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Graduated Significance of Environmental Accounting

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Abstract

In the last decades, the behaviour of companies and the public, in general, towards the environment has largely evolved. Indeed, the different past behaviours have caused a progressive deterioration of the environment, and it is this same deterioration of the environment that has led to the transformation of the environment into a commercial phenomenon: by using natural resources in a non-optimal way, the company will inevitably incur costs. Faced with this state of affairs, various stakeholders have decided to demand that, from now on, the determinant relating to the environment must be taken into account when making decisions. Thus, as far as accounting is concerned, the subject that interests us, quality accounting information is information that presents both accounting and financial indicators, but especially environmental indicators, because the various stakeholders, headed by investors, have become aware of the importance of environmental issues. Moreover, it has been proven in many studies that in the current international context, economic and financial performance are linked to environmental performance, referring to the revisionist theory which states that environmental performance and economic and financial performance can improve each other.

Keywords: Environmental Accounting, Quality of Accounting Information, Stakeholder

Introduction

The real consideration of the environment started after the Second World War, which led to a great deterioration of the environment. This deterioration inevitably led to a significant increase in transaction costs, while globalisation accentuated the deterioration of the environment, as some companies relocated their activities to countries with little respect for the environment, which means that the deterioration of the environment is the result of many factors. This continuous degradation of the environment has led both public authorities and researchers, in general, to assert that it is unthinkable that human interests should be privileged over ecological interests, which is in line with the idea of Drechsler (2004), who asserted that human ends should not be privileged at the expense of ecological interests.

It is therefore in the context of environmental degradation that environmental accounting was born. Henceforth, any accounting decision must respect environmental prerogatives; it is no longer a question of being interested only in the capital created by man, but also in natural capital. In fact, from now on, a healthy management of the company supposes an optimal combination between human and natural capital. The various events that have taken place in recent years have led to the role of accounting being developed from its traditional status to one that is more in line with economic reality; the new status of accounting encompasses the notion of sustainable development.

In addition, the COVID-19 pandemic that first appeared in 2019 in a Chinese province has spread to the whole world. This pandemic has shown us that it is essential to be able to respond to a health crisis and that the post-COVID environment must no longer be the same; it must evolve to keep up with change and not suffer from it. The various events that have taken place have led to researchers advocating that companies should implement actions

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that do not lead to adverse environmental consequences (Ripple et al., 2019).

In terms of accounting, the COVID-19 pandemic should lead to companies adopting an accounting system that includes all the determinants; so these companies must opt for environmental accounting and not traditional obsolete accounting, because it no longer accurately reflects the economic reality. From now on, the environment must be an integral part of the economy (Tregidga & Laine, 2021). Indeed, this pandemic which has affected the sectors must lead us to reflect, the efforts of all must be deployed to face the harmful consequences of the pandemic of COVID-19, and even accounting must evolve; its evolution is possible only by taking into account a primordial variable, that is, the environment.

What was valid in the pre-COVID-19 period is unfortunately no longer valid. In the new environment imposed by the health crisis, accounting information must meet not only financial requirements, but also environmental requirements. The COVID-19 pandemic has shown us that in the face of an urgent crisis it is necessary to react quickly so that we are not overwhelmed by the situation.

According to Tregidga and Laine (2021), environmental accounting must adapt to the new requirements imposed by the COVID-19 pandemic. Each company must therefore opt for accounting not only in the long term, but also in the short term. In fact, the awareness imposed by the COVID-19 pandemic must lead to a change in mentality, as well as to a restructuring of organisations.

Business development can only be achieved by taking into account the requirements of the new environment.

It should be noted that environmental accounting alone cannot meet the informational expectations of investors; it must be integrated with traditional accounting systems.

Fig. 1 shows the growing importance of environmental accounting.

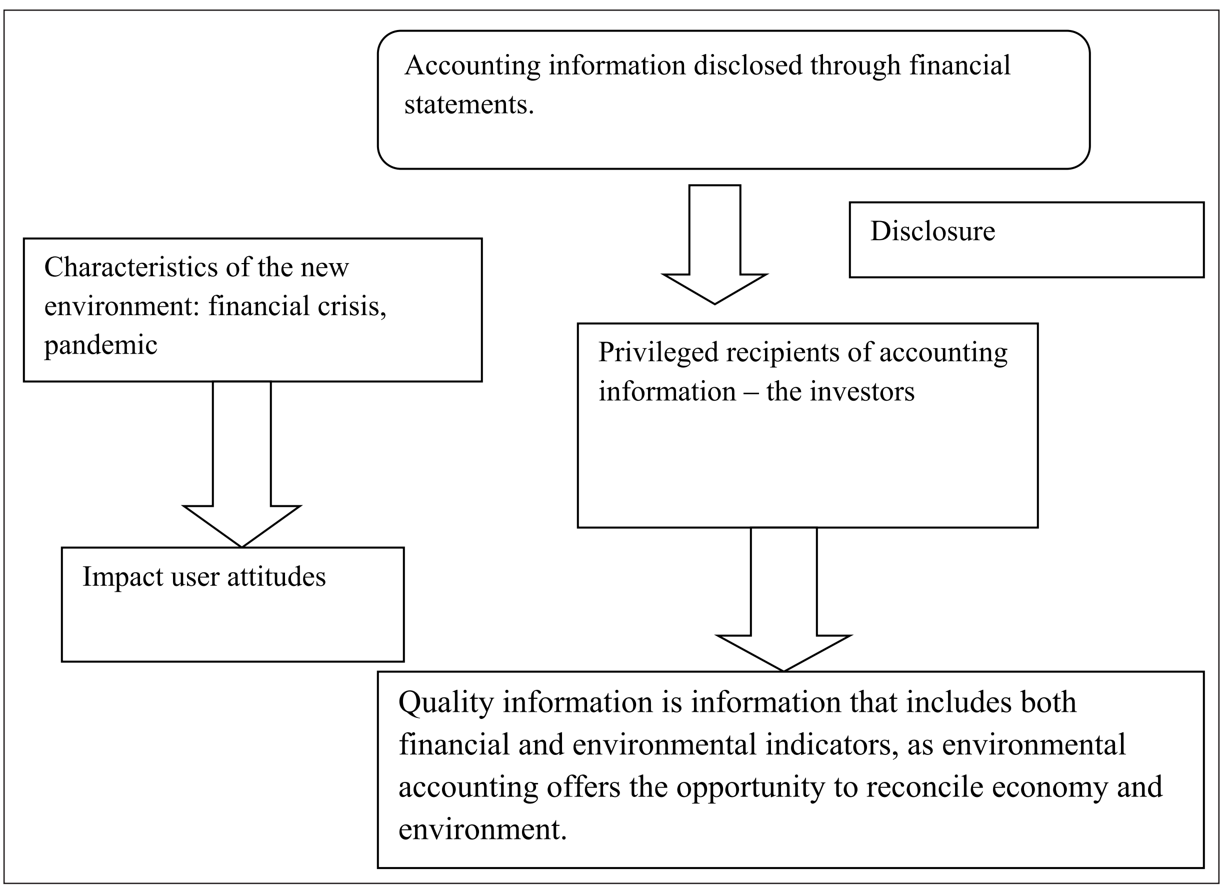

Fig. 1: Investors Increasingly Demanding Information

Thus, within the framework of this research work, we will attempt to answer the following question:

Where Does the Importance Given to Environmental Accounting Come from?

To answer this question, our article will be composed of three main sections: in the first section, we will present how the awareness of environmental accounting came about; in the second section, we will present the different definitions of environmental accounting; and finally, we will present the theoretical underpinnings of environmental accounting.

Section 1: Evolving Awareness of the Environment by the Company

Over time, the view of companies, and also the public in general, has evolved in a notable way. It was not until the 1980s that companies began to consider that the environment should be a determining factor in their decision-making. Fleishchmann and Paudke (1977), and in 1979, the association of German engineers, were pioneers in the study of environmental accounting. They approached environmental accounting through a comparative analysis of the benefits and costs of implementing pollution control measures. Parallel to this, Shrivastava (1995) emphasised the importance of the company taking the environment into account, stating that a sustainable company is one that must use natural resources while being aware that these resources are not inexhaustible, hence the importance of respecting the environment.

Thus, by referring to the eco-centric approach which stipulates that human beings must respect certain requirements not to harm living and wild objects, accounting, like any other function of the company, must henceforth produce quality accounting information intended for the various parties concerned, i.e. it must have certain indispensable characteristics, such as relevance, intelligibility, comparability, and so on. In other words, in the current context, a successful company is one that considers sustainable development as a key factor of success, which is in line with the idea defended by many that traditional accounting methods are unable to provide accounting information that respects environmental issues.

As with any new phenomenon, the acceptance of environmental accounting has been evolutionary in the sense that in the 1950s, the environmental dimension was totally ignored, with a large majority defending the idea that the only means of development is science with its advances. In this respect, Cech (2005) has argued that the opportunities offered by science are unlimited.

In 1970, the debate on accounting became self-evident, with the environmental problems caused by the excessive use of technology.

It was not until the 1980s that many countries around the world recognised the need to legislate for the protection of the environment, and in 1987, a fundamental report was published, the Bruntland Report, which established the foundations of the concept of sustainable development and presented the drawbacks of sustainable development. It is therefore thanks to the various international meetings and the different reports established in favour of sustainable development that certain companies have decided to move towards sustainable development by taking responsible decisions with regard to the environment. It should be noted that following this report, a company charter was set up to support companies wishing to be efficient both in accounting and financial terms and in environmental terms.

In 1990, many companies volunteered to commit themselves to sustainable development, and this charter was a great success, with 60 countries around the world signing it. We therefore note that, as Gendron (2004) has pointed out, the attitude of companies towards the environment has evolved from ignorance of the environmental dimension to the conviction that the environmental dimension is a determining factor to be taken into consideration before any decision is made.

To understand the ins and outs of environmental accounting, we will present the different definitions of environmental accounting in the following section.

Section 2: The Different Definitions of Environmental Accounting

In 1987, Gary et al. (1987) defined environmental accounting as a mechanism for disclosing the social and environmental impacts of companies to the public.

According to this author, it is no longer a question of the company providing only accounting and financial information; social and environmental effects must now be taken into account.

According to Christophe (1992), environmental accounting, particularly called ‘green accounting’, is an effective means of accounting for the harmful effects caused to nature by the company.

According to Mathews (1993), environmental accounting is defined as the provision of both quantitative and qualitative information to inform a specific audience.

According to Gray and Bebbington (2001), environmental accounting encompasses all areas of accounting that are likely to be affected by the decisions of different stakeholders about the environment.

In 1995, Mikol argued that environmental accounting preserves the role of accounting while requiring financial statement preparers to account for environmental impacts, to reflect the reality of the business.

Referring to the Parliamentary General Assembly of the Council of Europe, it is stated that environmental accounting is a system for classifying, organising, and providing data and information relating to the enviro-nment. It should be noted that environmental information can be provided from a quantitative or qualitative point of view.

Thus, environmental accounting is about identifying the costs of different environmental actions and, at the same time, building strategies to limit the reduction of natural resources on the basis of sound management of flows, while enhancing the expected revenues.

In light of the different definitions proposed by the various researchers, what we can retain is that environmental accounting offers companies the opportunity to carry out sound and efficient management while minimising the use of natural resources to the maximum.

Given that accounting information is primarily intended for investors, who are the privileged users of accounting information according to an Anglo-Saxon vision of accounting, the latter have become increasingly demanding in recent years. Indeed, they now demand relevant accounting information, but in particular, relevant environmental accounting information. It has been proven in numerous questionnaire surveys that investors are now more motivated to invest in companies that are oriented towards sustainable development than in companies that are motivated solely by the financial result, because it has been proven in particular that, in the long term, so-called “green” companies, i.e. companies that consider sustainable development to be a natural responsibility and not a constraint to be avoided, manage their natural resources better and are more successful in the end.

After presenting the different definitions of environmental accounting, we will now present the theoretical basis of this form of accounting.

Section 3: Environmental Accounting through its Theoretical Underpinning

Stakeholder theory is based on the idea that each stakeholder must cooperate with the other parties through continuous communication and negotiation for everyone to find their own interest. It should be noted that a stakeholder is, according to Freeman (1990), any individual or group of individuals who may have an influence or be influenced by the actions of the company.

Indeed, with the stakeholder theory, the company is understood in a new way, the classic shareholder orientation is abandoned in favour of a partnership vision, the aim is no longer simple profit but the achievement of the general interest. We no longer speak of a profitable company, but of a responsible company.

We could explain environmental accounting by referring to this theory. In today’s context, all stakeholders are interested in any information that would affect their decisions on how to raise funds. Thus, environmental accounting is an obligation of companies to their stakeholders, even though in some studies it has been shown that the level of disclosure of environmental accounting information is quite low compared to what is required by different stakeholders.

Indeed, in the Chinese context, Liu et al. (2021) analysed the level of disclosure by referring to an evaluation grid based on 28 evaluation indicators of a sample of 34 listed Chinese thermal energy companies. After empirical validation, the researchers noted that, overall, the degree of disclosure is quite low and the information disclosed does not meet the criterion of relevance. This study suggests that the quality of environmental accounting information needs to be improved, to enable companies to establish a strategy based in part on environmental indicators that ultimately leads to long-term performance.

Conclusion

Environmental accounting has developed over the last 50 years in a gradual way, because, initially, the concept of environmental accounting was largely ignored by many. It was only in the 2000s that various stakeholders recognised the life-saving contributions of environmental accounting. Alongside the realisation that it is not only things that can be quantified in monetary units that are important, many countries have started to become aware of sustainable development and put in place a legislative framework for environmental protection. Nowadays, many companies consider that their long-term performance can only be achieved by incorporating qualitative indicators in addition to quantitative ones, which refer to environmental accounting. From now on, the strategy pursued must be based on accounting and financial, as well as environmental, indicators. In addition, investors, who are the stakeholders most interested in companies, are now demanding that in addition to the information contained in the financial statements, they have relevant information relating to environmental accounting. It is thanks to this diversified information that the investor will be able to make a well-informed decision, and it has been proven that environmental performance and accounting and financial performance go hand in hand.

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