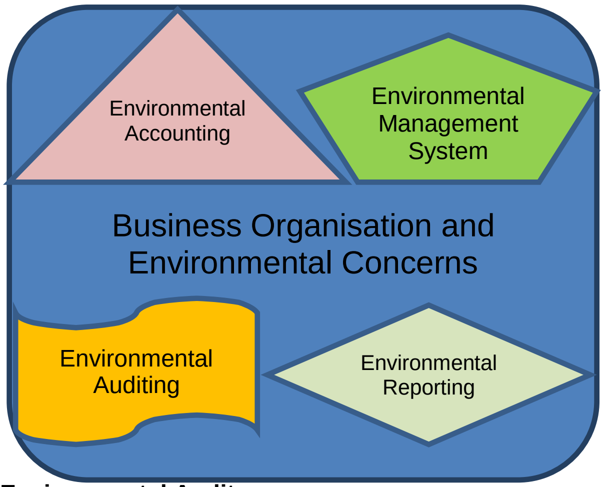


Environmental Audit

There is no or little agreement on the meaning of Environmental Auditing, procedure to be followed and standards to be applied in conducting environmental auditing. The scope, objective and protocols required of environmental auditing have not been standardized. [Deturbide]

The United Nations Environment Programme (UNEP) defines Environmental Auditing as “a management tool used by industry to evaluate its environmental performance” [UNEP, 1989]. It emphasizes a point that environmental auditing can be a means for a company to assess its environmental performance and to improve the effectiveness of its environmental policies.

The International Organization for Standardization (ISO) defined an Environmental Audit as “a systematic, documented verification process of objectively obtaining and evaluating audit evidence to determine whether specified environmental activities, events, conditions, management systems, or information about these matters conform with audit criteria, and communicating the results of this process to the client” [CSA/ISO 14010]

Environmental Auditing and Financial Statement Auditing

In contrast to financial statement auditing, Environmental Auditing is concerned with assessing the adequacy of the organization’s environmental control system and providing information to improve the system. An umbrella term, Environmental Auditing encompasses a wide range of management practices which are generally undertaken on a voluntary basis by companies as a part of strategy of self regulation [Robbins].

Environmental Management System (EMS)

ISO 14001 defines an EMS as:

“That part of the overall management system that includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, environmental policy.” [Bhadra B.]

Meaning and Aspects of Environmental Reporting

Increasing public consciousness, high profile environmental disasters and stricter governmental regulations in some countries have resulted in a growing demand for corporate environmental reporting. As a large number of companies respond to these pressures by publicly disclosing their environmental performance in formal reports, demand increases on other companies to follow pattern. Moreover, when a company adopts a proactive approach to environmental management, the desire to communicate the positive results to the concerned stakeholder groups also encourages preparation of environmental reports. As a result, since early 1990s, the number of companies reporting environmental information has increased substantially. But due to lack of accounting standards and guidelines on the issue, there are broad variations in the format and content of these reports.

Since late eighties, due to growing public concern about the alarming impact of industrial activities on nature (e.g. disastrous consequences of atmospheric pollution, oil spills, chemical and other toxic discharges and depletion of scarce natural resources), companies are under increasing pressure from government and society to reduce adverse environmental impacts of their activities by making efficient use of scarce resources and by using cleaner production technologies.

The evaluation of an organization is now being undertaken not only on the basis of its financial results, but also with regard to its contribution to protect and improve the environment. There is an increasing thrust that environmental issues have considerable implications for financial and investment decisions. Environmental issues have become an important variable in the models used by investors and creditors to determine the risk associated with their investment. Before making any major financial transaction viz. investment, capital budgeting, or corporate restructuring, it is necessary to take into account a company's environmental performance and its impact on the concern's trading results and financial position.

Environmental reporting is disclosure of information relating to environment in annual reports or by some other medium like in environmental policy statements or Corporate Environmental Reports (CER).

Environmental reporting covers the preparation and provision of information, by management, for the use of multiple stakeholder groups (internal or external), on the environmental status and performance of their company or organization. This information is most often provided in a separate environmental report, but it may, (either as well or alternatively) be included in other forms of reporting (such as financial and social/ethical reporting) [Federation Des Experts Comptables Europeans (FEE)]

These days, environmental reporting is described either as a branch of the corporate governance, or as one aspect of the “triple bottom line” whereby data on financial results, environmental performance and social impact are brought together in what might be termed as a ‘Sustainability report’.

Corporate environmental reporting should include environmental protection initiatives taken by the enterprise; the adverse impact of its production process and products on the 'environment both in quantitative and qualitative terms and its initiatives in process and product innovations in order to achieve sustainable growth.

Thus, Environmental Reporting refers to the disclosure of environment related information by a company regarding environmental risks, impacts, policies, strategies, targets, costs and liabilities to the interested stakeholders through the annual report or some other medium like video, internet or newsletter.

To measure environmental activities of an organization and their resulting impact on business and the society, it is necessary to account for the concern's environmental costs, benefits, assets and liabilities.

Costs associated with Environmental Reporting

There are a Large number of factors which drive a company to report on environmental issues like international standards, mandatory national requirements, competitive advantage, investment conditionality or other stakeholder pressures. Costs of environmental reporting are mostly direct like costs involved in publishing environmental reports or costs of environmental audits. But costs of non-reporting are mostly indirect like poor environmental profile vis-a-vis competitors.

Users of Environmental Information

The International Accounting Standards Committee [IASC] conceptual framework (The Chartered Accountant) differentiates between seven user groups, but is based upon a primary assumption that the needs of financial investors are pre-eminent, and that if their needs are met, then the needs of most other users should be at least partially met.

United Nations' Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has identified the following users of financial and environmental information [UN-ICAI Seminar Report]:

Financial Reporting

1. Present or Prospective Shareholders

Environmental Reporting

1. Shareholders or Potential owners
2. Financial advisors or analysts
3. Internal line managers, employees and competitors
4. Suppliers or customers
5. Lenders or Insurers
6. Journalists or media
7. Neighbor, local community
8. Local and regulatory authorities (and national governments)
9. Environmental organizations and NGOs.

Thus, there are various users of environmental information having differing information needs. The company needs to recognize its relevant stakeholders and provide information on environmental issues accordingly.

Objectives of Environmental Reporting

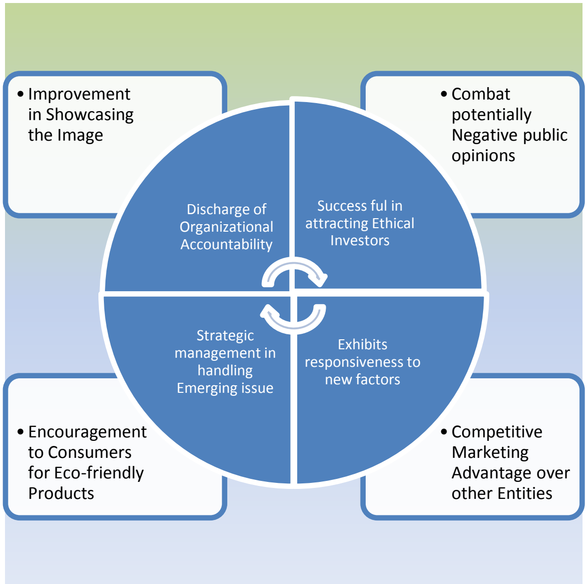
Due to surmounting social and legal pressures and increasing judicial Intervention there has been a growing demand for disclosure of environmental policies, practices and performance of a company to the interested stakeholders in or outside the concern. 'Environmental reporting' is the term used to describe the disclosure by an entity of environmentally related data, verified (audited) or not, regarding environmental risks, environmental impacts, policies, strategies, targets, costs, liabilities or environmental performance to those who have interest in such information as an aid to enriching their relationship with the reporting entity, via either the annual report and accounts; a stand-alone corporate environmental report(CER); environmental statement, or some other medium (e.g. staff newsletter, video, CD Rom, website [UN-ICAI Seminar Report].

The holistic approach towards contemporaneous environmentalism is 'sustainable development', which is a process that enhances human and socio-economic well-being in a long way.

Public concerns on environment across the globe have resulted in building mechanism such as the Intergovernmental Panel on Climate Change (IPCC), the Kyoto Protocol for Greenhouse Gas (GHG) reduction and environmental taxes. Many countries are, now considering controlling green house effects and CO2 targets through regulation of business entities using carbon emission rationing system. Many related accounting Issues have arisen due to carbon trading which must be answered by accountants. Moreover accountants are required to pay attention to the taxation aspects of environmental issues. Recent discussions on 'triple-bottom-line reporting' or Sustainability Reporting Initiatives (SRI) in the financial markets have also underlined a need for adoption of environmentally sensitive accounting by corporate sector in India.

The FEE Environmental Task Force defines the objectives of external environmental reports as being the provision of information about the environmental impact and operational performance of an entity that is useful to the relevant stakeholder in assessing their relationship with the reporting entity.

Figure 1- Objectives of Environmental Reporting



Some other Objectives are

1. Environmental Reporting would help in discharge of the organizational accountability and increase its environmental transparency
2. Because of ethical investment movement, ethical investor require the companies to be environmentally-friendly. Therefore, by upholding friendly image, companies may be successful in attracting fund from 'green' individuals and groups.
3. It aids negotiation of the concept of environment and determines the company's relationship with the society in general and the environmental pressure group in particular. This helps an organization seeking to strategically manage a new and emerging issue with its stakeholders.
4. By making environmental disclosures, companies may show their commitments towards introduction and change and thus appear to be responsive to new factors.
5. By taking their enlightenment approach, companies can increase their image to outside world and this can be regarded as enlightened companies.
6. Companies engaged in environmentally unfriendly industries arose strong public emotion. There is a strong environmental lobby against such industries. Green reporting may be used to combat potentially negative public opinions.
7. Environmental Reporting consumerism movement launched by the lobby groups encourages the consumers to purchase the environmentally-friendly products, i.e. green products. Companies, thus producing such products may take competitive marketing advantage by disclosing the same.

Advantages of Environmental Reporting

The advantages of environmental reporting vary from company to company, some of these are:

Figure 2- Advantages of Environmental Reporting

Improves Company's Reputation

By demonstrating concern about environmental issues, a company can distinguish itself from competitors and attract customers and suppliers. It enhances image of the company as a responsible employer and as a good corporate citizen. It gives competitive advantage to the company.

Strengthens Company's Commitment

Reporting environmental performance strengthens company's commitment to gain a higher level of environmental performance. Highlighting resource usage, waste and emission reduction or cost saving approach establishes environmental issues as a key policy or strategy element.

Cost Savings

An environmental report can not by itself reduce resource use or result in lower energy, water and material bill but the preparation of such reports can focus the organization's attention on such issues and can help it to identify possibilities for efficient saving [www.envirowise.gov.uk].

Transparency and Communication

Reporting can help convey the organization's values and promotes two-way communication with its stakeholders. Environmental reports need to be comprehensive and actual work needs to be reported. It allows a company to demonstrate its improving environmental performance to pressure groups, the media and the general public.

Staff Productivity and Quality

People want to work for organizations that share their ethics and values. Organizations communicating environmental responsibilities are likely to recruit better people and are likely to have a more contended and productive work force.

Risk Management

Environmental risk is an integral part of risks facing by every organization. Reporting helps to identify such risks and where they could arise and thus, prevent damage to reputation from negative publicity on the issue. It helps in, avoiding risk of' action from Government or public opposition. Publishing the work done by a company also enables it to reassure investors, lenders and other stakeholders as to environmental risks involved in investment.

Conclusion

As environmental issues and their related costs grow in rupee size and taking in to consideration public awareness, accounting profession must be prepared to incorporate their impact into company's financial disclosures and annual reports.Environmental issues have drawn attention and importance in past decades. This trend is expected to continue in future and thus, Accountants and managers need to be aware of environmental issues and to consider their influence upon both internal and external reporting. But in order to make Environmental Reporting successful it is necessary that various accounting bodies should come up with some specific accounting standard or guidelines on environmental issues. Moreover in order to provide relevant, reliable and comparable information to the interested stakeholders it is necessary that only duly audited information is provided to them. This gives rise to the need for independent Environmental Reporting.

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