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"ENVIRONMENT DISCLOSURE: ERA OF CONVENIENT REPORTING"

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ABSTRACT:

The growth of the economy of a nation is directly proportionate to the effect of the same on its environment. It is due to various reasons; *viz*, depleting resources, availability of energy, climate change, excessive waste, etc. and thus environmental protection has a widespread acceptance as everyone wants a clean and healthy environment to reside in. The companies have to take initiation to preserve and protect the environment. The administrative and legislative strategies of harmonization of environmental values with developmental values are a must and are to be formulated in the crucible of prevalent socio-economic conditions of the country.

Corporate environmental reporting & accounting is almost two decades old now. Recent national and international surveys have identified growth in the number of companies reporting on internet. Primary purpose of publishing an environmental report is to provide specific audiences with useful, meaningful information. Researches around the world show that annual reports are most favored channel of disclosure. Indian companies have not yet developed a holistic approach to environmental accounting & reporting, as there is lack of environmental reporting guidelines.

On the other hand 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.

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INRODUCTION:

"Change" it is popularly known as all that is constant in this world. And yet, the world seems to hate change even though it has brought progress to mankind time and again. Scholars, scientists, statesmen, have argued in favour of change and acclaimed its significance. For instance, Charles Darwin spoke about change in the context of his evolution theory, and declared, "it is not the strongest of species that survive, neither the most intelligent, but only the ones which are most responsive towards change." Benjamin Franklin put it more tersely when he said "when you are finished changing, you are finished." Albert Einstein when speaking about change said, "The world as we have created is a process of our thinking. It cannot be changed without changing our thinking."

The movement of human civilization is always followed by the process of change and development, however, the core and course of development has undergone a change through time and space. Development has always had an intimate relationship with its surroundings, which is known as *environment*. Business has increased with massive technological changes, which led to a fall in the health of the natural environment. Various movements have recognised that the deterioration of the environment is mainly because of corporate activities (UNEP, GEO 3). The principle of morality and natural justice demands the companies for disclosures which should include the environmental impacts and issues. Environmental pressures have forced the organization to disclose the environmental impacts of its business activities to the interested stake holders. **Corporate environmental reporting** means a disclosure of certain environmental issues like use of environmental resources, pollution and other effects on the environment, various controlling measures adopted to prevent pollution. The disclosure depends on information need of the stakeholders.

Corporate environmental reporting & accounting is almost two decades old now. Environmental accounting provides a common framework for organizations to identify and account for past, present and future environmental costs in order to support management decision-making, control and public disclosure (KPMG and UNEP, 2006). 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.Environmental information (EI) must help the society and firms to recognize the impact on the environment of business decisions (Milne and Patten, 2001; Kuk et al., 2005). Information systems as Carlson et al., (2001) argue: "By making use of current business information technology, such as Internet-accessible tools, and industrial environmental management tools, standards, policies and legislation an information system for EI management has been designed". The constant need of information from the EI system help managers to identify environmental risks, structure of costs and investments which need a challenge to be faced by firms.

GROWTH IN INFORMATION TECHNOLOGY:

Growth in information technology has revolutionized global accessibility of required information across borders and beyond national boundaries. With the onset and unprecedented growth of internet, globally companies use internet to disseminate financial and non-financial information. Such an impressive growth of internet usage is an important indicator for Indian companies to use internet reporting for widespread dissemination of information. Exchange of information through internet is more efficient and flexible than other channels of communication.Companies have traditionally used print medium of information disclosures on sustainability and environment for various strategic reasons. Internet reporting is increasingly preferred by companies, as it has the advantages of easy accessibility, instant availability, cost effective and environment friendly means of disseminating information among all stakeholders. However, huge amount of environmental information on the internet does not necessarily indicate genuine environmental commitment.

Its Importance: Environmental disclosure of manufacturing activities has become a significant concern in business management. Impact of business on the environment is likely to be of increasing importance for managers over the coming decades. It seen through various researches that, Indian companies thrive to exceed their existing legal obligations and anticipate more future legislation on environmental issues. Good environmental performance is seen to benefit investors more by reducing risk than by increasing return. Financial managers, in particular, need to be aware of how environmental matters, affect the fundamentals of financial accounting & reporting. Researches around the world show that annual reports are most favored channel of disclosure, since annual reports are qualified, verifiable disclosures with high credibility. A reference to environmental report means different things to different user groups. Some tend to think of separate (stand alone) environmental reports and for others the focus will be on environmental content (if any) in the annual report itself. Indian companies however have not yet developed a holistic approach to environmental accounting & reporting, as there is lack of environmental reporting guidelines.

ENVIRONMENTAL POLICY:

Environmental policy messages underline the company's commitment in environmental protection activities, though not necessarily connected to their productive activity. It is a real advertising vehicle, which allows a company to quickly give its readers a positive image of their environmental and social commitment.

A more pertinent question here is "Why do Indian companies resort to voluntary environmental disclosure in the absence of mandatory requirement?"One plausible explanation could be due to dynamic international economic changes. Globalisation has facilitated increased connectivity of India with the world economy. Indian companies face global competition in terms of economic efficiency and performance that have cross border implications. Indian companies no longer work in an isolated and protected environment. Primarily there is huge responsibility on them to be environmentally sound and viable attractive destinations – for Foreign Direct Investments (FDI's), for exploring international markets through joint ventures etc. Secondly 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 minimise emissions, effluents and waste discharges, which ultimately leads to increased profitability.

HEALTH SAFETY AND ENVIRONMENT (HSE):

HSE policy reflects the health and safety concern of a company on its employees and general public. The policy statement is an understanding of common acceptable level of risk from each potential environmental contaminant to set a threshold limit. HSE is still in a preliminary stage, for Indian companies, if disclosure is taken as an indicator. Only 33% of companies from the sample make a formal disclosure, which is a meagre percentage on the total sample size. HSE audits are still relatively uncommon in India. HSE policy disclosure on the internet contributes in giving stakeholders a greater sense of security that companies do take care of environmental problems in a best possible way. 54% of companies in the sample report more on the environment in its HSE disclosures. Qualitative information by itself is not sufficient for stakeholders, though it gives an ample description of company's commitment to its HSE issues. Qualitative disclosure must be accompanied by financial information on the consequences of environmental problems (ACCA, 2004). Results of this survey disclose that Indian companies extensively follow qualitative HSE disclosures. It could possibly be due to lack of environmental awareness among Indian stakeholders in handling quantified HSE disclosures.

ENERGY CONSERVATION AND WIND ENERGY:

Suzlon Energy: "Serve humankind with sustainable wind power on a commercial scale." Energy forms a significant operational cost, especially in sectors like heavy and basic industries. Whereas banking, information technology and communication utilize comparatively less energy than heavy industries. As per Global Reporting Initiative (GRI) guidelines, reporting should include information related to both direct and indirect energy consumption by primary energy source. Information related to energy saved due to conservation efforts and initiatives to provide energy-efficient or renewable energy based products and services, should form part of the disclosures.

Reason for CD:

These are the following reasons for disclosure of energy conservation and consumption by Indian firms.

Firstly, Indian companies (manufacturing) are governed by mandatory requirements to disclose energy details in the Annual Reports. It is so observed that Indian companies enthusiastically go far beyond the mandate by providing additional voluntary disclosures. Secondly India is an energy stressed economy, where hydro energy generation and supply are inadequate to meet the steep energy requirements of a growing economy. Alternate source of thermal energy attributes to pollution and associated problems like fly ash management, waste disposal and pollution control measures. Energy being a critical component in determining the cost of production motivates more Indian companies to take energy conservation measures for improved cost reduction. For e.g. Bharat Heavy Electricals (BHEL) reports Rs.7 crores in savings during the year 2006-07 due to implementation of projects in energy conservation (BHEL, 2007). Finally firms that fail to exercise efficient energy management, miserably fail in their corporate social responsibility as well. It would affect Indian corporate in the long run, in addition to adversely affecting the quality of life of communities in its vicinity.

CORPORATE SUSTAINABILITY/ENVIRONMENTAL INITIATIVES:

Suzlon Energy: "Exceed the quality, safety and environmental standards of the industry." Companies are experiencing growing demands from a variety of fronts to disclose their environmental performance. Increasingly, such information is being published in a user-friendly format on the Internet. There is tremendous variety of disclosure spanning through a simple statement of intent or mission, to full statements of policy and objectives, and moving towards reports on performance with statistical back up (Gray, 1993). Indian companies do not include quantitative disclosure on their environmental initiatives. Many companies limit themselves to descriptive information without disclosing the amount of operating expenses and environmental investments made in a financial year. Companies merely state that it had undertaken investment projects related to environmental protection activities or that it has invested in eco compatible projects. Some briefly describe even the type of the process undertaken and the foreseen results in terms of emissions reduction and/or energy consumption.

WASTE MANAGEMENT:

Suzlon Energy: "It is not enough to end with a product that's environmentally friendly; But to begin from there." Indian firms are able to recognize the true benefits of generating wealth from waste. Manufacturing sector has the highest disclosure rate (17%) as compared to non-manufacturing sectors (12%) like Information Technology and Banking, which also generate considerable e-waste and paper waste. Yet both these sectors are equally responsible for generating waste which calls for a greater responsibility and commitment. Indian companies are motivated to cost reduction techniques through avoidance and reduction of waste. They now consciously move towards better waste management practices like recycling, land filling, incineration etc that are most cost-effective and have the least environmental impact. Such waste management decisions are based on the magnitude at which environmental importance is attached to it. This depends on the environmental regulatory regime to which Indian companies are subject to. With growing population and increased industrialization, waste management issue gains serious importance among Indian firms. Waste disposal by industries are brought under scrutiny by Environment Protection Act of 1986 which provides for Hazardous Waste (Management and Handling) Rules making it mandatory for companies to use specialized equipment and services for storage, handling, treatment, transportation and disposal of hazardous waste. Public participation along with NGO's and environmental activists help to bring about stricter enforcement of pollution control rules. However, in order to make sound waste management decisions - energy and water use, waste generation in terms of volume and type of air emissions or wastewater treatment and recycling is of particular importance. Yet many Indian companies do not analyze waste from a predominantly environmental view point as they are subject to strict environmental regulations. Indian companies are geared more towards regulatory compliance and reporting but appears not use the information for improved waste management purposes.

WATER MANAGEMENT:

Infosys: "Infosys' vision is to become "carbon and water neutral." Water is a precious depleting natural resource. It is an indispensable raw material for many manufacturing organizations. Water scarcity is the biggest challenge for Indian economy and companies must assume social responsibility towards water conservation. GRI sustainability reporting guidelines call for detailed disclosure of - water use, percentage and total volume of water recycled and reused, water sources significantly affected by withdrawal of water etc (GRI, 2006). India's faster economic development clubbed with responsible reporting practices has elevated the governance reporting of Indian companies to set voluntary bench mark standards. Water management initiatives of Indian companies (17%) spin around water conservation, recycling, rain water harvesting, water reuse, recovery and renewal etc as reported by manufacturing companies. Few of them make voluntary initiatives towards watershed development of local communities as well. In India purchase of land gives owner the right to ground water resources on that land. Indian constitution guarantees free use of water and air for all – i.e. both for domestic and Industrial consumption. Among these two, corporate houses consume and pollute more leading to wide scale abuse of water in India. In general economic parlance "common property is nobody's property", thus water is the most widely misused commodity. There is an urgent need for corporate accountability towards water conservation in India. It is suggested that water consumption for industrial & commercial purpose should be priced to curb wastage and excessive use of water.

ENVIRONMENTAL REPORTING - THE ROAD AHEAD:

There is widespread environmental awareness among all sections of society in India. This survey 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 non-renewable) 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. MNC's do understand their responsibility to prove them to be socially and environmentally conscious in India which has a colonial legacy. For example HLL in our sample seems to be conscious of their public image as reflected in their diverse corporate social activities. *Thirdly* economic theories have changed in the last few years. Earlier theories concentrate on Gross National Product (GNP) as a measure of economic well being of a country. Traditionally development has been defined as a rise in GNP, or rise in personal incomes, or with industrialization and technological advancement. Prior to 1970's, development was seen as an economic phenomenon measured in terms of GNP growth. This would either trickle down to generate job and economic opportunities or create necessary conditions for wider distribution of, economic and social benefits of growth. 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. This message percolates down to the corporate houses and their stakeholders which makes it impossible for corporations to dismiss and relegate their social responsibilities to background. *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.

Carbon trading is one such positive initiative towards abating pollution internationally. 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. For e.g. the launch of TATA's small car NANO has initiated a debate on the increase in pollution and associated traffic jams it can cause in future. 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.

CONCLUSION:

Corporate reporting is expanding beyond financial and environmental performance (Kolk A, 2004). A major challenge to reporting community at large in India is to improve comparability among environmental reports. Environmental disclosure of Indian companies is more of general or qualitative. The quality and level of disclosure and environmental accounting by Indian companies found to be not at a satisfactory level but at low level. Disclosure of Indian companies restricts to Energy, CSR and technology, as they are either mandatory or recommended in India. On the basis of findings, it is realized that voluntary reporting may not work in India. However, there is the positive indication of the development of disclosure in Indian companies. Companies have started disclosing the environmental information in monetary terms also. Involvement and commitment of corporate accountants in environmental management appears to be limited due to lack of regional reporting guidelines. Early reporters of Indian subcontinent need encouragement to report fully and regularly, only if country specific environmental reporting guidelines are made possible. Inviting inputs from stakeholders, while formulating guidelines, will be a valuable means of engaging stakeholders and enhancing mutual interests and priorities (Sustainability Ltd and UNEP, 1999). Such a bold participative approach would ensure benefits of enduring value both to the company and its stakeholders.