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International Journal of Current Research
Vol. 9, Issue, 11, pp.61832-61834, November, 2017

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

ISSN: 0975-833X

REVIEW ARTICLE

SOCIAL IMPACT OF ENVIRONMENT AND ENVIRONMENTAL ACCOUNTING

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ARTICLE INFO

Article History:
Received 23rd August, 2017
Received in revised form
08th September, 2017
Accepted 20th October, 2017
Published online 30th November, 2017

Key words:

Green Accounting, Environmental Accounting, Financial Accounting, Eco-efficiency, polluter-pays-principle.

ABSTRACT

The concept of Green Accounting can be viewed as an extension of the original concept of national economic accounts formalized in the Standard National Accounts (SNA) framework. In India, public awareness towards the environment has grown tremendously since the '70s, when laws for the protection of the environment were passed. Smt. Indira Gandhi, the then Prime Minister felt the necessity of healthy environment and expressed her strong opinion in favor of the environment at the United Nation's Conference on the human environment in Stockholm, 1972. There is now an urgent need to take steps globally and particularly to formulate the accounting and valuation techniques regarding environmental issues. Mandatory guidelines can be issued in each and every country to incorporate these in the company's annual report, including environment related legislations, as in developed countries. Hence, it can be concluded that the absence of standardized environmental accounting practices and disclosure techniques, both at national and international levels, and their legal enforcement, necessitates the urgent and pressing need to take steps nationally and globally to formulate these techniques and practices in regard to environmental issues.

Citation: Dr. A. Kusuma, 2017. "Social impact of environment and environmental accounting", *International Journal of Current Research*, 9, (11), 61832-61834.

INTRODUCTION

Today, a large number of companies in developed countries collect, use and distribute information related to the natural environment. This reflects a fundamental change compared with a decade ago. Why have environmental matters become an important business issue? Two main explanations can be given for management concern over environmental matters and for the development of environmental management information systems:

- Increasing pressure from stakeholders concerned about the impact of corporate activities on the environment has motivated (or pushed) managers to engage with environmental issues (Dyllick 1989). Environmental information systems facilitate this engagement by connecting responsible parties with environmental impacts.
- The costs of environmental impacts have risen substantially, so that environmental information has increasingly become economically relevant information for decision-making and accountability. In contrast, the costs of information management per unit of information have substantially decreased in recent decades. As a result, the relationship between environments related costs and the costs of environmental information management have changed.
- In addition to these two reasons, reduction of trade barriers and increasing globalisation of the economy has led to additional competition between companies. The resulting, more intensive, pressure to produce and supply goods and services in the most efficient manner also encourages management to satisfy stakeholder demands as efficiently as possible. This provides an additional incentive for companies to improve data management about their eco-efficiency and accountability for environmental impacts.

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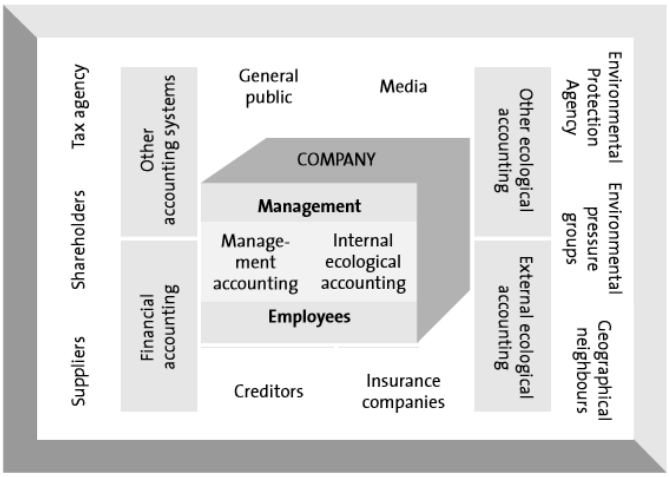
Stakeholder Pressure

At the beginning of the 20th century, dense, dark smoke and contaminated water were regarded as necessary evils of industrial economic activity. Today, society demands a higher quality environment and is seeking that quality through policies on sustainable development, eco-efficiency and wider disclosure of information leading to improved company accountability. In many cases, environmental degradation associated with company activities is continuing (WWI 1995; Beder, 1996) despite the progress made by part of the business community with regard to environmental performance since the rise of environmentalism in the late 1960s and early 1970s. As

scientific findings illustrate (e.g. about the ozone layer and climate change), human impact on the natural environment today is not only local or regional but also poses a threat to the global ecosphere (WWI 1995). Ongoing environmental degradation and the economic and social problems associated with it mean that increasing importance is being attached to information about environmental issues. The term 'stakeholder' indicates that these groups or individuals obtain some form of benefit and/or are exposed to some form of risk from the corporation's activities—financial, social or environmental. Stakeholders can be divided into internal and external groups, the two being separated by the boundaries of the company. Stakeholders include, for example, managers and employees within the company (internal stakeholders) and government regulatory agencies, shareholders, environmental pressure groups, suppliers, customers, local communities and the general public as external stakeholders. The following figure outlays the relationship of the Accounting systems and stakeholders.



Accounting provides the most important corporate system of information collection and analysis. This is reflected in the notion of being held 'accountable,' which means that someone has the duty to give an explanation for how resources have been used. The process of 'being held to account' determines, reflects, strengthens and solidifies the power relationship between the accountee and accountor (Maunders and Burritt, 1991). Accounting systems are designed in such a way as to make management and employees accountable for their activities, through improved transparency about an organization's activities, thereby promoting the engagement of stakeholders even where trust in the accountor may be lacking. In some instances improved transparency is encouraged through environmental compliance audits that are driven by, and also shape, environmental regulations. As the penalties for undesirable environmental impacts have grown, so has the demand for environmental assurance and verification services. Voluntary self-assessments and self-informing environmental management systems have also recently been added to the range of assurance options available to improve accountability relationships. Environmental protection agencies and politicians play an important part in the process of turning environmental issues into business issues. They create an expanding volume of environmental law and supporting regulations designed to encourage environmentally benign behaviour by company managers. Furthermore, a range of economic instruments, using market-based approaches working through the price mechanism, are increasingly being seen as an effective means of addressing environmental problems (Panaiotov, 1998). International and business organisations increasingly have to deal with environmental issues, as shown by the growing number of international environmental agreements and public statements by business leaders. There are many ways to present a greener corporate image to the outside world. Nevertheless, positive benefits usually last for only a short time if there is no action to back up the words. Whereas most managers are concerned mainly with the increasing level of financial costs and liabilities related to environmental impacts. A growing part of the business community is seriously engaged in finding and implementing more sustainable environmental management practices.In order to find ways to reduce costs, or improve income, along with a higher level of environmental protection, companies need suitable management information systems.

A strong tendency to internalize external costs and environmental impacts, a main focus of environmental accounting, now characterizes the political landscape of developed countries like India. Because of ongoing environmental degradation and the problems associated with it, growing importance is attached to the provision of environmentally related information for stakeholders. Accounting, as one of the most pervasive and frequently used informationgathering systems, needs to adapt to this new situation if useful information is to be provided. Creation of new accounting practices dealing specifically with environmental problems is one possible way of responding (Gray, 1993). To achieve new accounting practice, conventional financial accounting systems, with a focus on monetary aspects of activity, can be supplemented by ecological accounting systems which collect information about a company's impact on the natural environment. Excellent companies do not just ask what information stakeholders require, they engage stakeholders in a dialogue. Modern management theory argues that increased transparency will increase a company's market power because society is better informed and a competitive advantage can be gained (Porter, 1980). In contrast to external stakeholders, internal stakeholders traditionally derive much of their corporate financial information from management accounting, which is shown in the figure above within the boundaries of the company in the box at the centre. Kaplan (1984) was one of the first to recognise the dysfunctional impact of external financial reporting practices on management accounting, an impact caused by the short-term focus of financial accounting measures and the scope for managers to manipulate results. Though it is acknowledged that dysfunctional behaviour is not always present, the internal data collected should cover a much wider field than the financial requirements of external stakeholders alone. Management accounting is designed to facilitate internal decision-making and accountability and therefore provide necessary data mainly to inform management.

Internal and external stakeholders, when considered together, will be interested in the financial impacts of environmental activities as well as the physical impact a firm has on the natural environment.The first view could be called an 'outside-in' view (looking at which aspects from the outside have an impact on the organisation), whereas the other is an 'inside-out' view (looking at what impacts the organisation has on the natural environment). External stakeholders are divided into two groups. The first group (shown to the left in fig. above) is

primarily interested in the financial outcome of environmental impacts from a company's activities (e.g. reduced profits because of fines imposed, or increased revenues promoted by a clean, green image), and the second group (shown to the right in fig. above) is predominantly interested in the ecological impacts of a company on the natural environment. External accounting systems provide the communication interface between management and external stakeholders.

Changing cost relations

Most companies employ accounting systems that were designed before anyone could anticipate the present-day importance of environmental costs and impacts. Until the 1990s environmental compliance costs and environmental impacts caused by company activities were either not significant or not easy or cost-effective for most manufacturing firms to monitor. At the same time, the costs of measurement and recording were relatively high. In the past decade, this relationship has been reversed through development and enforcement of the widely accepted 'polluter-pays principle'. Today environmental compliance costs are large and are still increasing for many firms, whereas information systems for tracking those costs have become relatively inexpensive. Government regulatory agencies and the accounting profession have encouraged the tracking of compliance costs.

Poorly coordinated collection of environmental data

The fact that more companies collect environmental data now than they did a decade ago does not say anything about how well they manage such data. In practice, most companies have poorly coordinated environmental data collection (Bennett and James, 1996; Gray, 1993). Despite their economic relevance, opportunities and threats, the costs and revenues, assets and liabilities and other financial impacts on companies related to the environment are usually not explicitly considered in corporate financial information systems (Gray, 1993, but note that a growing number of accounting software packages are beginning to incorporate environmental costs). These environmental influences nevertheless change economic figures, and because their monetary impact has been rising in many industries during the past decade, they should be incorporated in accounting and finance practices.

Environmental Information as Purpose-oriented Knowledge

Good decisions are based on knowledge about the topic being considered. One way to improve decisions is to collect and analyze data. However, not all data necessarily improve the knowledge base that decision-makers require. Only data that are related to a desired goal and are highly likely to improve decision quality (i.e. purpose-oriented knowledge) are valuable. Such basic considerations are easy to express and seem logical in general terms.

Necessary Objective

Financial accounting, designed to satisfy the information requirements of external stakeholders of firms, is used in almost all business organizations whether small, medium or large in size. Financial accounting, as the most frequently available conventional information management approach used by any company, is directed towards the purpose of maximizing company profitability, subject to liquidity and solvency considerations (Wilkinson, 1989). All other goals considered by various financial accounting systems such as high sales revenues, large contribution margins and increasing economic value added are derived from this overarching goal.

To link the collection and analysis of environmental data to the management of purpose-oriented knowledge, an overarching objective or operational goal has to be assumed. The two main environmental objectives that have often been proposed for the management of companies are 'sustainable development' and 'eco-efficiency'. To bring environmental information management in line with such objectives, these notions, however, need to be clarified.

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