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ENVIRONMENTAL ACCOUNTING AND REPORTING PRACTICES IN INDIAN ORGANISATIONS

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ABSTRACT

The concept of environmental accounting is to compensate the loss or degradation caused to the environment by the production activities of any business organization. The concept of environmental accounting is based on the pollutant pay principle. Pollutant pays principal means the organization that is responsible for polluting the environment is made liable to pay the cost to restore the environment. This research paper attempts to give an overview regarding environmental awareness on green accounting practices and reporting among Indian organizations. A small step has been taken to throw light on the environmental awareness its practices and environmental reporting by Indian organizations, and the problems faced by Indian organizations in implementing those practices.

KEYWORDS: Environmental awareness, Green accounting, Pollutant pay principle, environmental reporting

INTRODUCTION

Environmental accounting is a measure that represents environmental safety and social welfare of the economy. For a country like India, it has been difficult to maintain a balance between protecting the environment and encouraging the economic development. Environmental accounting helps in disclosing the cost incurred in the form of pollution or resource depletion and the contribution of business enterprise towards economic development. In the present era lightning-fast industrialization has endangered the world ecological balance severely. As a result, the green house and other environment related dangers are posing risk to the humanity throughout the world. Environmental accounting records and informs about money incurred and made due to damage caused to the environment. Environment is becoming a key player in the near future. It's like this super cool weapon that could potentially mess things up big time. But guess what? We can totally the world by using environmental accounting and reporting. It's like magic for business organizations, helping them do their part in making tomorrow brighter.

Green accounting is a form of accounting that seeks to integrate environmental costs into the financial outcomes of business operations. Critics suggest that traditional measures like gross domestic product (GDP) neglect environmental factors, highlighting the need for policymakers to adopt a revised model that includes green accounting.

The primary objective of green accounting is to assist businesses in navigating the trade-offs between conventional economic objectives and environmental concerns. In addition, it enhances the availability of crucial information for evaluating policy matters, particularly when such important data is frequently ignored. While green accounting is often deemed to promote only weak sustainability, it should be viewed as a foundational step toward achieving strong sustainability in the long run.

A Review on available Literature

In recent decades, companies have increasingly acknowledged the advantages of environmental reporting, leading to a significant rise in the number of organizations engaging in various reporting practices. Early adopters quickly understood that environmental disclosure is more of a governance and strategic concern than merely a reporting mechanism (Roome, 1992; Parker, 1997; Parker, 2000a). Regardless of the reporting format, companies must adhere to specific international standards and requirements dictated by their respective countries. It is crucial to assess how effectively standard-setting enhances the credibility of reporting through comprehensive surveys. Environmental accounting and reporting are vital elements of business strategy, encompassing the environmental aspects of the business approach, generating necessary performance reports, and acknowledging the diverse skills needed to measure, compile, and analyze the required data (Qureshi et al., 2012) [1]

The project on green accounting methodology for India and its states, conducted by Gundimeda et al. (2005), advocates for the implementation of Green Accounting in India. This framework aims to provide a comprehensive view of national and state accounts by accurately reflecting genuine net additions to wealth. The authors propose a preferred methodology and models that incorporate natural and human capital externalities into India's national accounts. This includes measuring the depletion of natural resources and future pollution costs as depreciation, while recognizing education as a valuable contribution to human capital.

The study highlights that Green Accounting is not only desirable but also feasible, realistic, and practical. It suggests that implementation can begin using the primary data already collected by various official sources within the Government of India. Furthermore, the research identifies a significant gap in focused sustainability analysis and the information available to policymakers at both the national and state levels in India.

Consequently, public debate, government planning, budget allocation, and the assessment of economic

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outcomes are currently taking place without a sustainability framework. While high GDP growth is often linked to investments in physical infrastructure, this trend exerts increasing pressure on the nation's environment and natural resources. There exists a disparity between manmade and natural capital; specifically, the depreciation of manmade capital is reflected in GDP figures, whereas the depreciation of natural capital is not.

Chauhan (2005) [2] examined various forms of environmental accounting, including their scope, limitations, and legal framework within the Indian context. He concluded that it is imperative for corporations to establish robust environmental policies, implement measures for pollution control, adhere to relevant regulations, and provide comprehensive details regarding environmental considerations in their annual reports. For the sustainable development of the country, a clearly defined environmental policy, along with diligent follow-up and proper accounting practices, is essential.

Objectives of the study

To be aware with the process of corporate environmental accounting and reporting.

To find out challenges face by the companies in the smooth running of these practices.

Green Accounting practices in India

Environmental green accounting is currently in its early stages in India. In terms of the need for environmental disclosures from businesses on a regular basis, the Government of India made its first public announcement in 1991, right after implementing financial reforms that liberalized the country's economic policies. The Ministry of Environment and Forests has suggested that "every company should include in its Board of Directors' Report a brief overview of the actions taken or planned regarding the adoption of clean technologies aimed at preventing pollution, minimizing waste, promoting waste recycling and utilization, implementing pollution control measures, investing in environmental protection, and assessing the impact of these initiatives on waste reduction and the conservation of water and other resources."

In 2011, the Securities and Exchange Board of India required listed companies to disclose their Environmental, Social, and Governance (ESG) initiatives, in line with the essential principles outlined in the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business.' Additionally, the Companies Act of 2013 emphasizes corporate social responsibility, mandating specific categories of profitable companies to allocate funds for social welfare activities. Companies with a net worth exceeding Rs 500 crore or an annual turnover greater than Rs 1,000 crore are required to implement a CSR policy.

The Union Ministry of Environment and Forests has released several directives regarding the

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preparation of environmental statements. In the country, obtaining an environmental clearance is mandatory for all new projects, which must involve both the Union Ministry of Environment and Forests and the relevant State Government environmental department.

Environmental Accounting Concepts:

Environmental Accounting:

Accounting serves as the fundamental language of business. With modern business demands, accounting has expanded its range and areas of specialization. It encompasses a process of recording that gathers data and conveys essential information to various stakeholders, enabling organizations to thrive within society. Environmental accounting, or EA, focuses on organizational information pertaining to environmental matters and issues. It encompasses the generation, analysis, and application of financial data related to the environment, aimed at enhancing both the environmental and economic performance of organizations.

Environmental Accounting is commonly understood as the process of compiling and disseminating information about an organization's socio-environmental status, interactions and activities with employees, the community, customers, and other stakeholders, as well as the potential implications of those interactions and activities. Additionally, EA plays a crucial role in sustainability reporting, reflecting the increasing demand for organizations to show their responsibility toward society through transparent reporting and stakeholder involvement (SIGMA Project, 2003)[3]. Furthermore, EA encompasses the reporting of quantitative and comprehensive environmental information within the non-financial segments of an annual report, which may include data on pollution emissions, resource consumption, or damage to or restoration of wildlife habitats (Gupta, 2012)[4]. In general, we can describe Environmental Accounting (EA) as the process of identifying, gathering, estimating, justifying, and analyzing information related to environmental costs. This practice aims to improve decision-making within the organization, serving both internal and external needs.

Need of Environmental Accounting in corporate level:

Environmental assessment (EA) enables management to evaluate the sustainability of an organization within the context of global business. In today's corporate landscape, many companies engage in practices that harm the environment. By leveraging EA, businesses can enhance their accountability in a polluted marketplace. Additionally, an organization can generate EA for several purposes, including

Gaining a comprehensive insight into its overall environmental performance.
Recognizing the environmental risks it faces.
Understanding its environmental policies.

Assessing its environmental responsibilities.
Evaluating annual environmental spending.
Calculating the costs and savings associated with environmental initiatives.
Showcasing eco-design projects.
Designing and implementing environmental management systems.
Developing metrics, evaluations, indicators, and benchmarks for the internal and external disclosure of environmental expenditures, investments, and liabilities

INDIAN CONTEXT OF ENVIRONMENTAL ACCOUNTING

The Indian Government has taken significant steps to address environmental concerns, including the creation of the Union Ministry of Environment to coordinate with states and ministries on environmental issues and preventive measures (Kumar,2007) [5]. Various laws, such as the Air Water Prevention and Control Act 1970 and 1977, Forest Conservation Act 1980, and Environmental Protection 1986, directly and indirectly impact the environment. All new projects require environmental clearance from both the Union Ministry of Environment and Forests and the corresponding State Govt. Department of Environment. Additionally, a Central Pollution Board has been established to monitor pollution violations and issue show cause notices to industrial concerns. According to the Annual Report of the Ministry 1997-98, a significant number of large and medium industries have installed pollution control facilities, while some have been closed down.

In response to global environmental concerns, the Indian Government has implemented measures to protect the environment, including the creation of the Union Ministry of Environment and various laws such as the Air Water Prevention and Control Act 1970 and 1977, Forest Conservation Act 1980, and Environmental Protection 1986. All new projects require environmental clearance from both the Union Ministry of Environment and Forests and the corresponding State Govt. Department of Environment. Additionally, a Central Pollution Board has been established to monitor pollution violations and issue show cause notices to industrial concerns. According to the Annual Report of the Ministry 1997-98, a significant number of large and medium industries have installed pollution control facilities, while some have been closed down. While it is evident that the government has provided a necessary framework for environmental accounting, the manner in which companies are utilizing this framework for practical implementation remains a significant concern (Kundra, 2013) [6].

PRACTICE OF ENVIRONMENTAL ACCOUNTING IN INDIA

Despite the awareness of environmental accounting concepts, few Indian companies provide detailed environmental accounting reports due to standard format and rules, as well as increasing reporting costs. However, larger companies are still able to provide sufficient reports related to their environmental issues.

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Bharat Petroleum Corporation Limited (BPCL) has recently established a Corporate Safety Management System in 2018. This system is designed to effectively manage the Occupational Health & Safety Risks associated with their operations, aiming to reduce them to As Low as Reasonably Practicable Level (ALARP Level). This initiative aligns with their business goals, values, and policies (source: BPCL website).

ONGC has always made it a priority to safeguard and nurture the environment. This commitment is exemplified by its proactive environmental management approach, as articulated in its integrated Health, Safety & Environment (HSE) Policy developed in 1983. The company consistently works towards reducing the environmental impact associated with its business activities, including exploration, drilling, and production, by embracing advanced technologies, effective waste management strategies, environmental monitoring and reporting, biodiversity conservation endeavors, and the enhancement and sustainability of environmental management systems.

The findings of earlier research conducted by Sharma (2012) [7] and Gupta (2012) [4] indicate that Indian companies are confronted with two significant challenges: development and environmental protection. Their studies revealed that these companies tend to emphasize only the favorable aspects in their reports; while ignoring the harmful impacts they impose on the economy. Gupta's (2012) analysis, which examined 50 companies listed on the NSE, concluded that industries with higher pollution levels tend to provide more extensive accounting disclosures than those in less polluting sectors. V. Vijaya Laxmi and K. Syamala Devi [8], in their paper published in February 2018, examine various issues and challenges associated with Green Accounting and Reporting practices in India. The study presents data reflecting the impact of natural resources on economic prosperity, alongside the costs incurred due to environmental pollution and resource degradation. It is noted that environmental accounting and reporting practices are still in their early stages of development in India.

Environmental Reporting by Indian companies

The state of environmental reporting among companies in India has been quite poor. A small number of companies allocate attention and space to environmental matters within their annual reports. Furthermore, listed companies in India aren't legally mandated to provide environmental disclosures. Many companies violate environmental regulations without facing any consequences. Only a handful of annual reports include references to environmental concerns, and even then, it's usually in vague terms that do not detail specific environmental liabilities or losses. Below are some examples of environmental reporting practices in India:

The company has consistently prioritized safety, occupational health, and environmental protection, integrating these principles throughout its supply chain management. Its ongoing commitment to enhance safety and environmental standards is evident in the establishment of annual targets aimed at comprehensive improvement across all manufacturing sites. Performance is regularly assessed. The company ensures performance is evaluated through regular safety and environmental audits conducted in accordance with internationally recognized standards. Employees at all levels receive comprehensive safety training.

By strictly following company policies and upgrading equipment, there has been a consistent decrease in accidents, leading to a notable improvement in productivity. In 1997, the number of lost time accidents dropped substantially by 33%. The company received Unilever Safety Awards for exceptional safety performance at six of its locations.

In its commitment to sustainable development, the company has focused on optimizing the use of energy and materials, ensuring the safe and responsible disposal of residual waste, and promoting the sustainable utilization of renewable resources, all while aiming to reduce negative environmental impacts and waste generation. To manage particulate matter and emissions from its boilers, as well as acid mist from sulphonation plants, Electrostatic Precipitators (ESP) have been implemented. Additionally, the company's manufacturing operations have achieved a reduction of over 15% in the overall discharge of liquid effluent.

As part of the integrated Rural Development Program in Etah, Uttar Pradesh, the company has actively contributed to community development in local villages. Initiatives included installing hand pumps for drinking water, building roads, organizing free medical camps—particularly for children—conducting animal health camps, and promoting dairy farming and chicory cultivation (Hindustan Lever Limited, Directors’ Report, 1997).

Throughout the year, numerous training initiatives have been carried out across various sites to collectively raise environmental awareness among SAIL employees. Significant efforts were directed towards greening SAIL’s plants, mines, and townships, resulting in the planting of over 550,000 saplings during the 1997-98 period.

The development of surrounding areas remained a key focus for enhancing the quality of life in and around the steel townships. An amount of Rs. 3.60 crore was allocated to improve drinking water supply, healthcare programs, education, and recreational facilities for the communities living near the steel plants and mines. (SAIL, Directors' Report, 1997-98).

Suggestions

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The Indian corporate sector should be mandated to implement environmental accounting and reporting. This includes a proposal that requires companies to disclose their compliance with environmental regulations, outline steps taken or planned towards adopting clean technologies to prevent pollution, minimize waste, improve waste recycling and utilization, implement pollution control measures, and invest in waste reduction initiatives.

Environmental reporting should be incorporated into the Annual Report of companies.
The publication of an environmental report can help bridge the communication gap between the public and industries.

An environmental audit should be compulsory, rolled out in phases.

Organizations, instead of solely conforming to externally imposed minimum standards, can begin at their existing level by identifying their environmental impacts and establishing a program for continuous improvement. To turn heightened environmental awareness into tangible action, the Indian corporate sector should adopt practices such as environmental accounting, reporting, and auditing. This will pave the way for the next millennium to be a green one.

RESEARCH AND CONCLUSION

The Indian Government has made significant efforts towards environmental protection, but there is still a lack of proper implementation of norms and rules. Companies are aware of the benefits of environmental accounting, yet they choose to withhold full disclosure to avoid penalties, charges, and additional costs. While some large companies, such as Tata Steel, Maruti, Reliance Industries, Nerolac, and other software companies, show a greater inclination towards environmental upliftment and concern, they also lack a comprehensive cost-benefit report for their industrial projects. The Central Government has established cost accounting regulations for different industries, mandating the disclosure of financial figures pertaining to their environmental accounts. Therefore, it is recommended that proper rules and standards for environmental accounting be established, stringent implementation rules be put in place, and qualified environmental auditors be appointed to oversee the work. Additionally, uniform reporting rules among countries are necessary for comparison and the implementation of appropriate remedial measures.

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