

Corporate Environmental Reporting: Approaches And Challenges

Yasemin Köse

Bulent Ecevit University, Faculty of Economics and Administrative Sciences

Business Department, Accounting and Finance

67100, Zonguldak, Turkey

E-mail:yekose@gmail.com

Abstract

Sustainable development issue have become increasingly important to a range of stakeholders and attention has focused on the environmental impacts of corporate activities. Within this context, investors and other stakeholders demand for reliable and accurate information regarding environmental performance. Thus sustainable or environmental reporting has arisen as a challenging and attractive growth area for accounting professionals (Bell and Lehman 1999). One of the most challenging issue in environmental reporting is how and what corporations should report to meet demands of various stakeholders.

Reporting about environmental issues may embrace information both in traditional financial reports and in any other reports. For environmental reporting, guidelines have been published by various parties since the beginning of the nineties (IIIEE Report 2002). Considerable

debate has taken place among the international bodies on the recognition, classification and quantification of environmentally significant information. A number of recommendations were put forward in the 1990s by standardization and Professional bodies. Yet, there are considerable contradictions among these recommendations leaving management a large element of discretion when deciding which issues to recognize, how to measure these and what to disclose about environmental activities (Schalteger and Burrit 2000).

The aim of this study is to present approaches and guidelines of corporate environmental reporting (CER) in an international context. For this purpose development of CER is presented which is then followed by approaches to environmental reporting such as the Global Reporting Initiative (GRI) reporting framework, initiatives of Standard setters and some governmental regulations.

Keywords: Corporate Environmental Reporting, Sustainable Accounting, Sustainable Reporting, Environmental Reporting Guidelines.

1. INTRODUCTION

Although used interchangeably, terms of sustainability reporting, corporate social responsibility reporting, triple bottom line reporting and environmental reporting can describe different things. The most widely accepted definition of sustainable development can be found at Brudlent Report released by the UN in 1987. According to this report sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (UN 1987). Corporate environmental reporting represents only one form of sustainable or environmental reporting. The term environmental reporting means any disclosed information on environmental issues by companies including corporate environmental reporting.

Corporate environmental reporting (CER) is the process by which a corporation communicates information regarding the range of its environmental activities to its stakeholders such as shareholders, customers, employeesgovernmental agencies, creditors and public in general. CERs are publicly available generally stand-alone reports issued voluntarily, by companies on their environmental activities (Broph and Starkey 1996).

An increasing number of corporations began publishing regular environmental reports in detail. These reports disclose information about the impacts of the environment and the methods of measuring and monitoring environmental impact. Disclosure of information may voluntary or regulatory. Yet considerable debate continues on the recognition, classification and quantification of environmentally sound information.

2. DEVELOPMENTS IN CORPORATE ENVIRONMENTAL REPORTING

Gray, Owen and Adams (1996) provided a number of incentives for corporate environmental reporting. These incentives include ethics, individual commitment, accountability, legal, code of practice, anticipated regulation, to forestall regulation, marketing, public image, defence, to distract attention, influence perceptions, response to pressure, go ahead of /stay with competitors, experimentation, prior commitment, ethical investors, to overcome fears of secrecy, and to maintain a position of power and legitimisation.

First corporate environmental reporting practices began in the 1980s. At first it started in a voluntary basis. Later on mandatory requirements were introduced by a number of countries

such as Denmark, Norway, Sweden and the Netherlands (Scott, 2001). Also, in Australia, corporations are legally required to report on economical, social and environmental activities (DEAT 2005).

Surveys published by the KPMG since 1993 showed that the growth of stand-alone environmental reports is significant. As seen in Table 1, environmental reporting rose significantly in all the European countries examined, especially in countries with mandatory rules.

Table 1. % of Companies Published Environmental Reports.

Years	TOP 100	TOP 250
1993	12	-
1996	18	-
1999	24	35
2002	28	45
2005	41	64
2008	53	83
2011	64	95

Source: Adapted from KPMG(2011). International Survey of Corporate Responsibility Reporting.

Another significant report published by UNEP (1997) showed that CERs were increasingly being used to monitor companies. A more recent survey conducted in the UK for FTSE 100 companies showed that 81% of companies published separate environmental reports. 13 % of these companies report on environmental issues within their annual reports (Spada 2008).

The 2002 KPMG Survey of Corporate Responsibility Reporting (2002, p.18) suggests that the increased adoption of sustainability assurance arises from "...the demand for reliable and credible information from management, for managing the company's environmental and social risks, and from stakeholders who want assurance that the report truly represents the company's efforts and achievements".

3. APPROACHES TO CORPORATE ENVIRONMENTAL REPORTING

Reporting about environmental issues may embrace information both in traditional financial reports and in any other reports. For environmental reporting, guidelines have been published by various parties since the beginning of the nineties (IIIEE Report 2002). Considerable debate has taken place among the international bodies on the recognition, classification and quantification of environmentally significant information. A number of recommendations were put forward in by standardization and Professional bodies such as the Financial Accounting Standard Board (FASB), Fédération des Experts Compatibles Européens (FEE)

and the International Accounting Standards Committee (IASC). Yet, there are considerable contradictions among these recommendations leaving management a large element of discretion when deciding which issues to recognize, how to measure these and what to disclose about environmental activities (Schalteger and Burrit 2000).

An important factor in the improvement of the quality environmental reports has been organizations involved in corporate reporting. Although environmental reporting is a relatively new phenomenon, compared to financial reporting, many guideline/approaches have been developed so far for the structuring of environmental reports. It appears that three groups are attempting to develop guidelines for the same (Pramanik et al. 2008). These are:

- International / National Industrial Organization;
- Government Initiatives; and
- Initiatives from Accountancy Bodies.

One well-known organization is the Global Reporting Initiative which set out a common framework for sustainability. The launch of the G3 Guidelines in 2006 led to a dramatic increase in the number of sustainability reports produced by organizations. The G3 Guidelines are made up of two parts. Part 1 features guidance on how to report. Part 2 features guidance on what should be reported, in the form of disclosures.

The GRI framework provides a nonprescriptive approach through which organizations are guided in developing performance reporting that is relevant for their own business. Users are provided with concepts on how to develop what is to be reported, including issues such as materiality, and are provided with a framework for what are called standard disclosures, supported by a series of sector or industry guides. These currently include financial services, logistics, transportation, mining and metals, public agency, tour operator, telecommunications, and automotive. The framework then provides support on how to collect and report information, including guidance on what areas should be included in each together with ideas as to what types of performance metrics can be developed.

By means of GRI reporting guidelines, corporate sustainability reports, also frequently referred to as corporate social responsibility (CSR) reports and health safety and environment (HSE) reports, appear on the websites of many of the world's largest firms. These reports characteristically document corporate environmental and social policy, objectives, initiatives and performance, and are increasingly accompanied by third-party assurance statements (Kolk and Perego 2008).

Mandatory requirements for certain countries have also put pressures for environmental reporting. Denmark was the first country regulated the environmental reporting in 1996, which was followed by the Netherlands and Norway in 1999. Sweden also made the environmental disclosure mandatory. In U.S.A., companies having more than 10 employees will have to report on specified toxic emission to the US Environmental Protection Agency. Environmental disclosures are also encouraged through the voluntary local and international guidelines. These guidelines design and build acceptance of a common framework for reporting environmental information in sustaining corporate public accountability. Yet, in the U.S.A adoption of sustainability as a concept has been more cautious than in other areas around the world. As in many new initiatives, the great concern is and will continue to be.

Accountancy bodies have also taken part in the environmental debate in recent years and have issued some guidelines regarding environmental reporting. The Canadian Institute of Chartered Accountants (CICA) has produced a guidance document aimed at developing a

framework for the reporting information about how organizations perform in accordance with standards and expectations of environmental conduct and responsibility. The Association of Certified Chartered Accountants (ACCA), U.K. and the Institute of Chartered Accountants of England and Wales (ICAEW) have also issued their guidelines regarding corporate environmental reporting.

Similarly, the Federation of European Accountants encourages companies to raise shareholder confidence by enhancing the credibility of their sustainability reporting with third-party, independent assurance. Two international standards, the AA1000 Assurance Standard (AA1000AS) was launched in March 2003 by AccountAbility and the IAASB's International Standard on Assurance Engagements is available since January 2005. Further, a number of national (draft) standards has also emerged, for instance in Australia and in The Netherlands.

The accounting profession has a role to play in contributing to the business understanding of sustainability and focusing beyond the adoption of standards for their own sake, to a perspective where connections can be made between nonfinancial reporting, financial value, and the sustainable worth of the entity (IMA 2008).

4. CONCLUSION

Environmental reporting requires companies to monitor and measure their environmental impacts and communicate them. In order to achieve this efficiently, there must be an accounting system that fully account for all environmental inputs and impacts to generate data and communicate.

Accountants have a responsibility to those whom they support with Professional advice to address the sustainability of the enterprises within which they operate by understanding the implications of nontraditionally-measured assets, liabilities, and income that form the basis of an organization's worth and wealth in the 21st century economy.

In different countries, the accounting and reporting practices in respect of environmental issues have become mandatory. But in many countries, no such mandate has been issued. Now, an urgent need prevails to take steps globally for accounting and valuation technique as well as the reporting guidelines to incorporate these issues in the corporate accounting and reporting system. For doing businesses in future, corporate world should turn their attention towards the long-term sustainability of the environment.

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