

3. Corporate Social Responsibility and Environmental Accounting & Reporting Practices in India

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Abstract

Due to the increasing number of business activities and its negative impact on society, today the performance of an organization is not only judged on the basis of its financial results, but also with regard to its involvement in protecting the environment. Environmental accounting is an attempt to widen the scope of the accounting frameworks used to assess economic performance, to take review of elements that are not recorded in public or private accounting books. In this scenario, the need for accounting and reporting on the environmental issues and their disclosure in the annual reports has become an important part of corporate accounting and reporting system. There are various approaches to environmental accounting. It is important to consider the economic welfare and also the losses or damage caused to environment due to economic activity. Many companies undertake various activities to protect the environment in which they are functioning, but the question remains as to whether they account for their activities in monetary terms and report it in their financial reports. It is not mandatory for the corporates to disclose the environmental related cost and benefits except with respect to certain industries. In India, such disclosures are of voluntary nature and are guided by corporate social responsibility norms. In this paper, an attempt is made to discuss the theoretical foundation of environmental accounting and reporting practices with special reference to India. Hence, the present study is undertaken with the objective of analyzing the accounting and the reporting practices of some companies relating to environmental reporting. The study is based on secondary data collected from the companies' reports through internet.

Key words: Environmental accounting, Environmental Policy, Corporate Social Responsibility.

Introduction

As the entire world continues its rapid move towards industrialization, the ecological balance is disturbed. The activities of industries and business make significant impact on nature and human beings. The industrial wastes cause environmental pollution on large scale.

Economic development without environmental considerations brings about environmental problems and makes a bad impact on the quality of life of present, as well as future generation damaging the ecology. The role of corporate sectors is very important for controlling the environmental degradation. For this maintaining account of such environmental and natural resources is important. The awareness and acceptance of importance of environmental control has motivated the development of the branch of "Environmental Accounting". For the sustainable development of mankind, a healthy environment is indispensable. Gradually, therefore, in many countries including India, environment matters are being given top most priority. Accounting and disclosure of environmental matters have been increasingly manifesting as an important dimension of corporate accounting and reporting practices. But, as conventional accounting deals with mainly non-living things, the formulation of valuation, and measurement and accounting techniques for incorporating environment-related matters in the corporate financial statement creates problems for the accountant. Due to the growing public concern regarding industrial activities, today the performance of an organization is judged not only on the basis of its financial results, but also with regard to its contribution to protecting and improving the environment. In this scenario, the need for accounting and reporting on the environmental issues and their disclosure in the annual reports has become an important part of corporate accounting and reporting system. Many companies undertake various activities to protect the environment in which they are functioning, but it is not stated in monetary terms in the financial reports of the companies. Hence it is important to study the reports of the companies and study the percentage of companies maintaining the records.

Meaning of Environmental Accounting

Environmental accounting is entirely an emerging and dynamic concept. Environmental accounting is concerned with the accounting for environment encompassing a business. Environmental accounting is an attempt to broaden the scope of the accounting frameworks used to assess economic performance, to take stock of elements that are not recorded in public or private accounting books. In other words, environmental accounting attempts to make the best possible quantitative assessment of the costs and benefits to an enterprise for activities specifically directed to environmental preservation. Thus, environmental accounting refers to the measurement and communication of information about the environmental responsibility performance of an organization to interested parties. It is also popularly referred to as "green accounting". It can be defined as the generation, analysis, and use of financial and non-financial information in order to optimize corporate, environmental and economic performance, achieving a sustainable business development. The ultimate objective of environmental accounting is to

indicate the environmental cost of each process, separating the non environmental costs from the environment costs. In short, it records and summarizes the value of environmental goods and services in monetary terms. This branch of accounting provides organizations with the cost of their products and processes, thus leading to resourceful decisions and sustained profitability.

Objectives of study

1. To study environmental accounting and reporting policies adopted in India.
2. To make a brief review of accounting Regulations and Government rules relating to Environmental Accounting.
3. To study is the corporate practices relating to measurement, recognition and disclosure of environmental costs and benefits.

Data and Research Methodology

The present study is exploratory in nature. It is based on secondary data collected through the books, research work published, Annual reports of selected companies and internet to analyze the environment disclosure practices.

Literature Review

Kumar and Kaushik (2015) have studied the environmental disclosure & policies adopted by Mahatata companies as BHEL and SAIL which did environmental reporting in their Annual Reports. Makori(2013) studied the relationship between environmental accounting and profitability of selected companies which showed it as negative and also suggested that environmental accounting should be made compulsory in India and Govt. can give Tax credit to the organizations complying with laws. Lungu et al.(2011) proposed strategies for social and environmental accounting. Caterjee and Mir (2008) have observed that there is significant disclosure of environmental information. Kumar (2005) studied the methodological issues pertaining to shadow pricing, environmental, voluntary non-marketable benefits from environmental resources, environmental regulations in water polluting industries with special reference to the case study of sugar industry in India. Oza (2004) observed that environmental accountability by a corporate citizen needs change in mindset of people within the supervisory staff, and front line and floor people. It should be proactive rather than reactive in fulfilling the environmental accountability to attain that ultimate aim of sustainable development. Ghosh, Mishra and Gagula (2003) studied the environmental reporting pattern of Indian Companies and compared it with 25 major companies across the six continents of the world which are global bench marks in environmental accounting. The comparison showed that Indian companies stood poorly in this sphere. Sharma and Upadhyay (2002) observed that all the companies present

environmental statements, and information on pollution control and environmental protection under the provisions of various acts, but they often appear in their annual reports. Verma (2002) studied the environmental accounting policies of six companies, where it is showed that these companies made policy statements in director's report but did not disclose any quantitative figures on expenditures incurred on targets set and achieved in respect of natural resources. It is observed from various studies that the percentage of companies disclosing environmental information is very less. Murthy et al. suggested that environmental values are necessary for designing economic instruments and environmental policies. It is observed from the various studies that corporate sector in India has become environmental conscious and steps are being taken to mitigate the adverse impact on the environment due to their activities, but there is no attempt to reduce in money terms the impact of their operations on the environment so that cost of their operations could be assessed in terms of resources only.

Legal Framework for Environmental Accounting in India

India has a Union Ministry of Environment for coordinating among the states and the various ministries, the environmental protection and anti pollution measures. Various legislations to ensure the protection of environment have been passed. The latest Companies Act, 2013 also incorporates a stress on green initiatives. The various laws directly pertinent to environmental protection in the country are as follows:

- a. Water (Prevention and Control of Pollution) Act, 1974
- b. Water (Prevention and Control of Pollution) Cess Act, 1977
- c. Air (Prevention and Control of Pollution) Act, 1981
- d. The Forest Conservation Act, 1980
- e. The Environment (Protection) Act, 1986

Importance of Environmental accounting

The conventional accounting system deals with only non-living things and their relevant transactions. But environmental accounting identifies the resources exhausted and costs imposed by a business corporation during its activities. Recording the benefits and costs rendered by the environment to a business corporation and justifying them are the prime responsibilities of environmental accounting. Environmental accounting also plays a very vital role in supporting rational decision-making. Environmental accounting helps companies and other organizations boost their public trust and confidence and are associated with receiving a fair assessment. It also encourages the consumers and helps them purchase environmentally friendly products, i.e., green products produced by the corporate, and as such, both consumers and corporate benefit. It gives importance to pollution control by the corporate sectors. Environmental accounting offers an

area about industrial development, a nation's economic progress and social welfare and the fulfillment of responsibility towards society. Environmental accounting improves environmental performance through better management of environmental cost and thus, benefits the natural and human environments. Sustainable development is possible with the help of environmental accounting as it helps include ecological ability of enterprise. Environmental accounting has proved to be highly essential in measuring a nation's economic development, social welfare, industrial development, pollution control and in satisfying the needs of government, still the system is in its infancy and not all countries have been able to develop such a system.

Environmental accounting practices followed in India

Environmental Accounting is a new branch of accounting where no rules are prescribed by the Govt. through Accounting Standards. Generally very few companies disclose the information in their Annual Reports in Monetary and Physical terms in various forms as observed from the reports can be stated as follows:

- Accumulation of current environmental costs for current as well as past activities and products.
- Physical data related to the reduction of toxicity and waste.
- Present and future capital expenditures for pollution prevention and control.
- Energy Conservation and Control of Environmental Hazards
- Present and future costs for products as well as re-designing processes.
- Estimation of future environmental costs and benefits for waste water management and Recycle of wastes

Environmental Accounting practices followed in India

Very few corporations disclose adequate information regarding the measures taken and expenditure incurred for pollution control by them. They give the information in their reports as prescribed by law giving the details. As per the observations made from Annual Reports of various companies they include the information which includes the following points:

1. Measures taken for pollution control and devices utilized for the same.
2. Steps taken for energy saving and raw material conservation
3. Step taken for waste water management and for improvement of quality of product and services, process of production, etc.
4. A study was conducted among 80 executives of different industries by Dr. B.B. Padhan and Dr. R.K. Bal which revealed that corporate world is fully aware of the requirements of environmental reporting. They are also aware of the environmental issue. The

corporate executives have also expressed their views in favor of environment reporting by the industries. Despite their awareness and consent over environmental reporting by industries is it very poor. It is so inadequate that very little information is found in the annual report.

As per the survey conducted by Asian research consortium out of the number of 85 companies 33 companies' i.e. 38% of companies were doing environmental reporting. The various aspects considered were Environment Policy and Statement include 54%, Energy conservation include 87%, and 33% of the companies are disclosing contents such as amount spend on pollution control, ash utilization, wastewater management, etc. Disclosure about environmental hazards was found only in case of three companies.

1) **Asian Paints (India) Ltd.:** "Ecology and Safety: Samples of treated effluents are periodically checked for Compliance with standards"

2) **Goodlass Nerolac Paints Limited :** "Pollution: The company regularly monitors measures in force in accordance with the Pollution Control Act for the protection of environment and for ensuring industrial safety and complying the statutory requirements.

3) **Maruti Udyog Limited:** "Environment: Modification of the existing effluent treatment plant was undertaken to take care of additional effluents generated due to capacity expansion. Data on non methane hydrocarbons in Paint Shop and Engine Testing shop, ambient air quality, stack emissions and effluents are being regularly monitored and the parameters are maintained well within prescribed limits. Development of green belt around gas turbine and R&D areas was further augmented by plantation of 3000 additional saplings.

It was also revealed that most of the companies disclose the environment information in descriptive manner rather than to financial type. The percentage of companies doing reporting is increasing. Today due to Liberalization the companies have to face International Competition. The MNC's include both monetary and non monetary information in their Annual Reports including environmental accounting reports. Hence to overcome the problems the companies have to include Environmental reporting in their Annual Reports.

The awareness about environmental control is increasing and many companies provide funds for the same but the percentage of funds utilized is less. As per studies undertaken by various researchers it is observed that the top Maharatna Companies doing environmental reporting include BHEL, CIL, GAIL, NYPC, ONGC, SAIL, IOCAL, etc. Which cover the various sectors as electronic, cement, Petroleum and other sectors. Public awareness about environmental issues like environmental pollution & control is good but the disclosure done by the Indian companies in financial reports is very less.

Suggestions

To make environmental accounting as a compulsory part of accounting system some of the following suggestions can be given:

1. Making the rules in accounting for the presentation of environmental accounting reports by declaring accounting standard for environmental policy.
2. Preparation of budgets for the environmental expenditures.
3. Declaring the list of various elements causing pollution due to the effluents of companies and declaring measures taken to control it by the companies.
4. Government should make it compulsory for every polluter to submit environmental audit report being done by a certified environmental auditor.
5. The necessary amendments may be made in the Company's Act to ensure the disclosures and annexure may be added to a Director's Report with necessary amendment in the Company's Act for development of pollution standards for industries.
6. All revenue expenditures incurred for the protection of the environment should be debited to Profit and Loss Account and all environmental and natural resources consumed by the business should be regarded as environmental assets and it should be the liability of the organization towards society to utilize such assets at maximum possible capacity and at minimum cost without adversely affecting society's interest.

It can be stated that the organization should report for environmental activities, the cost incurred by the organization on the environmental benefits served by the business organizations, benefits received from the environment and the costs imposed by the environment. In short, social responsibility of business will be satisfied by the reporting system.

The major burning issues and challenges with regard to environmental accounting include:

- a. Identification of environmental costs;
- b. Capitalization of costs;
- c. Identification of environmental liabilities; and,
- d. Measurement of liabilities.

Different guidelines regarding these issues have been issued by many organizations from time to time, but the guidelines are almost advisory in nature and no implementation is done continuously. For this a firm and well defined environmental policy is to be adopted to comply with the rules and regulations for the sustainable development of country. For improving the corporate image relating to socially responsible behavior, it is desirable that an increasing

number of Indian companies report their environmental performances and social issues making environmental accounting mandatory & conducting environmental audit at regular intervals. Accountants are to take a proactive role in the environmental protection process. An auditor must pay due attention to environmental aspects during the course of the audit of financial statements.

Conclusion

Environmental accounting is an important measure for understanding the role played by natural environment in the development of an economy. It provides data that contains the contribution of natural resources to economic well being as well as the costs imposed by environmental pollution and resource degradation. The lack of awareness and commitment on the part of company management about the social responsibility of the firm also keeps the firms away from reporting environmental costs and benefits. Thus, it can be concluded that the absence of a standardized environmental accounting practice and disclosure norms at national as well as international levels spur the corporate to be away from the environmental accounting practices and to shut their eyes towards the deterioration in the environment.

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