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Research Paper

COMMERCE

Environmental Accounting – A Corporate Social Responsibility Tool for Sustainable Development

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ABSTRACT

Corporate Social Responsibility(CSR) and Sustainable Development(SD) are issues that has been in the forefront of corporate strategy for several decades. Studies regarding CSR and SD have increased especially over the last two decades and actions related to them have become both shield and weapon for companies, organizations and governments, depending on the purpose they are used for. As environmental performance is increasingly seen to have an influence over financial performance, disclosure of environmental issues in the Annual Reports is a fundamental requirement for a company to satisfy the information needs of its stakeholders.

KEYWORDS : corporate social responsibility, sustainable development, environmental performance, companies

INTRODUCTION :

Corporate strategy howsoever carefully crafted will have limited legitimacy if it is not tempered by a sincere concern for public interest and social good. Any business enterprise, since it is an socio-economic entity can generate an impact on its surrounding environment in its normal everyday operation. Since such impacts are transmitted in the form of discomfort, loss of resources or contamination of the environment, the question that arises is whether corporate enterprises have social responsibilities or not. In recent years it has become a matter of great concern for national and international organizations. Today, companies belief that protection of the environment is not just a legal obligation, but also a profitable economic strategy, which generates savings, gives access to important market quotas and improves the social image of the company. Corporate social responsibility and sustainable development are among the most important concepts applied for/ or promoted by companies through specific programmes. For an individual company, corporate social responsibility means the integration of social, environmental and economic concerns into the company's values and culture. The application of the concept of sustainable development is closely linked to management methods, which define, for better or worse, the present and future relationship between a company and the environment.

EVOLUTION OF SD AND CSR :

SUSTAINABLE DEVELOPMENT (SD) :

'Sustainable' means maintainable or viable in the long term. The term 'sustainable development' was actually used in forestry and its origin can be traced back to the 18th century when only a limited number of trees were allowed to be cut in order to guarantee a long-lasting protection of the tree population. This ensured a continuous supply of wood without reducing resources for forthcoming generation. The Club of Rome precipitated an international discussion due to its report "Limits to Growth"(Meadows, 1972). In the course of this discussion, an eco-development approach was created which effected the protection of resources and environment coming to the fore. The term sustainable development (SD) was used for the first time at the United Nations Conference on the Human Environment in Stockholm in 1972. However, a working definition of SD was coined in 1987 with the publication of 'Our Common Future', popularly known as the "Brundtland Report" of the World Commission on Environment and Development. The Commission's definition, since widely adopted, was: "Sustainable Development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development is captured in the concept of the "triple bottom line" – the economic, environmental and social effects of a company's activities. In the United Nations Conference on Environment and Development in Rio de Janeiro 1992 and the Johannesburg Summit on Sustainable Development 2002, the Brundtland-concept of the three pillars has been further elaborated on.

CORPORATE SOCIAL RESPONSIBILITY :

Corporate Social Responsibility (CSR), is a form of corporate self regulation integrated into a business model. CSR is business's contribution to sustainable development. Today, corporate behaviour must not only ensure returns to shareholders, wages to employees, and products and services to customers, it must also respond to societal and environmental concerns.

CSR is not a recent phenomenon. Though the term sustainable development (SD) was mainly started to be used in the 1980's the framework of CSR has already been established in the 1950's and 60's. During the 1960s and 1970s the increased importance of multinational enterprises raised CSR issue in the discussions of some international organisations such as the International Labour Organisations(ILO) and the Organization of Economic Co-operation and Development (OECD The economic perspective is no doubt important but a company also has a burden of environmental and social responsibilities to handle. The present concept of CSR appeared during the second half of 1990s, after the Rio Conference on Environment and Sustainable Development of 1992, where the United Nations(UN) invited multinational enterprises to assume a commitment towards society and the environment by including in their commercial agreements provisions to protect basic human rights, workers right and the environment. This CSR concept is closely linked to the notion of sustainable development defined by the World Commission on Environment and development (Brundtland Commission) in 1987 as: "…..development that meets the needs of the present without compromisisng the ability of future generations to meet their ownneeds".

BUSINESS – AN INDISPENSABLE PART OF SOCIETY:

Business is as old as human civilisation. Business is the reflection of the vibrant entrepreneurial spirit some in society are endowed with. Good or bad, business touches everyone in society There are many concepts on business and society that capture the positive or negative externalities that business have on society

Business is the collection of private, profit-oriented organizations. Society is a broad group of people and other organizations, interest groups, a community, a nation. Business and society interrelate in a macroenvironment as stakeholders.

The basic objective of business is to develop, produce and supply goods and services to

customers. This has to be done in such a way as to allow companies to make a profit, which in turn demands far more than just skills in companies' own fields and processes. Since business organization has its physical existence in a society, therefore, the policies, practices and philosophy of the organization have far reaching effects on the society. The organization, in turn, has a definitive responsibility towards society. It is, in many ways, accountable and responsible for prevailing societal trends. In the words of Harris and Klepper (cited in Carrol, 1996) the main reasons for undertaking social activities were: (1) Corporate Citizenship: practice good corporate citizenship, (2) Business Environment: protect and improve environment in which to live, work, and do business, (3) Employee benefits: realize benefit for company employees, (4) Public relations: realize good public relations value, (5) Pluralism: preserve a pluralistic society by maintaining choices between government and private-sector alternatives, (6) Commitment: of director or senior officers to particular causes, involvement.

RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT:

The main objective of Corporate Social Responsibility (CSR) is generation of strategies which helps to obtain profit in a sustainable manner. CSR activities may be divided into two broad areas:

Proactive – It includes all activities which are intended to deliver socially-desirable ends like, charitable contributions, corporate involvement in education programmes, etc.

Defensive – It includes all activities which are intended to minimize negative social impacts of business, going beyond the minimum standards required by law. For instance, voluntarily avoiding certain additives, increasing the standard of environment friendly policies, etc.

The introduction of CSR criteria into business management is based on three principles: regulation of policies and management systems in the economic, social and environmental areas; clear, transparent information on achieved results; and the external scrutiny of the obtained results.

Some of the positive outcomes resulting from a business adopting corporate social responsibility are as follows:

Company Benefits:

- Organizational touchstone
- Value based decision making
- Improved financial performance
- Enhanced brand image and reputation
- Supplier alignment and loyalty
- Increased customer loyalty
- Greater employee commitment and motivation
- Improved productivity and quality

Community Benefits:

- Charitable contributions
- Employee volunteer programmes
- Increased standard of product quality and safety

3. Environmental Benefits:

- Increased material recyclability
- Greater use of renewable resources
- Integration of environment management tools with business plan like eco-labelling, environmental management standards, etc.

ENVIRONMENTAL ACCOUNTING – AN EXTENSION OF ACCOUNTING :

The field of environmental accounting has made great strides in the past two decades, moving from a rather arcane endeavor to one tested in dozens of countries and well established in a few.

After Kyoto Protocol took effect, environmental consciousness started increasing significantly. Countries throughout the world began to reduce emission of harmful gases and the manufacturing processes that resulted in toxic substances. To put strict limits on multinational companies new environmental standards were announced which raised the environmental responsibility of these firms. The systematic logging, compilation and disclosure of this accounting information became known as environmental accounting, also known as green accounting.

Some of the benefits extended by environmental accounting are as follows:

- An improved image for the organization which can translate into additional sales
- Help the organization to discharge its accountability and increase its environmental transparency.
- Decreased future liabilities brought about through temporal externalization
- Environmental accounting helps the company to maintain better relationship with the society in general and environmental pressure group in particular
- Development of environmental friendly or sustainable methods of operation which can lead to the development of new markets, and so on and so forth.

TRENDS IN INTERNATIONAL ENVIRONMENTAL ACCOUNTING PRACTICES:

It is remarkable to notice that more and more companies are using sustainability reporting, encompassing the social, environmental and economic impact of the company's operations, not just as an accountability tool but to drive strategy , unlocking new sources of revenue and growth Profit and growth are at the heart of their reasons for building sustainability tools into their business strategy. According to the data of the Institute of Chartered Accountants in England, countries including Italy, Sweden, Belgium, the Czech Republic, Denmark, France and Germany in Europe; Canada, the United States, Brazil and Argentina in the Americas; Australia, the Philippines, Singapore, Taiwan, Thailand, Vietnam, Japan and South Korea in Asia; and South Africa and Egypt in Africa offer environmental protection information. Some countries like Finland even make it compulsory for specific industries or companies to disclose environmental related data. In Europe , America, and Japan, for example, corporate social responsibility rankings are released via social responsibility investment indices. Current trends suggest that we are entering a new phase of reporting that places more emphasis on social responsibility, and yet there remains a significant group of companies that has still not got to grips with environmental reporting. While some companies produce fully electronic comprehensive reports of all their global social and environmental impacts, others are struggling to implement localised environmental management systems

ENVIRONMENTAL ACCOUNTING AND REPORTING PRACTICES IN INDIA:

Over the past two to three decades, corporate environmental management has gradually developed into a more mature discipline. As environmental performance is increasingly seen to have an influence over financial performance and financial risk assessment, disclosure of environmental issues in the Annual Reports is a fundamental requirement for a company in order to satisfy the information needs of its stakeholders. Many companies have incorporated environmental considerations into their activities in order to eliminate or reduce the impact of these activities on the natural environment

An analysis of environmental accounting and reporting (EAR) practices in India has been made. It reveals that accountants in India are well aware of the fact that environmental issues will affect business and industry in the near future. They are convinced by the need for accounting of environmental information. Despite this awareness, there is an absence of external environmental accounting.

Post-Independence, India was not in a position to pay proper attention to matters relating to environment as it was plunged into serious troubles of communal riots following the end of British rule. Even the Five year plans neglected the environmental matters , remaining concerned only with economic development and industrial development of the country. At the beginning of seventies when a law for protection of the environment was passed , public awareness for environment generated. It was the then Prime Minister Indira Gandhi , during whose tenure of service Water (Prevention and Control of Pollution) Act, 1974, Water (Prevention and Control of Pollution) Cess Act, 1977, Air (Prevention and Control of Pollution) Act , 1981 came into effect. The Bhopal gas disaster acted as an eye-opener to the Government resulting in Environment (Protection) Act, 1986. The Public Liability Insurance Act 1991 was also enacted in 1991. The various laws relevant to environmental protection enacted from time to time to regulate environmental hazardous material are as follows :

(a) Directly related to environment protection:
i. Water (Prevention and Control of Pollution) Act, 1974.
ii. Water (Prevention and Control of Pollution) Cess Act, 1977.
iii. The Air (Prevention and Control of Pollution) Act, 1981.

iv. The Forest (Conservation) Act, 1980.
v. The Environment (Protection) Act, 1986.
(b) Indirectly related to environment protection:
vi. Constitutional provision (Article 51A).
vii. The Factories Act, 1948.
viii. Hazardous Waste (Management & Handling) Rules, 1989.
ix. Public Liability Insurance Act, 1991.
x. Motor Vehicle Act, 1991.
xi. Indian Fisheries Act, 1987.
xii. Merchant of shipping Act, 1958.
xiii. Indian Port Act.
xiv. Indian Penal Code.
xv. The National Environment Tribunal Act, 1995.

A Gazette Notification on Environmental Audit has been issued by the Ministry of Environment and Forest on 03-03-1992 (amended vide Notification GSR 386 (E) dated 22-04-1993) (India : Environment Statement, As part of Environment Audit, Government of India, 1993) which requires submission of an Environment Statement to the Pollution Control Board (PCB). It is applicable to any person carrying on an industry, operation or process requiring consent to operate by under section 25 of the Water (Prevention and Control of Pollution) Act, 1974, under section 211 of the Air (Prevention and Control of Pollution) Act, 1981 or both, or authorization under the Hazardous Waste (Management and Handling) Rules, 1987, issued under the Environment (Protection) Act, 1986. The concerned industry is required to provide information on water and raw material consumption, pollution generated, impact of pollution control measures on conservation of natural resources, and so on and so forth in the Environment Statement. Also, Indian Companies Act, 1956 requires to include in Director's report environment related policies/ problems and annexure showing details of energy consumption/ energy

conservation . Even the Cost Accounting Record Rules for various industries made by the Central Government also require disclosing monetary and quantitative values in Cost Accounting.

But still it is observed that the companies in India do not have a proper environmental accounting system to determine environment related costs, benefits, assets and liabilities. Indian companies also fail to provide adequate disclosures on environment

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