Key words: environment, green reporting, standards

Abstract

The stress on environmental issues has caused an increasing trend among companies to bring out their environmental contribution as green reports. The authors show that such reporting is still in infancy and has not developed yet in full and rigorous form as the annual company reports. Though green reporting is a voluntary disclosure, many companies are producing such reports but the reports are ambiguous in many cases because of lack of standards and legality, reducing their usefulness. The authors compare the US companies with those in other countries with regard to green reporting. The authors give pointers to further research in the area that could lead to establishment of green accounting standards similar to Financial Accounting Standards. Once the usefulness of the green reports is made clear to the law makers, laws would be enacted to cover green reporting similar to Sarbanes Oxley Act of 2002 covering the financial and accounting disclosures.

Green Reporting - need for standards and legalization

Global reporting initiative (GRI) issued latest guidelines G3 for the corporations to follow the framework and principles for environmental reports. (GRI 2000-2006). The purpose of this report is to provide a balanced and reasonable representation of environmental performance of the reporting corporation including positive and negative contributions (GRI 2000-2006). Contrary to these expectations, some corporations have been falsifying the material information on the reports and getting charges and fines in some cases. This gives us the impression that this reporting is still in its infancy and has not yet developed to the full form. More over, no proper institutionalization and standardization of the environmental reports were noted which leads for different reports from different organization (Souther June 1999). It is evident that environmental reports need to follow standards and adhere to a commonly agreed framework. Moreover, the reports have to be monitored by an external organization and which will audit the information given by the corporation and report it (Galbraith 2008). The concern about environmental pollution is a hot issue in the forthcoming presidential election. In spite of its popularity, the disclosure requirements or complying standards are not being legalized and institutionalized. In this report, the author justifies need for more standardization and legalization with environmental disclosure and highlighting the pitfalls in the current reporting standards. Researchers have compared the reporting standards of Canada, USA, Australia and UK and suggest need for more standardization and disclosure requirements for US corporations.

G3 Guidelines and Framework

Green Reporting originated from the initiative of the Boston based Ceres, a coalition of investor groups, environmental organizations and investment funds founded in 1989. They Launched the GRI in 1997 and it is now the de-facto international standard used by over 1200 companies for corporate reporting on environmental, social and economic performance. This was developed in association with the Tellus Institute, a not-for-profit research and policy organization founded in 1976 also in Boston. Ceres pioneered the framework for environmental reporting during 1990 and were interested to create an accountability mechanism for the companies on their environmental conduct (Hill 2007).

The new guidelines explicitly states that organization can follow the standards prescribed by the guidelines like materiality, sustainability context, completeness, defining quality for reporting, comparability, accuracy, timeliness, clarity, reliability and boundary setting for reporting (GRI 2000-2006). The essential standards and framework were accepted by several corporations and GRI has 450 organizational stakeholders under its record (Hill 2007). The growth of this awareness seems to be spectacular but still there is a long way to be accepted by all organizations.

The benefits enjoyed by organizations with such green reports were financially measurable with the capital budget cost, shareholders reputation, expanding new horizon of consumers etc (Graham 2005). With such material benefits from the green report, G3 guidelines need to have standards and a compliance institution who could externally guide the corporation. The growth of such an institution is likely to streamline the reporting globally, even though adherence to these standards is purely voluntary. Some countries like Spain, Denmark, and Canada have motivated the corporations to follow their own disclosure contents and encouraging more green reports with incentives (Galbraith 2008).

Current trends in Green reporting standards - USA

Securities and Exchange Commission (SEC) oversees all reporting requirements of US corporations. In the Government Accountability office (GAO) report of 2004, the inconsistency on environmental reports and lack of Securities Exchange Commission (SEC) disclosure monitor were highlighted to SEC and Environmental Protection Agency (EPA). SEC has taken into consideration GAO's recommendations and revised their regulations accordingly (Stephenson 2004). The following recommendations have been enforced by SEC for disclosure requirements based on the 2004 GAO report. These recommendations substantially cover the materiality aspects of the report. They should display:

a) The material effects of complying or failing to comply with environmental requirements on capital expenditures, earnings and competitive position of the registrant and its subsidiaries

b) Pending environmental legal proceedings or proceedings known to be contemplated, which meet any of three qualifying conditions: (1) materiality, (2) 10% of current assets, or (3) monetary sanctions

c) Environmental contingencies that may reasonably have material impact on net sales, revenue, or income from continuing operations.(2008).

The Financial Accounting Standards Board (FASB) has recently set the fair value measurement for contingencies including environmental obligations and requirements. Non financial assets like replacement of asbestos or constructing waste disposal system should also be using fair value measure. Financial Accounting Standards (FAS) 157 states non financial assets and liabilities whose market values difficult to ascertain, could use reporting entity's assumptive figure based on available information. Environmental Contingencies could be measured using probabilistic estimation to achieve fair value measurement (Maureen Crough 2007). FASB and SEC have broadened their scope of fair value measurement for environmental assets and liabilities which are being reported in green reports. The probabilistic estimation of fair value measurement still adds ambiguity with the measurement criteria used in the reports. FAS 141R recommends the application of Fair value measure to record environmental assets and liabilities purchased during the business combination transaction. This concept applicability extension to environmental assets and liabilities bring out materiality and relevance requirement of GRI framework. Further to the report requirements like completeness, reliability and quality principles need to be accomplished. Voluntary disclosure element gives room for the corporation to highlight only their positive evidence. Quality principle of report stating positive and negative environmental impact like carbon footprints, green house gas emission should be stated clearly in the green reports by business should be stated explicitly.

Comparison with other countries green reporting

Reporting requirements in US and UK

A comparative study done by (Leigh Holland 2003)) comparing US and UK companies reported that the voluntary disclosure of environmental information creates differences among the company reports. Corporations use different drivers to report their environmental cost and contingencies. US corporations exposed to strict legislation elaborate more in their notes to accounts. The quality of information in the company reports in UK ranks higher than US corporations. But the US corporations rank higher in the quantity of information (Gamble et al 1995). Notable findings that most of the UK companies specified the standard of application especially Financial Reporting Statements (FRS) 12 on their green reports whereas none of US companies has specified any of the accounting standards or issues that is being used for disclosure of environmental issues. Most significant findings in the notes to accounts section is about the disclosure on environmental provisions done in separate table format by UK companies whereas such provisions were added to the texts of contingencies and commitments.

Lengthy narrative sentences were being given in the notes to account due to legislative compulsion but it might not be easily accessible for the readers of the reports (Leigh Holland 2003). More to the classification of liabilities and grouping the provisions and preparing notes, it could be helpful for the corporation to decide on the quality report rather than the quantity report.

Canadian and Australian disclosure requirements

In a research survey done by Buhr and Freedman (2001), comparing US and Canadian companies, it was reported that the Canadian companies disclose higher environmental information than the US companies. US companies disclose those required by legislature and higher mandatory disclosure issues. Canadian companies too follow voluntary disclosure requirements but benefits through incentives for their disclosures (Galbraith 2008).

A survey was done by Wilmshurt and Frost (2000) among CFOs of selected Australian companies about the factors used to prioritize the disclosure requirements of green reports. Management ranks the shareholders information and legislative information more than the other voluntary information. The report found that their objective was to satisfy the investors, institutions and government bodies.

Another study by Deegan and Rankin (1999), on the differences in the impact of voluntary and legislative disclosure requirements reported that the users and preparers of the information give more considerations for legal obligation. In addition, the users and preparers consider voluntary disclosure as less non-standard as compared to the mandatory disclosure. This evidence suggests that more mandatory disclosure would possibly bring out more transparent green reports.

Problems in Voluntary disclosure

In a supplementary study conducted for GAO report of 2004, twenty US Electric utility companies who were the largest emitters of the co_2, a major component of Green house gas emission were required to disclose this information. Major users of the financial information like investors, institutional investors, pension fund managers, and environmental interest groups are in favor of the company's disclosure of the greenhouse gas emissions. It was not mandatory in company reports at that time and the results were analyzed. Out of 20 companies, one has not disclosed and other 19 largely deviated from the disclosure requirements. It was evident that the voluntary disclosure requirements were differently interpreted by the corporations to suit their own convenience and have been highlighted in their reports. Investors depending on this information decide on their stake in these companies were confused and were not clear about the companies status quo (Stephenson 2004). In the GAO report (2004) experts in the field of environmental disclosure have identified lack of disclosure standards and they have also identified pending cases against corporation by shareholders for inadequate environmental disclosure. Shareholders claim that inadequate disclosure information has impaired their investment decisions.

These evidence shows lack of supervision and monitoring agencies for environmental disclosures. Many companies may be making voluntary disclosure that may be inaccurate and misleading, deliberately aimed at continuation of the business practices that are likely to bring them hefty profits, disregarding environmental costs. If the environmental cost of their business operations are hefty such as clean up cost, legal charges and claim for damages being faced by the company and the actions taken by the company to tackle them are included in the green reports in a standard framework, such reports would be significantly useful to the stake holders and the general public.

Conclusion

From an empirical study (M.Clarkson, 2006) with a sample size of 191 US firms from five most polluting industries, he has concluded a positive relationship between environmental performance and extent of discretionary environmental disclosures. Study examines impact from corporation who are classified as high economic performer and low economic performer. High economic performer source out capital funds at lower cost and gets positive publicity for their corporation. Advent of Sarbanes Oxley Act, 2002, where by US corporations are strictly following the disclosure requirements and producing clean audit reports due to fear of fines and charges. It is equally important to make corporations follow rigorous disclosure standards and requirements in the case of green reports. Further research is suggested to bring out the significance of the environmental reports from the users and understand the environmental impact and accountability of the organization for environmental damages its business operations caused. If research could substantially establish the significance of this environmental information in the minds of the users, then the disclosure would be made mandatory from the point of accounting concepts as well as for the monitoring organization. Measures to influence the companies to make proper green disclosure with incentives like granting quicker license, business loans and grants, tax concessions, tax holidays for the corporation who disclose the right information could be studied and implemented by EPA and SEC. Further scope of this study could be to expand the vulnerability of the voluntary disclosure in the reports and how it affects the users’ decisions. This could empirically project the legislative compulsion and the need for a division under SEC to monitor the green elements of Green reports. EPA should also be involved in this important step to make the world a safer place for our future generations. To Start with a need for more comprehensive standards for Environmental reporting disclosures should be facilitated that could help every corporation to follow them strictly and adhere to their content and submit themselves to G3 guidelines.

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