CHAPTER – 1

CORPORATE

ENVIRONMENTAL

REPORTING: AN OVERVIEW
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CORPORATE ENVIRONMENTAL REPORTING: AN OVERVIEW

1.1 INTRODUCTION

For Indians, the relationship with the nature starts every morning, when many recite ‘Gayatri Mantra’ as invocation to the sun at sunrise and again in the evening. The Vedic gods such as Agni (Fire), Surya (Sun), Vayu (Wind), Bhumi (Earth), Varuna (Water) and Indra (Thunder and Rain), together represent atmosphere, hydrosphere, lithosphere, sunlight and energy. Much has been said about the importance of these elements and environment in general in the Vedas, Upanishads and Puranas. Indians have been very conscious of environment from times immemorial, and to them the issue of environment in all its dimensions is not new.

The term environment can be explained in a multi-dimensional way. Quoting in the words of various individuals and bodies; Einstein quotes “Environment is everything but myself”. The European Commission defines environment as “the physical surroundings and includes air, water, land, flora, fauna and non-renewable resources as fossil fuels and minerals.”

In this contemporary world, considering the fast pace of population growth industrialization has become essential. To pay heed to the growing demands of the increasing population any nation cannot obviate the need of industrialization. However, this approach is misplaced because parallel to industrialization goes environmental degradation disturbing the ecological balance of our planet. Industries like Chemicals, Pesticides, Cement, FMCG and Petroleum are contributing towards ecological degradation.

During the last two decades concern for protection of environment has gained momentum. Respect for the environment is now part of any responsible strategy of corporate world. Industries are now more open to the better environmental
Many traditional myths like ‘expenditure on environment protection increase the cost of production or it is unproductive expenditure’ have been broken, and it is now realized that investments in environmental conservation and pollution control measures enhance the productivity in the long run, rather than be a stumbling block in the path of development. In many countries the environmental concern has become corporate doctrine, companies are looking at various ways to waste recovery, reuse and recycling, which not only project them as champions of the environment, but also lead to considerable saving. Now the performance of a business concern is not only judged on financial parameters but also on the basis of contribution towards protection of environment. Today, Environmental Impact Assessment has become a basic tool in sustainable development. Now various stakeholders expect more disclosures from companies on environmental impact and performance. As a result a large number of companies all over the world have started reporting on environmental issues in their annual reports. Business and industries are increasingly realizing their role in sustainable development management and hence a new area of management is fast emerging known as ‘Environmental Accounting and Reporting’. An environmental report is a document published by the company through which company gives information to the various stakeholders regarding the environmental issues related to the company. It not only establishes a link between company and the stakeholders, but also promotes cooperation on environmental issues between company and various concerned parties. Environmental reporting is actually a part of the overall strategic environmental management of a company. Some efforts are made to standardize the environmental management system and environmental reports at international level but still a lot of efforts are required in this direction. On the whole we can say that healthy environment and balanced ecological system is a crucial issue now days. Accounting profession and a conscious section of corporates should respond in positive way to stop further degradation of environment and thus making earth a better place to live for future generations.
1.2 HISTORY OF CORPORATE ENVIRONMENTAL REPORTING

The concept of Corporate Social Disclosure (CSD) in annual reports of the companies first emerged as a companion to the debate on corporate social responsibility in the late 1960s and early 1970s. At that stage, Corporate Environmental Disclosure (CED) was not addressed separately, but was considered as part of the Corporate Social Disclosures. Normally such disclosures were included by the companies in their annual reports, but most of the time, these disclosures were incomplete, inconsistent, incomparable, unverified and declarative in nature rather than quantitative or in monetary terms. However, in mid 1970s, the global financial crunch rippled the force with which corporate disclosures were made in the financial records. The Global meltdown laid stress over the firms to work towards increased profitability against their societal responsibilities.

The issue of global concern of deterioration of the environment was first manifested in the United Nations Conference on Human Environment which was held at Stockholm in June 1972. The parameters kept in focus while this manifestation was the dangers posed to the quality of human life by continuous degradation of ecological assets and increased level of pollutants due to industrialization emissions.

To tackle this global concern, United Nations Environment Programme was established resulting into creation of World Commission on Environment and Development in 1983, headed by Madam Brundtland, Prime Minister of Norway. Such International manifestations have also inspired various nations to coin and frame various rules and regulations for environmental protection. For example Eastman Kodak published its first Environmental Reports in 1988. As a result of green revolution and growing concern for environmental protection, in the early 1990s Corporate Environmental Disclosure emerged as separate field of disclosures, different from Corporate Social Disclosure. At that time some companies in United States and Europe started publication of some reports which include quantitative data related to environmental emission and toxic release inventory. Additional impetus for reporting environmental information was provided by the US Securities and Exchange Commission (SEC), which issued guidelines in 1993 that required publicly held
companies to disclose ‘‘environmental exposures’’ in their annual reports. The US Securities and Exchange Commission also started intensified scrutiny of environmental disclosures for the industries affected by environmental risks. Environmental reports allowed firms to supplement financial information with management and regulatory information that was addressed to stockholders, the financial community, and others.

In the early stages, environmental reports were considered to be public relations documents which containing more photographs than quantitative data and were termed `green glossies (Skillius and Wennberg, 1998). However, social and environmental accounting research increasingly gained prominence and developed substantially during 1990’s (Mathews, 1997). During that period, a number of national and international institutions including accounting professional bodies, non-government organizations, industry bodies etc. got involved in developing social and environmental disclosure standards. Consequently, certain guidelines came into being prepared by bodies like Confederation of British Industry (CBI), 1993; Public Environmental Reporting Initiative Guidelines (PERIG), 1994; World Industry Council for the Environment (WICE), 1994). Moreover, the percentage of companies disclosing environmental information in the annual/financial reports, and the amount of such information increased significantly by the late 1990’s (Deegan and Rankin, 1999).

Some key events during the last few decades that illustrate the growing interest in sustainable development are outlined below:

- 1970: First ‘Earth Day’ was celebrated on 22nd April, 1970.
- 1970: U.S. Congress authorized the creation Environmental Protection Agency (EPA) for tackling environmental issues.
- 1972: The United Nations Conference on the Environment was held at Stockholm for considering environmental issues.
• 1980: World Conservation Strategy was held at Switzerland, with the objective of defining the sustainability Development.
• 1985: Toxics Release Inventory (TRI), a publicly available database containing information on toxic chemical releases and other waste management activities released in the United States.
• 1987: World commission on Environment and Development published a report “Our Common Future”, which comprehensively defined the term sustainable development.
• 1992: UN Convention on climate change was held at Rio-de-Janerio popularly known as ‘First Earth Summit’, where declaration on saving climate was agreed and signed by different countries of the world.
• 1992: Coalition for Environmentally Responsible Economies (CERES), issued guidelines for establishing environmentally sound investment policies.
• 1993: Public Environmental Reporting Initiative (PERI), issued environmental reporting guidelines.
• 1994: Global Environmental Management Initiative (GEMI), issued guidelines for environmental management.
• 1996: The International Organization for Standardization releases its first environmental standard, ISO 14000.
• 1997: The Global Reporting Initiative (GRI) is formed by Ceres and the Tellus Institute, two Boston-based nonprofit organizations. The GRI releases its Sustainability Reporting Guidelines in 2000.
• 2000: On the initiative of UN Secretary General, Kofi Annan, United Nations Global Compact was established to promote global corporate citizenship. United Nations Global Compact issued ten fundamental principles in the area of human rights, labour, and environment protection.
• 2000: The Carbon Disclosure Project is created to encourage companies to disclose their greenhouse gas emissions.
• 2001: Africa’s Development (NEPAD), a partnership between various African countries was formed to provide a common strategy for development of African countries.
• 2001: At the fourth World Trade Organisation (WTO) ministerial conference in Doha, Qatar, a new round of trade negotiations focused on promoting sustainable development was held.


• 2006: Amsterdam Global Conference on Sustainability and Transparency was organized.

• 2010: The GRI and GC sign a Memorandum of Understanding in which the two initiatives agree to align their efforts to promote CSR.

• 2010: The International Organization for Standardization releases its first CSR standard, ISO 26000.

• 2011: Ministry of Corporate Affairs (MCA), Government of India, issued National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business.

• Fourth set of guidelines known as G4 was issued by Global Reporting Initiatives (GRI).

1.3 CONCEPT OF CORPORATE ENVIRONMENTAL REPORTING

The concept of Corporate Environmental Reporting can be understood and analysed by understanding the meaning of Reporting and Corporate Disclosure individually. Reporting aims at providing apt and useful information about the economic and corporate affairs to various parties like investors and potential investors, creditors, government and other stakeholders. Corporate disclosures are those items in annual reports which are of material use to various users. According to Longman Dictionary, reporting is the "fact or details that tell you something about a situation, person, event etc". In the case of corporate reporting, Bromwich (1992) defines it as "new knowledge, which leads to a change in actions of decision-makers". So the corporate reporting aims at providing useful information about its activities to present and potential investors, creditors and other stakeholders. This information
may be voluntary or involuntary, quantitative and qualitative but has an important impact on the decision makers.

Choi (1973) defines corporate disclosure as "the publication of any economic information relating to a business enterprise quantitative or otherwise, which facilitates the making of investment decisions". This is a narrow definition of disclosure, as it suggests that disclosure is made only to facilitate investment decisions and ignores the fact that in addition to those users (e.g., investors and creditors) who make investment decisions, there are a number of other users (such as environmentalists, labour unions, and the community) who are interested in different aspects of business activities (Bedford, 1973). A more extensive definition was provided by Cooke (1989), who defined corporate disclosure as "those items in corporate annual reports that are relevant and material to the decision-making process of users who are unable to demand information for their particular needs".

However, the emphasis of corporate reporting shifted from financial reporting to non-financial reporting in the late 1970’s and a large number of firms started including non-financial information in their corporate reports. But, despite the extensive movement in the 1970s of Corporate Social and Environmental Disclosures (CSED), there is still neither widespread recognition nor agreement on how CSED should be defined (Gray et al., 1995).

Environmental reporting requires the incorporation of environmental issues in the corporate annual reports. It not only involves reporting of physical environment but also social environment. Many experts believe that environmental reporting is very significant and environmental disclosures constitute part of what is generally termed social responsibility reporting. Social responsibility disclosures include, among other things, disclosures relating to the interaction between an organization and its physical and social environment. Social responsibility reporting may include information about environment, energy, human resources, community involvement.

One of the earliest attempts comes from Gray et al. (1985) who defined CSED as "the process of communicating the social and environmental effects of organisations economic actions to particular interest groups within society and to
society at large”. Moreover, Gray et al. (1987) argued that organisations use CSED to discharge their social accountability. They explained social accountability, as "the responsibility to account for actions for which there is social responsibility under an established contract. Further social responsibility means a responsibility for actions which do not have purely financial implications and which are demanded of an organisation under some implicit or explicit identifiable contract”. However this definition gives more emphasis on the compulsory disclosures under the various laws and provisions as it says that organization take up only those activities which are demanded from it, but there are many activities in which firm involves itself without being demanded by anybody. Such activities are voluntary activities.

Mathews (1993) gives more attention to voluntary disclosure rather than compulsory. This might be due to the absence of mandatory requirements for such disclosure in most countries. Mathews defined CSED as "voluntary disclosures of information, both qualitative and quantitative, made by organisations to inform or influence a range of audiences. The quantitative disclosures may be in financial or non-financial terms". This definition of Mathews considers only voluntary disclosures that are undertaken by the firms. However, it considers both financial and non-financial disclosures.

Though there are a number of definitions on Corporate environmental Reporting and each definition gives emphasis on different aspect of reporting, for the purpose of this work, the definition given by ‘The Association of Chartered Certified Accountants’ is found to be more suitable which reads as follows:

Environmental reporting’ is the term commonly used to describe the disclosure by an entity of environmentally related data, verified (audited) or not, regarding environmental risks, environmental impacts, policies, strategies, targets, costs, liabilities, or environmental performance, to those who have an interest in such information, as an aid to enabling/enriching their relationship with the reporting entity via:

• the annual report and accounts package, or

• a stand-alone corporate environmental performance report, or
• a site-centered environmental statement, or

• some other medium (e.g. staff newsletter, video, CD-ROM, website).

This definition differs from the definitions of Gray and Mathews. This definition is wider in the sense that it does consider only mandatory disclosures or voluntary disclosures; it does not give emphasis on any particular medium of reporting; and it covered different aspects of reporting like environmental risks, environmental impacts, policies, strategies, targets, costs, liabilities, or environmental performance.

Clarkson et al. (2006) divided environmental disclosures into two categories: hard and soft. This categorization is based on the quality of the information disclosed. Hard disclosures include: governance structure and management systems, credibility, environmental performance indicators and environmental spending. Soft disclosures include: vision and strategy, environmental profile, and environmental initiatives. Hard disclosures are considered to be of higher quality because it is difficult for poor environmental performers to mimic the disclosures.

Some of the other definitions given by different experts are given in following table.

Table 1.1

<table>
<thead>
<tr>
<th>Definitions of corporate environmental reporting/disclosure</th>
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<tbody>
<tr>
<td>Environmental reporting is an umbrella term that describes the various means by which companies disclose information on their environmental activities. This should not be confused with corporate environmental reports (CERs), which represent only one form of environmental reporting. CERs are publicly available, stand-alone reports issued voluntarily by companies on their environmental activities.</td>
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<td>Corporate environmental disclosure can be viewed as an outcome of management’s assessment of the economic costs and benefits to be derived from additional disclosure.</td>
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<td>Environmental reporting relates to data that is gathered in accounting systems, recognised, classified, measured, calculated or estimated, recorded, verified and then disclosed.</td>
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<tr>
<td>Corporate environmental reporting is a “process of communicating externally the environmental effects of organizations' economic actions through the corporate annual report or a separate stand-alone publicly available environmental report”.</td>
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<tr>
<td>Corporate environmental reporting is an activity which includes “outlines of the organization’s attitude to the environment, glossy pictures of ‘bits of the environment’, reference to EMS and environmental audit, tables showing selected data on the levels of emissions and wastes produced by the organization and suggestions about levels of environmental investment”.</td>
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<tr>
<td>Environmental disclosure can be defined as the disclosure made by an organisation about its positive and negative impacts on the broader physical environment within which it operates.</td>
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<td>Environmental reporting is used to illustrate the way in which companies discharge their accountability in the social and environmental area.</td>
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Environmental reporting is a multi-faceted and rapidly developing field that influences companies’ communication strategies and image profiles, as well as the organisation, staff, accounting systems, and particularly their underlying information management systems.


1.4 TYPES OF ENVIRONMENTAL REPORTING

Corporate environmental reporting is primarily divided into two categories i.e. mandatory environmental reporting and voluntary environmental reporting. However, environmental reporting may also come from a third party, viewed to be involuntary. The figure gives below highlights the various types of environmental reporting.

Source: Deloitte Touche Tohmatsu International (1993)

Fig. 1.1: Types of Environmental Reporting
From the figure given above, involuntary environmental reporting is the reporting done by third party about the environmental activities of the company, without permission and will of the company. On the other hand, voluntary environmental reporting involves the disclosure of a company’s environmental information on a voluntary basis i.e. without any mandate from the government or other regulatory bodies. This information in most cases arises from pressures from various groups that have a direct interest in the performance of companies and includes stakeholders, banks, environmental community members from environmental protection groups and corporate customers. Mandatory environmental reporting is the disclosure of information about a company’s environmental activities that is required by the law.

1.5 PRINCIPLES OF ENVIRONMENTAL REPORTING

Different studies have suggested different principles of corporate environmental reporting. Following are some of the important principles.

i) **Sustainability:**

Sustainability deals with the actions, which if taken at present can help society in future. Raw materials of an extractive nature, such as coal, iron or oil are once used, are not available for future use. So, this is one of the main concerns of the society as these materials are limited in quantity. In future therefore, we need some alternatives to fulfill the functions currently provided by these materials and resources. The principle of sustainability in environmental reporting implies that society must not use resources more than it can regenerate. This can be defined in terms of carrying capacity of the ecosystem and described with input-output model of resource consumption.

ii) **Accountability:**

Most of the actions of a firm affects the external environment. Accountability is process associated with recognizing such affect therefore assuming responsibility for the effect. More specifically, the principle of Accountability implies, the reporting of
effect of actions of the firm to all the parties having effect of such actions that is stakeholders. Accountability therefore necessitates the developments of appropriate measures of environmental performance and reporting of the actions of the firm of all stakeholders.

iii) Transparency:

Transparency is very important principle in environmental reporting due to the fact that there is lot of information which is available to internal users but such information and background detail is not available to the external users. Transparency as a principle in environmental reporting, means that all material information having impact on environment must ascertained and pertinent fact are not disguised within that reporting. Thus, all the effects of the actions of the organization, including external impact, should be apparent to all.

1.6 ASSOCIATED TERMS OF ENVIRONMENTAL REPORTING

The term environmental reporting is very wide and with passage of time more and more dimensions are added to it. Though many companies discuss only physical environment related issues in it but over a period of time there is a trend for including many other issues in the environment reports. These issues include effect of companies’ policies on health and safety, social and economic factors. As a consequence many new terms are added in the concept of environmental reporting. These terms may not be having exactly same meaning as of environmental reporting but are very near to it and shows one or more aspect related to it. Some of these terms are as follows:

- Environmental Disclosures
- Sustainability
- Corporate Social Responsibility (CSR)
- Triple Bottom Line (TBL)
- Environment, Health and Safety (EHS)
- Eco - Efficiency
In addition to the terms presented above and a combination of these, companies use a great variety of terms for their environmental and social reporting e.g. "environmental accounts". Following is the brief explanation of above terms.

1.6.1 ENVIRONMENTAL DISCLOSURES

Environmental Disclosures are the information relating to environmental costs, assets and liabilities. These disclosures are important for providing explanation or clarifying position of the enterprise about the various environment related items included in the income statement or the balance sheet. Such disclosures can either be included in the financial statements itself, in the notes to the financial statements or, in certain cases, in a section of the report outside the financial statements. According to Deegan and Gordon, “Environmental disclosures constitute part of what is generally termed social responsibility reporting. Social responsibility disclosures include, among other things, disclosures relating to the interaction between an organization and its physical and social environment”.

Environmental disclosures can be quantitative or qualitative and not only related to good news but may also be related to bad news i.e. harmful effect of corporate on the environment. One of the important criteria in deciding whether to make disclosure or not is 'Materiality'. The term materiality here doesn't only mean significant amount but the significance of item of disclosure. Moreover the cost of disclosure should have a reasonable relationship with the benefit derived from the disclosure.

1.6.2 SUSTAINABLE DEVELOPMENT AND SUSTAINABILITY

During last few decades the concept of sustainable development has established itself as an important concept not only at global level but also at corporate level. Normally it is presumed that the concept of sustainable development originated from Brundtland Report ‘Our Common Future’ by the United Nations World Commission on Environment and Development in 1987. In the report, sustainable development is defined as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs”.
Sustainable development includes three areas: economic growth, ecological balance and social progress. Though all these three concepts are important but until now the more attention was given to first two whereas social progress remained somewhat neglected, but now more emphasis is placed on social part. In recent years, growing social concerns like poverty, social inequality, corruption etc. and environmental concerns like carbon emissions, ozone layer depletion, water and noise pollution, have created a pressure on business for a more systematic treatment of sustainability reporting. Stakeholders want government to play an active role in promoting sustainability reporting. But there is problem in defining the sustainability as this term has different meaning for different persons. Following table gives some of the important definitions of the term sustainability reporting:

**Table 1.2**

**Definitions of Sustainability Reporting**

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<th><strong>GRI</strong></th>
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<td>Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. ‘Sustainability reporting’ is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g., triple bottom line, corporate responsibility reporting, etc.). A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions (GRI, 2006b, p. 3).</td>
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<table>
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<tr>
<th><strong>WBCSD</strong></th>
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<tr>
<td>We define sustainable development reports as public reports by companies to provide internal and external stakeholders with a picture of corporate position and activities on economic, environmental and social dimensions. In short, such reports attempt to describe the company’s contribution toward sustainable development. A ‘one-size-fits-all’ approach does not work for sustainable development reporting. It is up to each company to determine the approach it wishes to take, depending on its situation and</td>
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needs. Be it an environmental report, a social report, an environment, health and safety report or an integrated report – also called triple bottom line, sustainable development or sustainability report – all these various reporting formats contribute toward sustainable development reporting (WBCSD, 2003, p. 7).

**AccountAbility**

The Report is a set of information prepared by the Reporting Organisation about its sustainability Performance, whether for general publication, targeted external distribution or internal use. This will generally refer to information contained within a specific Report prepared periodically to inform Stakeholders about the organisation’s Sustainability Performance. The Assurance Provider may, however, choose to take a wider range of information into account when, for example, the main Report forms part of a broader set of communications on issues and aspects of performance they are assuring (AccountAbility, 2003, p. 32).

*Source: Alberto Fonseca ‘Requirements and Barriers to Strengthening Sustainability Reporting among Mining Corporations’.*

### 1.6.3 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Traditionally it was assumed that business is a purely economic concern whose sole objective is to produce goods and services and sell these for a price. Through this the only objective of the business firm was to earn maximum profit and maximize the wealth of its shareholders. However, this view fails to consider the fact that business is part of society; is affecting the society and is also being affected by the society. Business is using many social resources and hence it is responsibility of business to use those resources efficiently. While pursuing its objective of maximization of profits or shareholder’s wealth, business is resulting into many negative externalities, such as neglect of employee’s safety at workplace, degradation of ecological environment, effect on health of consumers due to production of harmful products, growing water and noise pollution etc. So, the concept of wealth maximization fails to consider the wide concept of social responsibility arising out of these negative externalities.
As the role of business changed over the period, a new concept i.e. neo-classical view of business’s role emerged. This view assumed that the main objective of the business is to earn maximum profits but at the same time the business has other objectives as well.

(1) Corporations have a broader constituency than stockholders alone.

(2) Corporations have responsibilities that go beyond the production of goods and services at a profit.

(3) These responsibilities involve helping to solve important social problems, especially those they have helped to create.

The neo-classical view not only widened the scope and objective of business but also shifted the attention from ‘stockholders’ to the various groups in the society having an interest or stake in the company’s activities. This has led to the increased use of the term “stakeholder” which, according to Freeman (1984), pertains to anyone who can affect or is affected by the firm, including investors, creditors, employees, suppliers, customers, government and the community.

However, the company collapses and corporate scandals of 1970’s make the stakeholders believe that companies must report more information in their annual reports besides their traditional financial reports. As a result, the concept of ‘Corporate Social Reporting’ emerged. In the 1970’s different countries framed new laws requiring companies to include information like employment practices, pollution expenditure etc. in their annual reports. Consequently companies started including more non-financial information in their annual reports. Though there are ups and downs in the concept of corporate social reporting over a period of time, but in general there is clear upward trend in social reporting and this can be easily observed from the tri-annual surveys conducted by KPMG. Following are some of the definitions given by different experts on corporate social responsibility which still relevant:

Gray et al, (1987) defined corporate social reporting as: “the process of communicating the social and environmental effects of organizations’ economic
actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders”.

Deegan (2001) defines social-responsibility reporting as the provision of information about the performance of an organization with regard to its interaction with its physical and social environment. This includes such factors as an organization’s:

• Interaction with the local community;

• Level of support for community projects;

• Level of support for developing countries;

• Health and safety record;

• Training, employment and education programs; and

• Environmental performance.

In summary, social accounting and reporting involves accounting for and reporting an organization’s policies, procedures and impacts with respect to employees, communities (local and global), suppliers, customers and the environment. So the term corporate environmental reporting upto some extent is part of the broader term corporate social reporting.

1.6.4 THE TRIPLE BOTTOM LINE

The Triple Bottom Line (TBL) term was coined by John Elkington (1997) who is co-founder of the consultancy SustAinability (SustAinability, website 2002). According to him the Triple Bottom Line (TBL) reporting is a form of voluntary corporate reporting that includes the three aspects of economic, social and environmental performance. According to the SustAinability website, if a company wants to be successful in the long run it must not only be financially stable, but must also
minimise its negative environmental impacts and must act as per the societal expectations. Sustainability continues to explain that "The triple bottom line focuses corporations not just on the economic value they add, but also on the environmental and social value they add – and destroy”. In narrow sense, the term ‘triple bottom line’ is used as a method for measuring and reporting corporate performance against economic, social and environmental parameters and in broader sense the term is used to cover the whole set of values, issues and processes that companies must address in order to minimize any harm resulting from its activities and to create economic, social and environmental value. Triple bottom line reports reflect the broader process by finding meaningful ways of weighing short term tangible economic factors with more elusive factors, such as human rights and environmental sustainability concepts.

The Triple Bottom Line concept is explained in the Canadian Stepping Forward report (Stratos 2001) as follows:

**Triple Bottom Line**

- Sustainability

**Double Bottom Line**

- Environment & Economic
- Economic & Social
- Environment & Social
- EH&S (Environment, Health and Safety)

**Single Bottom Line**

- Environmental
- Economic

### 1.6.5 ENVIRONMENT, HEALTH AND SAFETY

The EHS guidelines were created by the International Finance Corporation in 1998. All the organizations based in the United States are subject to EHS regulations which are given in Code of Federal Regulations. These regulations not only help companies to deal with the environmental issues in a better way but also occupational and health safety of the employees. As far as environment is concerned, these guidelines cover
the issues like energy conservation, water conservation, air emission, waste management etc. The General EHS Guidelines contain information on environmental, health, and safety issues potentially applicable to all industry sectors. These are given below:

1. Environmental

   - Air Emissions and Ambient Air Quality
   - Energy Conservation
   - Wastewater and Ambient Water Quality
   - Water Conservation
   - Hazardous Materials Management
   - Waste Management
   - Noise
   - Contaminated Land

2. Occupational Health and Safety

   - General Facility Design and Operation
   - Communication and Training
   - Physical Hazards
   - Chemical Hazards
   - Biological Hazards
   - Radiological Hazards
   - Personal Protective Equipment (PPE)
   - Special Hazard Environments
   - Monitoring
3. Community Health and Safety

- Water Quality and Availability
- Structural Safety of Project Infrastructure
- Life and Fire Safety (L&FS)
- Traffic Safety
- Transport of Hazardous Materials
- Disease Prevention
- Emergency Preparedness and Response

4. Construction and Decommissioning

- Environment
- Occupational Health and Safety
- Community Health and Safety

### 1.6.6 ECO-EFFICIENCY

The concept of eco-efficiency was developed in 1992 during the ‘Earth Summit’. At the summit, Business Council for Sustainable Development (BCSD) took initiative in developing a concept which would be based on market realities of business and be capable of handling problem of degrading environment and sustainable development. So they came up with the idea of ‘Eco-efficiency’ which "denotes both economic and ecological efficiency". The Business Council for Sustainable Development (BCSD) used the term eco-efficiency to describe "a process of adding ever more value while steadily decreasing resource use, waste and pollution". (Schmidheiny and Zorraquin 1996). In short, the concept means producing more (goods, services and value-added) with less (resources, waste, and pollution), with Eco referring to both economy and ecology. Many business leaders often express eco-efficiency as ‘Creating more value with less impact’ or ‘doing more with less’. In 1995 World Business Council for Sustainable Development (WBCSD) was formed with the merger of BCSD and WICE (World Industry Council for the Environment).
Since then WBCSD is working for development and promotion of this concept. According to the WBCSD definition, eco-efficiency is achieved through the delivery of "competitively priced goods and services that satisfy human needs and bring quality of life while progressively reducing environmental impacts of goods and resource entity throughout the entire life-cycle to a level at least in line with the Earth's estimated carrying capacity." Holliday et al. (2002,) maintained that Eco-efficiency has three broad objectives. The first was to reduce the consumption of resources, which included minimising the use of energy, materials, water, and land, enhancing recyclability and product durability and closing material loops. The second was to reduce the impact on nature, which included minimising air emissions, water discharges, waste disposal, and the dispersion of toxic substances as well as fostering the sustainable use of renewable resources. The third objective was to increase the product or service value, which means providing more benefits to customers and consumers through improvements in the functionality and flexibility of products as well as providing additional services (for example, maintenance, upgrading, and exchange services).

According to the WBCSD, critical aspects of eco-efficiency are:

- A reduction in the material intensity of goods or services;
- A reduction in the energy intensity of goods or services;
- Reduced dispersion of toxic materials;
- Improved recyclability;
- Maximum use of renewable resources;
- Greater durability of products;
- Increased service intensity of goods and services.

WBCSD developed eco-efficiency indicators, based on principles which ensure that they are "scientifically supportable, environmentally relevant, accurate and useful for all kind of businesses around the globe." The indicators are based on the eco-efficiency formula (Anité 1999), which brings together economy and ecology to relate product or service value to environmental influence. Eco-efficiency formula is as follows:
Eco-efficiency = \frac{\text{Product or service value}}{\text{Environmental influence}}

Eco-efficiency indicators link environmental and financial items and it use data not only from financial accounting but environmental accounting as well. It believes that quality of corporate decision making can be improved by integrating financial items and environmental items. Following are the core eco-efficiency indicators proposed by WBCSD (Source: WBCSD website):

- Unit/number/mass of product or service made or sold
- Net sales
- Value added
- Gross margin
- Profit/earnings/income
- Product/service creation environmental burden category
- Energy (gigajoules) consumed
- Materials (tonnes) consumed
- Water (m3) consumed
- Green house gas (GHG) emissions (tonnes of CO2 equivalents)
- Acidification emissions (tonnes of proton equivalents)
- COD/BOD in water effluents
- Volatile organic compound (VOC) emissions
- Persistent organic pollutant (POP) emissions
- Priority heavy metals emissions
- Land use

1.7 DRIVERS BEHIND CORPORATE ENVIRONMENTAL DISCLOSURE

Throughout the world, industry is now-a-days exposed to the vast international competition. Increase in globalization and development in technology has posed many challenges before the business. Business is under tremendous pressure to reduce the
cost and increase the productivity to maintain its competitive position in the market. But all these developments are posing a threat to the environment. So, there is a pressure on business also as it is major contributor to the environmental degradation. Society is expecting that business must function in more environmentally responsible way. Naturally these conflicting objectives are problem for business. Firms have to spend extra money for improvement of environmental performance. This definitely increases its cost of production. The essential challenge that industry faces is how to reduce levels of pollution, waste generation and resource consumption to that required for long term environmental sustainability, while at the same time minimizing reductions in competitiveness and profitability. Today managers are increasingly asking how companies can improve their environmental performance and at the same time maintain their profitability and competitiveness. To improve performance, managers must understand drivers related to environmental performance in terms of cost and revenue. There are a number of influences that decide the corporate environmental disclosures.

**Table 1.3**

<table>
<thead>
<tr>
<th>Influences on Corporate Environmental Disclosure</th>
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<tbody>
<tr>
<td><strong>Business and Market Influences</strong></td>
</tr>
<tr>
<td>• Customer and supplier pressure</td>
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<tr>
<td>• International competitiveness</td>
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<tr>
<td>• Peer pressure (from other companies)</td>
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<tr>
<td>• Employee considerations</td>
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<tr>
<td>• Environmental policies</td>
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<tr>
<td>• Public relations</td>
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<tr>
<td>• Stakeholder pressures</td>
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<tr>
<td>Industry and Voluntary Initiatives</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>• United Nations - UNCTAD, ISAR and UNEP (with SustainAbility)</td>
</tr>
<tr>
<td>• The Global Reporting Initiative</td>
</tr>
<tr>
<td>• Signing up to charters (e.g. ICC Business Charter for Sustainable Development)</td>
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<tr>
<td>• EMAS (Eco-Management and Audit scheme)</td>
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<tr>
<td>• Industry initiatives (e.g. the Chemical Industries Association)</td>
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<tr>
<td>• Country-specific influences (e.g. in the UK: ACBE, Business in the Environment, UK Environment Business Forum)</td>
</tr>
<tr>
<td>• Eco-labelling</td>
</tr>
<tr>
<td>• Environmental Reporting Award Schemes (e.g. ACCA)</td>
</tr>
</tbody>
</table>

Source: Gray and Bebbington (2001)

Traditionally it is perceived that a firm must involve itself in voluntary disclosure only if the benefits derived from disclosures are more than the cost of disclosures. But, in reality, it is very difficult to do so, as it is not possible to measure the real cost of no-disclosure of information to the firm. A firm may lose its goodwill by non-disclosing information which may prove costly in long run. O’Dwyer (2000)
states that the primary corporate motivation for social reporting emanates from a perception among company management that corporate reputation now has an increasingly large impact on shareholder value. He claims that “successful companies will be those who embed social, environmental and ethical risk management into their core business processes and performance measures” and that “this integrated approach is at the heart of managing the 21st century company’s most valuable asset – its reputation”. However different researchers find different reasons behind the environmental disclosures by the firm. An extensive list of incentives for corporate social and environmental reporting is provided by Gray, Owen and Adams (1995). The list includes ethics, individual commitment, accountability, legal, code of practice, anticipated regulation, to forestall regulation, marketing, public image, defense, 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 legitimization. The following table shows some of the drivers for environmental reporting.

Table 1.4

Drivers for disclosure of environmental information

<table>
<thead>
<tr>
<th>Gray and Bebington</th>
<th>• if not done voluntarily it will become mandatory</th>
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<tbody>
<tr>
<td></td>
<td>• to provide impetus for internal developments</td>
</tr>
<tr>
<td></td>
<td>• to legitimise current activities</td>
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<td></td>
<td>• to distract attention from other areas</td>
</tr>
<tr>
<td></td>
<td>• to develop corporate image</td>
</tr>
<tr>
<td></td>
<td>• to build up expertise in advance of regulation</td>
</tr>
<tr>
<td></td>
<td>• positive impact on share price</td>
</tr>
<tr>
<td></td>
<td>• reduction in perceived (company and information) risk</td>
</tr>
</tbody>
</table>
| Kel Dummett | Government legislation or threat of legislation  
|            | cost savings  
|            | market advantage  
|            | protection or enhancement of reputation and brands  
|            | avoiding risk, or responding to accident or environmental threat  
|            | a ‘champion’ within the organization  
|            | pressure from shareholders  
|            | pressure from consumers  
|            | pressure from non-government organization  
|            | societal expectation  
| Kolk      | Enhanced ability to track progress against specific targets  
|           | Facilitating the implementation of the environmental strategy |
Some of the important drivers of corporate environmental reporting on base of above table is identified as follows:

1.7.1 GOVERNMENT LEGISLATION

Organizational activities have done a great deal of damage to the environment including piercing of the ozone layer, climate change and acid rain. Governments all over the world are concerned about the declining state of the environment. As a result a number of countries have introduced environmental laws and regulations. By the early 1970s environmental audits and control regulations were established in the US and Canada, but it were the European Community (EC) environmental measures, which played a key role in shaping environmental law.

1.7.2 ENVIRONMENTAL PRESSURE GROUPS

In number of countries Environmental Groups are very active and put pressure on companies as well as government for more environmental disclosures with the objective of protecting the environment. There are a number of environmental groups
like European Environmental Bureau (EEB), Greenpeace (GP), Friends of the Earth Europe (FoEE), Climate Network Europe (CNE) and the World Wide Foundation for Nature (WWF) which are playing an active role not only in promotion of environmental sustainability in the world but also many of these groups have developed certain guidelines and companies can act in more responsible manner by adopting these.

1.7.3 CONSUMERS

Consumers are the center of all the activities performed by the companies. In today’s competitive world consumer is king and companies all over the world understand the importance of consumer. Consumer today is well aware not only about the quality of product but also about the effect of product on the environment. Companies are under a tremendous pressure from the consumers to act in environmental responsible way and adopt cleaner technologies. Firms which are in a position to demonstrate their credibility as environmentally responsible corporate citizens through cleaner production processes and benefit from consumer preferences, will thus enjoy a competitive advantage. Vogel (2005) observed consumers are definitely influenced by ‘bad news’ stories about companies and by human rights or environmental based boycotts. Nike, Shell and Monsanto for example have all suffered sales slumps after such bad stories and/or consumer boycotts. Polonsky & Rosenberger (2001), stress the role of consumers in influencing company CER, citing the case of McDonald’s which replaced its polystyrene clamshell packaging with waxed paper in direct response to consumer concerns over CFCs produced in making polystyrene.

1.7.4 LENDERS

In many countries banks and lending institutions ask the companies to provide environmental information and ask companies to act in a responsible manner. This is due to the fact that in case of any negative consequence of non-working in environmental responsible way by the company may result in credit risk to the lender e.g. in India many banks ask companies to provide pollution clearance certificate before granting any loan for setting up of industry. The Institute of Internal Auditors
(IIA) stated that polluted properties are a major source for exposure of banks and lending institutions to environmental risks. Thus, many lenders have requested credit applicants to implement environmental verification through a third party; the result of such verification is reflected in credit decisions and conditions.

1.7.5 SHAREHOLDERS AND INVESTORS

Shareholders and Investors are very important drivers of corporate environmental reporting. Any negative impact of poor environmental activity could reduce the profits of the company thus affecting the returns of the shareholders. Schaltegger and Burritt (2000) stated that: "contingent environmental liabilities that can emerge from corporate activities are: (1) Soil contamination (e.g. from underground storage or spills); (2) Groundwater contamination (e.g. from contaminated surface water or soil contamination); (3) Surface water contamination (e.g. from point sources such as industrial processes); (4) Air emissions (e.g. from fugitive emissions and transportation activities, as well as from sound, noise and light); (5) Energy emissions (e.g. heat, radioactive or electromagnetic emissions, noise); and (6) Visual impact (e.g. because of buildings)". There is increasing pressure from shareholders and investors to obtain information on the environmental performance of the economic entities.

1.7.6 EMPLOYEES

Employees may play a role in improving their organisation's environmental performance. Gray and Bebbington (2001) stated that "setting the organisation on a greener path from the `bottom up' has worked well for some companies (up to a point at least). Employees' actions have succeeded in educating senior management and can continue to do so... the first environmental experience for many organisations has arisen from some employee initiative that deals with the softer aspects of environmentalism".

1.7.7 MANAGEMENT INFLUENCES

Many researchers feel that corporate environmental reporting by a particular company depends upon the Board of Directors who in many cases are also majority
shareholders of the company. Researchers argue that investing money for environmental responsibility/reporting largely depends on the management decision and their enthusiasm to do so. The board of directors’ educational qualifications, family background and other personal attributes are important in making CER decisions. For example, those directors who are highly educated are more aware of social and environmental issues, and the impact of global climate change.

1.7.8 ECONOMIC INCENTIVES

Economic incentives by government and other non-governmental organisations also act as incentive for the companies for environmental reporting. These incentives include taxes concessions, subsidies and load-based licenses. Government may also provide subsidies in the form of tax concessions for investment in capital-intensive changes to processes and industrial research and development that relates to cleaner production.

1.7.9 INTERNATIONAL TRADE INCENTIVES

In an increasingly globalized world economy, a business not only has to take care of local rules and regulations but also takes into consideration international environmental rules and regulations. For example Australian beef have to meet strict importation standards regarding the presence of chemical residues. Alternatively, many Australian primary producers promote their wares in the Asian market as being "clean and green".

Jones (2002) found that "environmental disclosure are made by companies due to a combination of drivers, the types and qualitative characteristics of those disclosures depend on the relative importance of these drivers"
1.8 THEORETICAL PERSPECTIVES OF CORPORATE ENVIRONMENTAL REPORTING

A number of theoretical perspectives have been utilised in an attempt to explain the existence of, and motivation for, voluntary environmental disclosures of company annual reports. Gray, Kouhy and Lavers (1995) categorise these attempts into three broad groups being decision-usefulness studies, economic theory studies and social and political theory studies. Decision-usefulness studies in the environmental disclosure literature tend to fall into two broad categories (Gray, Kouhy & Lavers 1995b) being the decision-makers emphasis and the decision-models emphasis (Deegan 2006). The decision-makers emphasis focuses upon what users want and includes studies that ask participants to rank items in terms of their importance, such as asking investors to rank the type of information they would like included in the annual report in order of importance (Epstein & Freedman 1994). On the other hand, studies based on the decision-models emphasis attempt to determine whether social responsibility information has an information value to financial markets or participants. While Gray et al (1995) do criticise decision-usefulness studies as being ‘mis-specified and under-theorized’, they do acknowledge that the associated literature has raised the level of importance of social responsibility reporting and led, in part, to the emergence of economic theories such as Positive Accounting Theory.

1.8.1 POSITIVE ACCOUNTING THEORY (PAT)

This theory was made popular by Watts and Zimmerman (1986). They define Positive Accounting Theory as being concerned with explaining accounting practice. It is designed to explain and predict which firms will and which firms will not use a particular method. Positive Accounting Theory is based on the wealth-maximisation and individual self-interest concepts underlying economic theory (Gray, Kouhy & Lavers 1995b). As such it is consistent with the argument that the primary responsibility of the corporation is ‘to use its resources and engage in activities designed to increase its profits’ (Friedman 1962). Hence, explaining the existence of social and environmental disclosure within the PAT framework provides a
somewhat limited view of the phenomenon. A typical utilisation of PAT explains movements towards socially or environmentally responsible behaviour and/or disclosure as being a result of market forces ‘that directs the self-interest of the entrepreneur into socially useful channels’ (Abbott & Monsen 1979). While it would be unrealistic to ignore the presence of this behaviour, relying upon self-interest and expectations of wealth-maximisation as the main or sole motivation for corporate environmental disclosures has been criticised as social and political factors also impact upon the corporation (Gray, Kouhy & Lavers 1995). Corporations operate within an environment of many constituents, often with conflicting aims and objectives. Now the firms are not solely responsible for economic objectives but community expect companies to act in socially and environmental responsible manner. Consequently, the application of many economic theories, including PAT in the discussion of corporate social and environmental behaviour and disclosure has been described as ‘not only empirically implausible but also highly offensive’ (Gray, Kouhy and Lavers 1995b, p. 52).

1.8.2 POLITICAL ECONOMY THEORY

Political Economy Theory (PAT) is based on the economic concept of self-interest. This theory believes that companies with large number of shareholders is more likely to be in public eye and is subject to more disclosures. These corporations are generally watched by regulatory agencies for their activities and generally exposed to political attack such as pressure for social responsibility, price control and corporate taxes. This pressure creates a threat for the companies like increase government intervention and strict regulations. Devices such as social responsibility campaign in media can be employed by firms to minimize government intrusion (Watts and Zimmerman, 1978).

The usefulness of political economy theory is that it does not focus solely on the economic self-interest and wealth-maximization of the individual or corporation. Instead, the political economy theory (PET) considers the political, social and institutional framework within which the economic activities take place (Gray, Kouhy and Lavers, 1995). Adams, in his study found that firms report only that information which creates a positive impression about the firm and generally there is a tendency to
hide the negative information. He noted that the high level of social disclosure in the UK compared to other European countries could be seen as a corporate attempt to prevent further social and environmental regulation in the UK. Several empirical studies have identified an increase of social and environmental annual report disclosures that correspond with periods where those issues peaked in importance politically and/or socially (Guthrie and Parker, 1989). So, in this context we can say that corporate use social and environmental disclosures as a strategic tool for changing the perception of external users towards the business.

Gray, Owen and Adams (1995) usefully classified the political economy theories into two streams; that is the Classical and Bourgeois variant of political economy theory views. The Classical political economy theory is linked to the works of Marx and the existence of class interest, power and conflict within society. It is the classical political economy theory views corporate environmental reporting as tool to legitimize the corporate ideology and ensure achievement of overall objective of profitability.

However under Bourgeois political economy approach, corporate social environmental reporting is considered to be a function of social and/or political pressure, and companies facing greater social/political pressures are believed to provide more extensive corporate social environmental reporting. Corporate social environmental reporting is seen as a response to competing pressures from various stakeholders such as governments, customers, creditor’s suppliers, the general public and other social activist groups.

1.8.3 STAKEHOLDER THEORY

The concept of Stakeholder Theory was first described by Freeman (1984), in his book titled “Strategic Management: A Stakeholder Approach”. The basic concept of the stakeholder theory is that the firm’s success depends upon the successful management of relationships with stakeholders. However the term ‘Stakeholder’ is very wide and its definition has undergone substantial change over a period of time. Initially it was assumed that the term stakeholder refers only to the shareholders. This definition was based on the views of Friedman (1962) who believed that the
corporation’s only objective is to maximize the wealth of its shareholders. However, this definition of stakeholder was changed by Freeman (1984) who gave it a broader perspective. He defined the stakeholder as “any group or individual who can affect or is affected by the achievement of the firm’s objectives”. So in his definition he covered all those persons which are affecting the business or being affected by the business. Hill and Jones (1992) defined stakeholders as “constituents who have a legitimate claim on the firm”. As per these definition an organization is likely to have many stakeholders such as shareholders, customers, suppliers, employees, creditors, competitors, public interest groups, local communities, governmental bodies, stock markets, industry bodies, national and international society and the general public. On the basis of above definitions stakeholders can be divided into various groups such as internal or external; primary or secondary; owners or non-owners of the firm; owners of the capital or owners of less tangible assets; actors or those acted upon; those existing in a voluntary or an involuntary relationship with the firm; and resource providers to or dependents of the firm etc. Freeman divided the stakeholders in two categories i.e. primary stakeholders and secondary stakeholders. According to him the primary stakeholders are those stakeholders without continuous support and participation of which a company cannot survive as a ‘going concern’. These are the persons who have either direct economic stake in the business or have a direct impact of functioning or decision making of the business such as shareholders, creditors, managers and employees, customers, suppliers, and regulatory stakeholders. Shareholders provide capital to the firm and in return expect a risk-adjusted fair return from the business. Similarly creditors provide finance to the business and expect fair return, safety of funds and repayment as per agreed schedule. Managers and employees are very important part of the business and provide the firm with time, skills, commitment etc. and in return expect a remuneration which is in proportion to their efforts and also expects fair working conditions. Consumers are very important for the business as they provide revenue but at the same time they expect value of their money. Suppliers provide the firm with the required inputs and similarly they seek fair price of their goods and services. Regulatory stakeholders include government and other regulatory bodies. On one side government provides required infrastructure for the business and on the other side, they expect business to pay tax honestly.
Secondary stakeholders though don’t have a direct control or interference in the business but still they can affect the business through their influence on primary stakeholders. Secondary stakeholders include the general public and media. The general public, as taxpayers, provides the firm with a national infrastructure and in exchange, they expect corporate citizens not to violate the rules of the game established by the public. The media, through mass communication technology, can influence society’s perception of a company. Hence, it can mobilize public opinion in favor of or against a corporation’s environmental performance. Company’s stakeholders can be grouped in the following four categories:

- **Authorizers** – this group includes government, regulatory authorities, shareholders, and the Board of Directors. These are the stakeholders who have authority over the company and authorize its decisions;
- **Business partners** – employees, suppliers, trade associations, and service providers are all business partners. These stakeholders help company in reaching its objectives;
- **Customer groups** – all kind of customers fall within this stakeholder group; and
- **External influences** – community members, media, and issue advocates also influence company’s decision-making process.
The stakeholder theory asserts that corporation’s continued existence requires the support of the stakeholders and their approval must be sought and the activities of the corporation adjusted to gain that approval (Chan, 1996). The more powerful the stakeholders, the more the company must adapt. Environmental reporting is thus seen as part of the dialogue between the company and its stakeholders (Gray, Kouhy and Lavers, 1995). Stakeholder theory has two different categories (Gray et al., 1996; Deegan, 2000). The first category relates to the ethical or normative branch (which is prescriptive) and the second category relates to the managerial branch (which is descriptive). The ethical or normative perspective of stakeholder theory argues that all stakeholders have certain minimum rights that must not be violated and should be met regardless of the power of the stakeholders involved. Accordingly, and in conformity with the concept of social contract, all stakeholders have a right to be provided with information about the organization's impact on them, regardless of whether or not such information would be utilized (Deegan, 2000). Taking the same view about the rights to information, Gray et al. (1996) define accountability as “the duty to provide
an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible”. They argue that such accountability involves two responsibilities or duties: (a) the responsibility to undertake certain actions; and (b) the responsibility to provide an account of those actions.

1.8.4 LEGITIMACY THEORY

The concept of legitimacy though discussed by many researchers but not properly defined by many. This concept has its roots in many areas. According to Rosen (1979), the term "legitimacy" is coined from the classical Latin "legitimus", meaning according to law. However as considered by many researchers the term law here not only means the rules and regulations as enforced by the legal system of the place but the social laws on base of which the moral and ethical behavior is judged. Legitimacy has been defined by Lindblom (1994) as:

“......a condition or status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy.”

Normally the organisational legitimacy is from different perspectives. First perspective considers that organization is legitimate if it is economically viable. The second perspective is based on both economic viability as well as legal viability i.e. adherence to laws. The third perspective is most wide in scope and views that organisation can only be truly legitimate only if it combination of economic viability, adherence to laws and congruence with generally accepted social values and norms in place.

The first perspective considers that an organization is only legitimate only if is economically viable i.e. it is providing fair return to its shareholders who have provided funds for the business of the organization. Friedman (1962) proposed that an organisation’s sole responsibility, and thus legitimacy, was to maximize profits. Mathews (1993) indicates that organisational legitimacy does not arise from merely making a profit and abiding to legal requirements. The second perspective is based on compliance with the laws of the day. So, as per this perspective an organization can
be considered legitimate only if it is abiding all the rules and regulations as framed by the legal authorities. In case a firm is violating the laws it cannot be considered as legitimate firm. However this perspective of legitimacy is narrow in scope and does consider only rules and regulations framed by legal authorities and not the social rules and norms.

The third perspective is wider in scope and not only considers first two perspective but also social norms and values. Mathews (1993) indicates that organizational legitimacy does not arise from merely making a profit and abiding to legal requirements. Instead, reference to the prevailing norms and values of society is fundamental in ensuring that an organization is bestowed legitimacy. As per organisational legitimacy theory there are four stages of legitimacy and a firm may be in any of these four stages. These four stages are given as follows:

1. **Establishing Legitimacy.** At this stage firm wants to establish the legitimacy. This phase generally occurs during the initial stage of firm’s development. During this stage though firm’s main stress is on the economic legitimacy but the organisation must be aware of “socially constructed standards of quality and desirability as well as perform in accordance with accepted standards of professionalism” (Hearit, 1995).

2. **Maintaining Legitimacy.** This is the phase in which most of the firms operate. Generally firms believe that there won’t be much problem in maintaining legitimacy once it is established. However it is not that easy as it appears. Legitimacy is not a static concept rather it is a dynamic concept. “Community expectations are not considered static, but rather, changes across time thereby requiring organisations to be responsive to the environment in which they operate. An organisation could, accepting this view, lose its legitimacy even if it has not changed its activities from activities which were previously deemed acceptable (legitimate)” (Deegan et al., 2002).

3. **Extending Legitimacy.** Once the firm has successfully maintained is legitimacy, they want to extend it. Sometimes firm enters in a new market or
want to change its position in the current market. At that point of time there is need of extending the legitimacy. This can give rise to a need to extend legitimacy which is “apt to be intense and proactive as management attempts to win the confidence and support of wary potential constituents” (Ashford and Gibbs, 1990).

4. **Defending Legitimacy.** There are certain incidents which challenge the legitimacy. Such incidents may be external or internal. So, a firm needs to defend its legitimacy. “Legitimation activities tend to be intense and reactive as management attempts to counter the threat” (Ashford and Gibbs, 1990,). Not only the major incident needs defending the legitimacy but a firm continuously needs to defend its legitimacy, by the mere fact that “corporations must fulfill both a competence and community requirement to realize legitimacy… Satisfaction of stockholder interests often occurs at the expense of community concerns (e.g., the despoiling of the environment, the use of labour) while, conversely, responsibility to the larger community often occurs at the expense of the stockholder” (Hearit, 1995). It is this last phase that has tended to be the main focus of accounting researchers. It also provides us with the clearest opportunity to examine the crucial link between legitimacy and resources.

Legitimacy theories are based on assumption that an organization’s existence depend on the fact that how society perceives the business. It assumes that business is a part of interconnected social, political, institutional, and economic system and it must be in consistent with political economy, social contract, and institutional theories. If the corporations do not appear to operate within the bounds of the behavior considered appropriate by the community, then the community will act to remove the organization’s right to continue its operations. When an actual and potential disparity exist between the business and social value systems, this will lead to threats to organizational legitimacy in the form of legal, economic, and other sanctions. Sethi (1978) identified four possible business strategies an organisation may adopt to narrow any legitimacy gap:
1. Do not change performance, but change public perception of business performance through education and information.

2. If changes in public perception are not possible, change the symbols used to describe business performance, thereby making it congruent with public perception.

3. Attempt to change societal expectations of business performance through education and information.

4. When strategies 1 to 3 are ineffective, bring about changes in business performance, thereby closely matching it with society’s expectations.

1.9 BARRIERS OF ENVIRONMENTAL REPORTING

There a number of reasons why many organisations are not implementing environmental practices. KPMG (2005) argue that the measurement of social and environmental performance is rather a complex task. Besides, it has been observed that there is difficulty in measuring environmental costs and benefits objectively. Lack of consistency and comparability, no proper standardization of environmental reports are some of the barriers in environmental reporting practices. Lack of government policy on the issue environmental reporting is another reason of non-disclosure of environmental factors. Many researchers have found different reasons for non-disclosure of environmental factors, some of which are summarized in following table:
Table 1.5

Barriers of Environmental Reporting

| Gray and Bebbington | • no need/motivation to do so  
|                     | • wait and see  
|                     | • cost  
|                     | • data availability (and related costs)  
|                     | • secrecy  
|                     | • absence of demand for the information  
|                     | • absence of a legal requirement  
|                     | • never thought about it  
|                     | • prioritizing (sic) areas for disclosures

| Kel Dummett | • Cost  
|            | • Government failure  
|            | • Market failure  
|            | • Corporate culture/leadership failure  
|            | • Technological issues  
|            | • Societal/consumer failure  
|            | • Globalisation/trade

| Kolk | • Doubts about the advantages it would bring to the organisation  
|      | • Competitors are not publishing reports  
|      | • Customers (and the general public) are not interested in it; it will not increase sales  
|      | • The firm already has good reputation for its environmental performance  
|      | • There are many other ways of communicating about environmental issues  
|      | • It is too expensive  
|      | • It is difficult to gather data from all operations and to select correct indicators
On the basis of above tables we can identify some of the barriers of corporate environmental reporting which are as follows:

1.9.1 COST

Traditionally it is assumed that the main objective of the business is to maximize the profits. Even the same view is expressed by Milton Freidman in his studies. When any firm involves itself in corporate environmental disclosure, they have to incur some amount on such disclosures. It certainly increases the cost of the company and has negative effect on the profits. So, the cost involved in the reporting is one of the main barriers in reporting. Vernon (2003) identified that operators have a perception that environmental improvement come at a cost and so this becomes a major barrier. He believes that this statement is in line with previous environmental research carries out on small businesses and the corporate sector.

1.9.2 KNOWLEDGE DEFICIENCY

Incorporation of environmental information needs knowledge about techniques and method about how to incorporate such information. As in most countries the knowledge of environmental reporting is not part of standard curriculum of accounting, so generally business managers lack knowledge of such methods. Hillary (2000) maintains that “lack of knowledge in relation to environmental issues and strategies, compounded by a perceived lack of information and support, has widely been identified as a major constraint, particularly in small and medium enterprises, that do not have the necessary expertise to introduce environmental management systems, or the resources to access it”.

1.9.3 LEGISLATION AND ACCREDITATION

In developed companies, especially European countries a number of legislations have been passed requiring companies to report environmental information. Kirk (1995) states that “The European Union has brought a large number of directives which relate to the management of the environment and many of these have been implemented as national policy.” But such is not true about developing countries especially in Asia and Africa. Hardly there is any legislation in these
countries which need disclosure of environmental information. In case there are some legislations in developing countries, than these are very weak and does not ensure proper disclosures.

1.9.4 LACK OF ENFORCEMENT OF EXISTING LEGISLATIONS

In developing countries like India government frames a number of laws for protection of environment but enforcement of these laws is very poor. For instance there very strict laws against the child labour in the country but still we can see a number of children working in the factories and shops everywhere. Same is the case with environmental laws. Like India can be treated as hub of ship breaking business of the world. A number of ships are brought to India every month for breakage. This breakage brings lot of environment degradation and release toxic chemicals. But still there is no banning from government for such business.

1.9.5 OWNER/MANAGEMENT ATTITUDE

Many owners and managers do not understand the value of adopting a green agenda which leads to a complacent attitude in relation to environmental practices. Gore (1992) believes that a distinctive feature and common obstacle in small organisations is that decision making tends to rest with the owners, and so the need for management to formally collect information with regard to policies and strategies is minimal especially when it comes to the environment.