Impact of Environmental Accounting on Corporate Organizational Reporting in Nigeria

YOHANNA, Longdi Faith

Department of Accounting
Bingham University
Karu, Nasarawa State
E-mail:longdiyret@gmail.com, Phone No: +234 8138831376

Abstract

This study examines the impact of environmental accounting on corporate organizational reporting in Nigeria. Data were gathered from secondary source. The increasing importance of considering environmental aspects within a company's reporting demands, a broader scope in environmental accounting. The study describes the theoretical considerations relating to environmental accounting and disclosure of environmental accounting guidelines Literature relating to environmental accounting and corporate reporting have been issued by many organizations including UNEP in the last decade.The study of recommends that corporations should adopt a uniform method of reporting and disclose environmental issues. There should be high level of environmental accounting and reporting activities in corporate organizations in Nigeria and more awareness should be created. Environmental accounting standards should be published locally and internationally and continentally to ensure dynamism compliance and meet environmental situational needs.

Keywords: Environmental accounting, Corporate reporting, Environmental impact.

1. INTRODUCTION

Business organizations operate within an environment. And this environment is a "trust" handed over to us by our forefathers otherwise known as previous generations. In turn, we are to hand it over to the next generations. Environmental accounting involves the identification, measurement and allocation of environmental costs and the integration of these costs into business and encompasses the way of communicating such information to the companies' stakeholders. In this sense, it is a comprehensive approach to ensure good corporate governance that includes transparency in its societal activities (1). In recent years, the adverse environmental effect of economic development has become a matter of great public concern all over the world. Yakhon and Dorweiler (2004) emphasized that the impact of business activity on the environment is found in several forms: air, water, underground pollution, drinking water, land and habitat for endangered and threatened species, oceans, atmosphere, land, mass etc. an array of pollutants, including toxic, hazardous and 'warming' is accountable to business activities. They expressed that from this range of environmental impacts, multiple disciplines are needed for analysis of effects, and for integration into management decisions and accounting reporting.

All organisations are required to produce some form of financial statements. That of companies – especially large ones are governed by both Company and Allied Matters Act and Financial Reporting Standards. They are also subject to statutory audit. Financial statements are typically produced as part of the organisation's annual report. Historically, there has been no requirement to separately recognize environmental issues of any sort in financial statements and while this is still the case in most countries (including Nigeria), there is slow progress towards some limited acknowledgement of such matters as impairment of assets and environmental liabilities. For example, in the European Union, the commission recommendation on the recognition, measurement and disclosure of environmental issues in the annual reports of companies emphasized the need to integrate financial and environmental reporting. This is still voluntary. Mandatory environmental reporting already applied in some countries – both inside and outside Europe. Countries with some mandatory requirement for environmental reporting include Denmark, the Netherlands, Sweden, France, Australia and Korea. In the light of this therefore, this study is focused on the impact of Environmental Accounting on Corporate Organizational Reporting in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Environmental Accounting

The International Federation of accountants (IFAC) defined environmental accounting as the management of environmental and economic performance through the development and implementation of appropriate environmental related accounting system and practice. Environmental accounting can be conducted at the country level (through the National accounts that provide an estimate of the Gross Domestic Product) or at corporate level (which focuses on the cost structure and environmental performance of a company). At the country level, it is referred to as National Environmental and Corporate Environmental accounting consists of environmental management accounting and environmental financial accounting. At the international scene, the United Nations statistical Division developed into the system of integrated Environmental and Economic accounting (SEEA) for adoption by Nation States. United State Environmental Protection Agency (US EPA)(1995) explains that environmental accounting as a means of measuring and reporting sustainability can be used in three (3) different contexts. These are: (1) National Income Accounting. (2) Internal Business Management Accounting. (3) Financial Accounting. The US EPA further explains that environmental Accounting from context of National Income Accounting is used to measure macro-economic performance relating to usage of natural resources. For instance, environmental accounting can use physical or monetary units to refer to the consumption of a nation's natural resources, renewable and non-renewable. In this context, environmental accounting has been termed "Natural resource Accounting"that is accounting for stock and flow of natural resources in both physical and monetary terms (Gupta, 2005).

Environmental accounting is a term with a variety of meanings. In many contexts, environmental accounting is taken to mean the identification and reporting of environmental specific costs, such as liability costs of waste disposal costs. Environmental accounting involves any costs and benefits that arise from changes to a firm's products or processes, where the change also involves a change in environmental impacts (James, 1998). He further highlight that environmental accounting information need not be the product of accountants, nor need it be used by accountants. Instead, it is any information with either explicit or implicit financial content that is used as an input to a firm's decision – making. Product designers, financial analysts, and facility managers are equally to be the users of environmental accounting data. He pointed out that almost any type of information collected and analysed by firms will qualify. Examples include input prices, technical and scientific studies that relate production processes to physical outputs and legal, marketing and financial analyses. Seetharaman (2007) opined that environmental accounting is used to assess full environmental costs associated with activities and products. They also emphasized that environmental accounting can be used to track environmental performance of organization in more measurable manner. The key areas for monitoring are aggregated emission to air, water effluent discharge, soil contamination and boundary noise level.

2.1.2 Concept of Corporate Reporting

Corporate reporting is the process of communicating information of an entity to the external users. Measurement and disclosure are two (2) aspects of corporate reporting procedure and these two (2) are interconnected. Measurement symbolizes business activities in order to understand inter association among the perceived activities. Disclosure is the communication of description of such association to the users of information for the purpose of demonstrating corporate business position and the environment in which it operates. Together, these two aspects provide corporate annual reporting its essence.

2.1.3 Corporate Environmental Reporting

Environmental reporting started in the early 1990s, when some companies, like Norsk Hydro in Norway and Monsanto in the USA, started reporting their activities, impact on the environment and actions taken for alleviating the impact. The trend has extended quickly to hold most sectors. Environmental reporting can be defined as the provision of information about the environmental impact and performance of an entity that is useful to stakeholders in assessing their relationship with the reporting entity (FE, 1999). It refers to the environmental features and the impacts of company operations, as well as to the environmental policies and actions taken to mitigate those impacts. Many organisations including UNEP have issued more than 30 standards and guidelines for corporate reporting during the last decade. Although there is a remarkable increase in quality, most of the disclosures nowadays fail to meet the need for consistent, comparable and timely fashion.

2. Empirical Discusssion

Environmental accounting is defined as the identification, collection, estimation and analysis of environmental cost information for superior decision-making within the firm. It can be defined as the generation, analysis, and use if financial and non-financial information in order to optimize corporate, environmental and economic performance, achieving a sustainable business the ultimate objective of environmental accounting is to clearly indicate the environmental cost of each process, separating the non-environmental costs from the environment costs. Therefore implementing an environmental accounting system can provide more accurate information for Analysis options because environmental accounting ensures that management decisions are made with knowledge. Environmental accounting is a field that is promising and developing (CICA 1993). Its goal is the identification, measurement and communication of the costs from an entity's actual or potential impact on the environment (CICA 1993). To include environmental information in the accounting system of a company is one way to start to include sustainable development in everyday business decisions. A very important function of environmental accounting is to bring environmental costs to the managers, therefore, motivating them to identify ways to reduce and avoid economic costs related to the environment and at the same time reduces the company's environmental impact.

2.3 Theoretical Discussion

2.3.1 StakeholdersTheory

The basic proposition of the stakeholders theory is tha the firm's success is dependent upon the successful management of all the relationships that a firm has with its stakeholders a term originally introduced by Stanford research institute (SRI) to refer to those groups without whose support the organization would cease to exist (Freeman1983). In developing the stakeholder theory, Freeman (1983) incorporates the stakeholders' concept into categories; (i)a business planning and policy model; and (ii)a corporate social responsibility model of stakeholder management. In the first model, the stakeholder analysis focus on developing and evaluating the approval of corporate strategies decisions by groups whose support is required for the firm's continued existence. The stakeholders identified in this model include the owners, customers, public groups and suppliers. Although these groups are not adversarial in nature, their possibly conflicting behavior is considered a constant on the strategy developed by management to best match their firm's resources with the environment (Deegan & Gordon, 1966).

In this model, the corporate planning and analysis extends to include external influences which may be adversarial to the firm. These adversarial groups may include the regulatory environmentalist and special interest groups concerned with social issues (Guthrie and parker, 1990). The second, model enable managers and accountants to consider a strategic plan that is adaptable to change in the social demands of nontraditional stakeholdersgroups. The stakeholder's theory proposed an increased level of environmental awareness which creates the need for companies to extend their corporate planning to include the nontraditional stakeholders like the regulatory adversarial groups in order to adapt to changing social demands (Trotman, 1999). The main concern of the stakeholders' theory in environmental accounting is to address the environment cost elements and valuation and its inclusion in the financial statements.

3. METHODOLOGY

By means of an exploratory research design, the researched utilized the secondary source of data, considering that empirical works on the use of environmental accounting and reporting appears to be rare. Data from secondary source include those collected from internet, and related training manual.

4. RESULTS AND DISCUSSION

Issues associated with accounting for the environment have become relevant to business as environment pollution has become a more prominent problem throughout the world. Steps are being taken at national and international levels to protect the environment and international levels to protect the environment and to reduce, prevent and mitigate the effect of pollution; initiatives are being taken to facilitate the collection of data and increase company's awareness of financial implication of environmental issues (Jones 2005). Environmental issues can have an impact on financial statement prepared on an accrual basis. Some annual operating costs are environmental in nature. For Example, energy cost as the use of fossil fuel is a source of carbon dioxide and air pollution. Environmental issues can impact on the cash flows of an entity during the reporting period. Environmental risk may result in huge environmental liabilities and subsequently the organization/ entity may be obliged to outlay payments which may affect seriously the liquidity and the financial position of the organization. Current practices demonstrate that no track for environmental cost was available as it was charged randomly. Therefore, there is a need for proper changing and allocation of these cost and thus precise pricing and will help to develop sustainability indicators. Monetizing environmental issues may not be totally accurate but, economist and accountant have to give best estimates, according to the current level of knowledge and techniques used.

5. CONCLUSION AND RECOMMENDATION

The study investigated the impact of environmental accounting on corporate organizational reporting in Nigeria. Base on the finding above, it can be concluded that environmental accounting has impact on corporate organizational reporting since issues associated with accounting for the environment have become relevant to business as environment and initiatives are being taken to facilitate the collection of data and increase companies awareness of financial implication of environmental issues thereby reporting it in their annual reports consequently from the foregoing, the following recommendations are made;

i) There should be high level of environmental accounting and reporting activities in corporate organizations in Nigeria and more awareness should be created.
ii) Environmental accounting standards should be published locally and internationally and continentally to ensure dynamism compliance and meet environmental situational needs.
iii) Corporations should adopt uniform reporting and disclosure of environmental issues for the purpose of control and measurements of performance.
iv) Reporting environmental related matters should not be left to large corporations only as even small entrepreneurs should be encouraged to report and disclose environmental impact/related activities in their annual reports and accounts.

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