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ORIGINAL ARTICLE

ENVIRONMENTAL DISCLOSURE AND REPORTING: A CORPORATE RESPONSIVE STUDY

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Abstract:

Rising pressures on the environment and increasing environmental consciousness have generated the need to account for the various interactions between all sectors of the economy and the environment (Shukla, & Vyas, 2013). This paper describes the concept of introducing environmental disclosure in company's reports. It suggests the need to instigate Social or environmental reporting with financial statement. It also focuses over the various researches conducted in India and abroad regarding the environmental impression over their disclosure standards followed by them.

KEYWORDS:

Disclosure Standards, Environmental consciousness, Financial Disclosure, Reporting.

I.INTRODUCTION

In the current era, the environmental initiative has become a prominent concept to be undertaken by various corporate houses while reporting its financial statements. Environmental reporting means reporting the environmental performance of the company for providing such information to its related stakeholders. Sen, Mukherjee, & Pattnayak (2011)

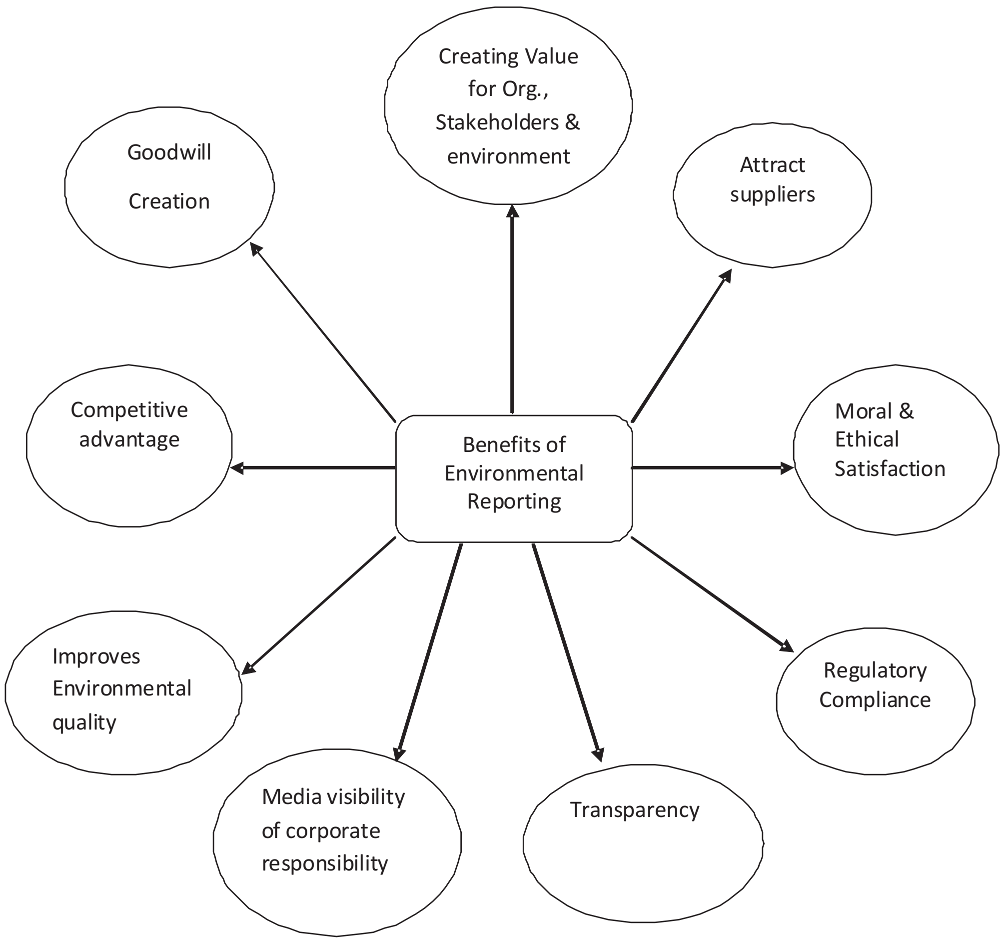
have defined Environmental reporting as...

the disclosure of environment-related information regarding environmental risks, impacts, policies, strategies, targets, costs and liabilities, for those who have an interest in such information.

Mainstream CSR literature identifies four major themes for CSR: natural environment; employees; community; and customers (Gray, Kauthy, & Lavers, 1995). Environmental reporting is disclosure of information relating to environmental impacts, activities, policies, and performance of an organisation in annual reports or by some other medium like in environmental policy statements or stand-alone corporate environmental reports (CER) for the use of multiple stakeholder groups (internal or external).A good "ethical" report should be transparent and represent a genuine attempt to provide an account which covers negative as well as positive aspects of all material impacts. To be accountable, reports need to demonstrate corporate acceptance of its ethical, social and environmental responsibility. Such acceptance can be demonstrated through a clear statement of values with corresponding objectives and quantified targets with expected achievement dates. Companies should then report performance against those targets. Reports should give a balanced view of key ethical issues facing the company (Adams, 2004). There would appear to be two major issues relating to the location of data. The first issue concerns which documents are to define CSR and what importance is to be placed on each one. The second issue relates to where in a particular document (especially the annual report) the data reside and what importance these then have (Gray, Kauthy, & Lavers, 1995).

NEED FOR ENVIRONMENTAL DISCLOSURE:

In the last decade, corporate sector has also contributed a big share in the drastic deterioration of the quality of environment. Environmental ignorance by the corporate has given destructive repercussion to the society. It has now realized its catastrophic impression over the environment and adopted a positive start towards enhancing the quality of environment. Such environmental actions undertaken by the companies must be encompassed to their stakeholders so as to get its reputational benefits. Presently, there has been increased community attention toward the identification of approaches to deal more effectively with environmental concerns. The need for such disclosure arises due to several factors like shareholder's awareness and their pressure, disclosure requirement in company's Acts, competitive advantage, Accounting Standards followed by different countries etc. One of the primary factors suggested to influence a corporate response on environmental issues is the growth in awareness and concern in the general community. If the members of the community are becoming more interested in the environmental impact of companies, it is likely that the senior management will be called on to explain the company's activities affecting the environment. Such accessibility may be promoted through disclosure within the annual report (Wilmshurst, & Frust, 1999). . This is an expression of the companies that there exists lack of transparency on part of the local implementing agencies as don't make adequate efforts to disclose information on their programmes, audit issues, impact assessment and utilization of funds (Prabhakar & Mishra, 2013). Nowadays, stakeholders are demanding the "giving of an ethical, social or environmental account" as well as a financial account. It could be expected that companies may need to reconsider their voluntary disclosures in light of being perceived as providing conflicting information in the two sections of the report. Firstly, companies will need to use more factual and less self-laudatory comments in their reporting practices. Secondly, companies may need to improve actual environmental performance in order to avoid the mandated publication of unfavourable environmental performance information in the annual report (Cowen, & Gadenne, 2005).



Corporate Disclosure and EIA:

The data provided in the environmental report must be reliable ad accurate to present the correct data to the interested stakeholders. Its accuracy and reliability depends on internal as well as the external auditing. To increase reliability, credibility and validity of environmental information provided to various stakeholders by a company, it is essential that an independent external auditor verifies these reports. This verification is necessary to ensure objectivity of the environmental reporting process, confirming the consistency of reported data and improving the quality of dialogue with stakeholders. Hence, EIA system aims at providing accurate, reliable, relevant and objective information to various internal and external stakeholders to help them in making more informed decisions. Internal auditors as a part of management are interested in reviewing compliance with environmental regulations and statutes; determining the propriety of the accounting for environmental issues and ensuring that proper disclosure is being made. External auditors are mainly interested in ensuring that financial statements depict a true and fair view of a company's trading results and financial position. They either by themselves or with environmental experts, determine that the organisation is complying with governmental regulations in handling of emission of pollutants, the disposal of contamination and waste, and the detoxification of previously contaminated assets. In addition, the external auditors must determine whether the client is exposed to the additional risk of incurring liabilities or has actually incurred liabilities resulting from the contamination of recently acquired assets. The external auditor must also ensure that proper disclosure, in compliance with legal requirements has been made (Pahuja, 2007). There are several local organizations that are promoting environmental reporting. The Institute of Chartered Accountants of India (ICAI) gives out annual "Awards for excellence in financial Reporting." The criteria for the award include criteria for environmental and social reporting. The Confederation of Indian Industry (CII) has established the CII-ITC Centre of Excellence for Sustainability Development, as well as a Centre on Sustainability Reporting. This Centre assists companies to initiate or improve their environmental reporting (Pankaj, 2010).

Environmental Disclosures by Corporate under various researches:

In a study Chatterjee & Mir (2008) conducted a research, in which he took sample of 45 Indian companies by market capitalisation as listed on www.indiainfoline.com as on 31 December, 2003. They analysed that on an average the highest number of sentences encompassing environmental information has been disclosed by the "diversified" sector, followed by "technology". The least number of sentences has been disclosed by the "oil and gas" sector. This is beyond expectation, since the "oil and gas" sector was expected to provide more disclosures compared to other sectors as their operation affects the environment more adversely compared to other sectors, especially the technology sector. He analysed data and concluded that on average companies in the "oil and gas" sector provided the highest number of sentences concerning the environment, followed by "manufacturing" firms. This can be justified by the fact that there is a high chance that companies belonging to these two sectors interfere with the environment. The views of the CAs on the need for audit of environmental statements were obtained in the study. Pahuja (2007) in her research found that a large majority of the CAs (91.2 per cent) were of the opinion that environmental reports should be audited. They felt that in order to make environmental information given by a company objective, reliable and useful in decision-making, it should be verified by an independent auditor. They felt that this audit would also help a company in complying with environmental laws. A scrutiny of actual practices followed by the large Indian companies revealed that while most of the companies prepared statutorily required environmental statements, only about 39 per cent prepared these statements voluntarily. 48 per cent of these companies got these statements verified by an auditor mainly to ensure compliance with environmental laws and to increase credibility of the information provided in these reports. The task of EIA was generally given by the responding companies to a team of auditors. About four-fifths of the companies appointed external environmental auditors for this purpose; while some companies assigned specific tasks to engineers and chartered accountants. A study by Pahuja (2009) found that Environmental reporting by the public sector companies was found to be significantly higher than those operating in the private sector. Moreover, the "most polluting" companies were found to be communicating significantly more information on environment than the "less polluting" concerns. Also companies with better environmental performance were found to be providing detailed information on environment than poor performers. A company that takes various steps to prevent and control pollution or to conserve the environment (whether statutorily required or voluntarily taken) and takes care of the environment in making crucial business decisions, tries to report this information to the public. The company tries to enhance its goodwill by displaying that it is a good corporate citizen. The results, therefore, provide evidence in supporting the hypothesis that companies having better EP disclose more on the environment than poor environmental performers. Amin & Banerjee (2010) in their literature study revealed ISO 14001 as the standard for environmental excellence and environmental performance management has been associated with ethical, financial, and goodwill considerations of companies. They also found that also affirmed that ISO 14001 certification process while bringing many benefits does not address many desirable aspects of benchmarking processes such as: peer benchmarking, industry-wide benchmarking, requiring minimum standard of environmental performance and the public disclosure. Many countries have taken ISO 14001 standards as a guide and developed country specific models of environmental sustainability. They conducted a research on four units under SAIL and concluded that Minimum acceptable standards of environmental performance could be achieved through consensus among the population of organizations in each sector. Another positive practical implication of this study is that the certified firms may find it motivating to continuously upgrade their environmental performance on the indicators, so as to perform better on this benchmarking index. And finally issues such as greening efforts and community awareness program relevant and specific to India in this case could easily be accommodated as factors in the index for peer benchmarking purpose. Sisaye (2010) has inculcated ecological approach to study the effect of the environment, geographical location, and level of technology, culture, social groupings and population characteristics on organizational growth and development. He incorporated three ecological approaches: institutional adaptation, organizational life cycles or staged theory of growth, and incremental and transformation strategies to study the theory and practice of sustainability development and reporting and concluded that when environmental reporting is integrated into an organization's strategic cost accounting and operating performance systems, it minimizes transaction and other related costs associated with technological changes in production, distribution and marketing systems. Adaptive organizations modify their financial accounting reporting systems for external use to meet sustainability disclosure requirements. The ecological approach considers both external and internal factors as being critical to the growth and failure rates of organizations. Accordingly, social and environmental reports operate through existing rules and administrative structures. Adaptation has become a strategic process that overcomes organizational inertia and accounting constraints to meet current environmental changes. Corporations are adaptive systems organizations who voluntarily prepare sustainability environmental accounting reporting systems to improve the collection, analysis and disclosure of economic, ecological and environmental data on organizational performance. Ecological performance will constitute the new competitive advantage to attract customers and investors among corporations operating within the same industry or markets.

CONCLUSION:

Corporate is also an integral part of environment. So it is also their responsibility to inculcate environment friendly operations and to invest in environmental issues for the prosperous growth of society and themselves. An annual statement is the best way to convey the information to the stakeholders of the company. It includes the mandatory as well as the voluntary disclosure practices of the company. Environmental reports define the environmental stand of the company. If such reports are not made mandatory by the legal system then the companies should provide the environmental information in a well defined report verified by the external auditors to maintain its accuracy and reliability among its related stakeholders. There is not any legislative prescription to be followed by every organization to define its environmental contribution. Government must take several strict actions towards the implementation of environment friendly activities and reporting them in their annual statements.

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