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# AN OVERVIEW ON ENVIRONMENTAL REPORTING – A NEW DIMENSION OF CORPORATE REPORTING

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***"Every company should regularly report to its stakeholders on its policies and practices as regards to Environment, Social Issues, Ethics, Health and Safety."***

## ABSTRACT

*Nowadays due to globalization, the concept of Corporate Reporting has gained utmost importance and has become a worldwide concept whereby organizations' consider the interests of stakeholders by taking responsibility for the impact of their business activities on customers, employees, shareholders communities and the economy as a whole. Corporate Reporting includes the communication about how companies understand and manage their impact on people, clients, suppliers, society, and the environment in order to deliver increased value to all their stakeholders. It is a broader concept which includes both financial and non-financial reporting. Protection of environment is one of the ethical responsibilities of a corporate unit. Hence they are responsible to protect the environment by producing pollution-free goods and are responsible to disclose the environmental facts to the concerned bodies. Now-a-days environmental reporting has become mandatory. On this backdrop, an attempt is made to overview the dimensions of Corporate reporting, especially environmental reporting for the sustainable development.*

**Keywords:** Corporate Reporting, Environmental Protection, Globalization and Environmental Reporting

## 1. CONCEPTUAL FALLACY:

Environmental awareness among Indian stakeholders gets strengthened with advancement in communication technology. Stakeholders are sensitive about the harmful impacts of industrial activities on environment. Such high propensity of environmental awareness ensures a more cautious approach among Indian corporations to be environmentally responsible. Regulatory efforts are geared internationally towards reduction of the quantum of pollution, by making it commercially viable and an attractive unexplored profitable business opportunity. Carbon trading is one such positive initiative towards abating pollution internationally.

Information disclosure is essential for the effective operation of any corporate enterprise which is called corporate reporting. Corporate reporting is necessary to reduce information asymmetry between investors and management. Now-a-days, there has been an emergent concern of social, environmental and ethical reporting along with financial reporting because corporate reporting is undergoing a change towards the concept of sustainable development. It gives the performance and risk that is essential for rational and high quality decision-making. Having this backdrop, there is a need to develop new comprehensive and condensed reporting practices considering the diverse needs of heterogeneous groups of stakeholders and integrating the wide range of financial and non-financial factors determine the value of an organization.

The report of The Special Committee on Financial Reporting set up by the American Institute of Certified Public Accountants (AICPA, 1994), known as The Jenkins Report proposes a 'comprehensive' model of business reporting that includes a 'broader, integrated range of information'. The principal information categories are: financial and non-financial data; management's analysis of this data; forward looking information; information about management and shareholders and background company information. It begins with an assessment of various aspects of each business such as Customers, Suppliers, Environment, Communities and Employees.

Corporate Social Responsibility is a new paradigm in corporate world which has six domains viz., Community Support, Diversity, Employee Support, Non-domestic Operations, Product and Environment. The Company avoids the use of hazardous waste management techniques, uses and produces environmental friendly products, develops pollution control and recycling techniques. The concept of Corporate Environmental and Social Responsibility was first introduced in 1990s by multinational companies. It requires the business houses to become socially responsible, and to communicate their social activities by means of Environmental report along with financial report. As the environmental and social reporting systems have been developed over decades, the climate of corporate environmental and social responsibility is becoming mature nowadays globally. Environment-sensitive companies disclose such information voluntarily are extensively concerned by the public where strong debatable issues constantly raise as a result of the rapid economic growth. Corporate environmental and social responsibility is no longer an international obligation but a domestic demand for the economy. Organizations are being called upon to take responsibility for the ways their operations impact societies and the natural environment.

## 2. REVIEW OF LITERATURE

As Environmental reporting is the current burning issue, several researches were conducted on this area. The literature review mainly focused on huge untapped areas and emerging trends in the reporting practices. Corporate reporting has been proved in the literature to be an important promoter of economic growth. The Royal Society for Arts, U.K. (1995) proposed a more inclusive, non-adversarial approach to both business practices and financial reporting, intended to support sustainable success. To achieve this, it is argued that there would need to be relatively greater use of non-financial performance measures. Kotler & Lee (2004) defines it as a commitment to improve community well-being through discretionary business practices and contributions of the corporate resources. Eufin. Org (2009) defines CSR as a concept companies take themselves to reflect social and environmental concerns within their activities and in their relationships with the various corporate stakeholders.

The emergence of Corporate Environmental Reporting (CER) in India has been an important development, both for better environmental management and overall corporate governance. Early 1990's, marked the beginning of environmental reporting, by few heavily polluting industries. A number of recent national and international surveys have identified growth in the number of companies reporting on internet (Isenmann R, 2004). Corporate reporting is expanding beyond financial and environmental performance (Kolk A, 2004). Lodhia (2006) has defined Corporate Environmental Reporting (CER) as a process through which “companies often disclose environmental information to their stakeholders to provide evidence that they are accountable for their activities and the resultant impact on the environment.”

Gupta (2010) opined that the corporate scenario at present is moving towards the concept of shareholders’ education, transparency of Balance Sheets and fulfillment of social obligations.

Current trends along with the appropriate guidance from regulatory authorities can result in substantial developments in the presentation of structured on line information to investors. Nayak (2012) observed that not only investors benefit from full disclosure, as they do not have to bear the uncertainty caused by lack of corporate disclosure, the company also gains because an upward move in the share prices reduces its cost of capital and also helps in resource mobilization. Adhikari and Bhushan Dey (2012) viewed that banks are to contribute to sustainable development by way of their compliance of integrating environmental, social and corporate governance aspects into their business strategy.

## 3. DATABASE AND METHODOLOGY

Environmental Protection is a buzzing word today. Industrialization and advanced technological changes led to environmental pollutants which are very harmful for all living things. Its' become highly essential to maintain ecological balance not only for the survival of the living creatures but also to the corporate bodies. On this backdrop, the present study "*AN OVERVIEW ON ENVIRONMENTAL REPORTING – A NEW DIMENSION OF CORPORATE REPORTING*" has been undertaken with the objectives below:

1. To analyze the importance of Corporate Reporting and its dimensions
2. To outline the increasing importance of Environmental Reporting
3. To analyze the Environmental Policy
4. To overview the regulatory statutes and statutory bodies to ensure environmental initiatives
5. To analyze the advantages of Environmental Reporting
6. To analyze the recent trends in Environmental Reporting practices in India

In order to accomplish the above objectives, secondary sources, available literature, reports and data have been used, which has been obtained from various journals, reports, magazines and websites. The study is merely of qualitative in nature rather than quantitative.

## 4. ANALYSIS:

Ecology and the increasing destruction of ecosystems and natural resources have warranted a widespread concern from the public, the governments and inter-governmental agencies. Moreover, business organizations throughout the world are legally required to conduct an

Environmental Impact Assessment (EIA) for their new operations or expansion of the existing ones. EIA is a careful and detailed study of the likely environmental consequences of the new development, together with plans to avoid causing damage or to repair damage that cannot be avoided (Allaby, 1986). It takes into account whether resources used are renewable or non-renewable. In this sense, the rights of the future generations to exploit such resources have to be considered. But there are dangers in having too many regulations to curb the environmental impacts of the business. The cost of obeying regulations may inhibit innovation and, apart from the economic effect, this may delay or even prevent the substitution of new products and processes for old ones.

Environmental Reporting is the production of narrative and numerical information on an organization's environmental impact or 'footprint' for the accounting period under review. In most cases, narrative information can be used to convey objectives, explanations, aspirations, reasons for failure against previous years' targets, management discussion, addressing specific stakeholder concerns, etc. Numerical disclosure can be used to report on those measures that can usefully and meaningfully be conveyed in that way, such as emission or pollution amounts, resources consumed and land use etc.

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### 4.1.Principles of Environmental Reporting:

- *Relevant:* Ensure the data collected and reported appropriately reflects the environmental impacts of the organisation and serves the decision-making needs of users—both internal and external to the organisation.
- *Quantitative:* KPIs need to be measurable. Targets can be set to reduce a particular impact. In this way the effectiveness of environmental policies and management systems can be evaluated and validated. Quantitative information should be accompanied by a narrative, explaining its purpose, impacts, and giving comparators where appropriate.

- *Accuracy:* Seek to reduce uncertainties in your reported figures where practical. Achieve sufficient accuracy to enable users to make decisions with reasonable confidence as to the integrity of the reported information.
- *Completeness:* Quantify and report on all sources of environmental impact within the reporting boundary that was defined. Disclose and justify any specific exclusion.
- *Consistent:* Use consistent methodologies to allow for meaningful comparisons of environmental impact data over time. Document any changes to the data, changes in your organizational boundary, methods, or any other relevant factors.
- *Comparable:* Companies should report data using accepted KPIs rather than organizations' inventing their own versions of potentially standard indicators. The narrative part of a report provides the opportunity for a company to discuss any tensions which exist between providing comparable data and reporting company-specific KPIs.
- *Transparent:* This is essential to producing a credible report. Address all relevant issues in a factual and coherent manner, keeping a record of all assumptions, calculations, and methodologies used. Internal processes, systems and procedures are important and the quantitative data will be greatly enhanced if accompanied by a description of how and why the data are collected. Report on any relevant assumptions and make appropriate references to methodologies and data sources used.

### 4.2.Environmental Policy:

**E**nvironmental policy messages underline the company's commitment in environmental protection activities, though not necessarily connected to their productive activity. Environmental policy statements help in instilling a sense of commitment to improve the economic efficiency of the firm, through efficient pollution prevention measures. Sound pollution prevention makes strong economic sense as it helps corporate to minimize emissions, effluents and waste discharges, which ultimately leads to increased profitability. It includes Health Safety & Environment (HSE), Energy Conservation and Wind Energy, Corporate Sustainability/Environmental Initiatives, Waste Management and Water Management etc.

### 4.3. Guidelines for Environmental Reporting

In most countries, Environmental Reporting is entirely voluntary in terms of statute or listing rules. The best known and most common voluntary reporting framework is the Global Reporting Initiative (GRI), is a reporting standard that prescribes and specifies how the company should report on a wide range of social and environmental issues. It is a non-profit organization that promotes economic, environmental and social sustainability and it provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world.

The stakeholders are increasingly paying more and more attention to environmental issues in a company. Investors and financial analysts need environmental information to evaluate overall performance and estimate environmental risks; governments need information to implement environmental regulations; and consumers need the information to protect their own rights. As a response, many companies have taken on the responsibility for environmental reporting and disclosure, by which they can provide information about environmental performance and sometimes corporate social responsibility and sustainable development, meeting the needs of the financial markets and at the same time providing itself with a positive environmental image.

### 4.3.1. The Triple Bottom Line (TBL)

The Triple Bottom Line was a concept developed in the 1990s under which financial, social and environmental performance were to be reported within the annual report. The fact of reporting social and environmental impacts provided an incentive for a company to identify and establish performance indicators. Environmental impacts were identified in relation, amongst other things, to waste, emissions and energy. Social impacts were identified in relation, amongst other things, to employment and human rights issues. Environmental protection will be a central governance challenge and, even more critically, a market challenge in the 21st century. The Connected Reporting Framework has the five key environmental indicators, which all organizations should consider are: polluting emissions, energy use, water use, waste and significant use of other finite resources. The GRI guidelines include 79 disclosing items, which are grouped into economic, environmental and social performance. There are 30 environmental items to be reported by companies, and they are categorized into nine groups: material, energy, water, biodiversity, emissions, effluents and waste, products and services, compliance and transport etc.

### 4.4. Economic Consequences of Environmental Reporting

There can be internal and external favourable economic consequences for companies. They can achieve cost reductions and become more attractive to potential investors.

- *Cost Reductions:* It has been reported that the discipline of measuring these risks can yield valuable management information with DuPont, for example, reporting that since it began measuring and reporting on the environmental impact of its activities, its annual environmental costs dropped from a high of US$1 billion in 1993 to $560 million in 1999.

- *Investors:* Investors are gradually beginning to require information on a company's policy and programmes for environmental compliance and performance in order to assess the risk to earnings and statement of financial position. Environmental reporting evolves with more consistent, comparable, relevant and reliable numbers and narrative disclosures.

Environmental reporting is in a state of evolution ranging from *ad hoc* comments in the annual report to a more systematic approach in the annual report to stand-alone environmental reports. Companies are realizing that it is their corporate responsibility to achieve sustainable development whereby they meet the needs of the present without compromising the ability of future generations to meet their own needs. Economic growth is important for shareholders and other stakeholders alike in that it provides the conditions in which protection of the environment can best be achieved, and environmental protection, in balance with other human goals, is necessary to achieve growth that is sustainable.

### 4.5. Purpose of Environmental Reporting

Different stakeholders can benefit from a company's environmental reporting as it is capable of serving the information needs of a range of both internal and external stakeholders.

Some argue that environmental reporting is a useful way in which reporting companies can help to discharge their accountabilities to society and to future generations. In addition, it may also serve to strengthen a company's accountability to its shareholders. By providing more information to shareholders, the company's is less able to conceal important information and this helps to reduce the agency gap between a company's directors and its shareholders.

Environmental reporting demonstrates the responsiveness of stakeholders to certain issues that may threaten the perception of their ethics, competence or both. Companies that are considered to have a high environmental impact, such as oil, gas and petrochemicals companies, are amongst the highest environmental disclosers. Several companies have used their environmental reporting to respond to specific challenges or concerns, and to inform stakeholders of how these concerns are being dealt with and addressed.

### 4.6. Advantages:

Environmental reporting is capable of containing comment on a range of environmental risks. Many shareholders are concerned with the risks that face the companies they invest in and where environmental risks are potentially significant (such as travel companies, petrochemicals, etc) a detailed environmental report is a convenient place to disclose about the sources of these risks and the ways that they are being managed or mitigated.

2. Environmental reporting is a key measure for encouraging the internal efficiency of operations. This is because it is necessary to establish a range of technical measurement systems to collect and process some of the information that comprises the environmental report. These systems and the knowledge they generate could then have the potential to save costs and increase operational efficiency, including reducing waste in a production process.

### 4.7. Environmental Reporting - The Road Ahead

There is widespread environmental awareness among all sections of society in India. A Survey on Corporate Environmental Reporting attempts to understand the reasons for environmental disclosure in the light of changing global business scenario clubbed with changes in stakeholder expectations of Indian corporate houses.

Firstly world over companies now realize that natural resources (both renewable and nonrenewable) are scarce. Renewable resources cannot keep pace with the growing demand as the rate of depletion is faster than the rate of replenishment. This realization among today's business world, how so ever late, drives them to make an honest attempt on judicious use of resources, recycling of water, waste reduction etc at their end.

Secondly with globalization, Multinational Companies (MNC) of European Union, United States of America (USA) and Japan are strengthening their global presence in India. These international companies bring in their responsible good practices thereby helping Indian companies to set higher international disclosure standards.

Thirdly economic theories have changed in the last few years. Traditionally development has been defined as a rise in GNP, or rise in personal incomes, or with industrialization and technological advancement. Gradually there evolved a debate regarding the measurement of economic development in context of high growth rate of GNP. This gave rise to a consensus towards economic development being best defined in terms of reduction of poverty, inequality and unemployment for a growing economy. Lack of safe drinking water, highly polluted atmosphere, rivers, toxic emissions, chemical spills, massive deforestation and climate change cannot be the signs of well being of a nation. Industrialization unabated has resulted in heavily polluted environment that adversely affected the quality of life. There is international consensus that sustainable development is of prime importance than unhindered industrialization for overall economic development.

Fourthly regulatory efforts are geared internationally towards reduction of the quantum of pollution by making it commercially viable and an attractive unexplored profitable business opportunity. Thus corporate must realize that political responsibility of working for clean technologies would benefit in the long run.

Last but not the least environmental awareness among Indian stakeholders gets strengthened with advancement in communication technology. Their awareness and desire to leave an environmentally safe world for future generations, exerts a positive pressure on Indian corporate giants, to come out with, responsible environmental disclosure initiatives. Stakeholders are sensitive about the harmful impacts of industrial activities on environment. Thus stakeholders of today are well informed and their high propensity of awareness on environmental matters ensures a more cautious approach among Indian corporations to be more environmentally responsible.

## 5. CONCLUSION:

In recent years Corporate Reporting has gained growing recognition as a new form of governance in business as adequacy and quality of corporate governance shape the growth and future of any capital market and economy. It has become increasingly prominent in Indian corporate scenario because organizations realized that Corporate reporting is vital to build trustworthy and sustainable relationships with the community at large. Corporate Social Responsibility is "*the ethical behavior of a company towards the society*". It has become increasingly prominent in the Indian corporate scenario because organizations have realized that besides growing their businesses it is also vital to build trustworthy and sustainable relationships with the community at large. Organizations having the most active role in the market economy, cannot confine their attention to economic goals only, but must focus on a more extended qualitative approach and pay attention to their environmental and social responsibility through internal and external reporting. However corporate environmental reporting and disclosure will become more important in the near future in India for Sustainable development. There is no doubt that more laws and regulations will be gradually enacted to regulate the environmental behaviour of enterprises in the near future. New trends of government disclosure will also promote corporate environmental disclosure. Corporate environmental reporting and disclosure is still at an initial stage in India and is in need of further development in parallel with the improvement of corporate governance and the increasing of public awareness on sustainable development.

Finally it can be concluded that environmental reporting has grown in recent years. Although voluntary in most countries, some guidelines such as the GRI have helped companies to frame their environmental reporting. It can take place in a range of media including in 'stand alone' environmental reports, and there are a number of motivations and purposes for it including both accountability and 'business case' motives.

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