

THE REALITY AND PERSPECTIVES OF ENVIRONMENTAL ACCOUNTING IN CONDITIONS OF GLOBALIZATION

Melnicenco Olesea, ASEM, olesea_m@rambler.ru

Turcan Ludmila, ASEM, iuka97@mail.ru

The process of globalization determine new world order, new problems and, of course, new approaches to solve these problems. Environmental accounting can be named one of the instruments, appeared due to globalization effects and used to help to business in managerial decision-making. But at the same time, environmental accounting serves as a tool to make business more social responsible and by this, more human.

“There is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”.

M. Friedman

Environmental issues today are becoming increasingly complex and difficult. The public is more aware of industries' environmental performance. At the same time, governments are not becoming increasingly active in attempting to prevent events that harm the environment and to rectifying and indemnifying for events that have already happened. Accounting for the costs of past, present and future environmental activities is becoming increasingly important. Often it is difficult or impossible to predict the actual extent of a newly discovered contamination problem, much less the cost of cleanup.

Although the environmental problem is a world-significant problem, only some countries apply environmental accounting, increase governmental regulation of it and enforce the business to calculate environmental liabilities. In USA the regulatory requirements for cleanup result from several legislative acts: Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) better known as "Superfund," Clean Air Act (CAA) and the 1990 Clean Air Act Amendments (CAA), Resource Conservation and Recovery Act (RCRA), Clean Water Act (CWA), the Underground Storage Tank Program, and Hazardous and Solid Waste Amendments (HSWA), which requires cleanup of PCBs and asbestos. In Europe in 2004 the Parliament Assembly of Council of Europe adopted a recommendation: “Environmental accounting as a sustainable development tool”, which was based on Kyiv Resolution on biodiversity (as agreed to by the European Ministers of Environment and Heads of Delegations of the States participating in the Pan-European Biological and Landscape Diversity Strategy (PEBLDS) process, is to halt the loss of biodiversity at all levels by the year 2010). The Committee of Ministers encouraged the adoption of an environmental accounting system at all appropriate levels of government, which would permit accountability of decision-makers committed to sustainable development goals, fostering regular environmental monitoring and the integration of environmental concerns into sectoral policies. As it was mentioned in the document, the development of environmental accounting in Europe should build upon the methodologies and standards set out in the United Nations handbook on Integrated Environmental and Economic Accounting (SEEA 2003), and the standards and guidance developed by Eurostat.

Nevertheless, environmental accounting is defined by laws and by International Federation of Accountants, it remains unknown or suffers on lack of attention from accountants of developing countries. This is due to the fact that it is a new tool and in many cases it is considered, that environment accounting is an approach for big business, corporations, which affect environment.

Today it is strongly necessary to help managers and decision-makers to protect biodiversity and meet the requirements of the various global, pan-European and European Union agreements and targets.

Environmental accounting is a tool, which is based on the recognition that the Earth's environment is vulnerable. It is a comparatively new notion in accounting. The necessity of introducing of it appeared in context of development of globalization processes, spreading of trans-national corporation's activities and changes in environment understanding in conditions of growing consumerism and Earth pollution.

In most cases environmental accounting is "corporate-focussed", but it should be also appreciated at a national level or regional level.

The most important function of environmental accounting is to bring environmental costs to the attention of corporate stockholders who may be able and motivated to identify ways of reducing or avoiding those costs while at the same time improving environmental quality. So, sometimes, environmental accounting is viewed as a part of management. As in this case, we can speak about environmental management accounting. The general use of environmental management accounting information is for internal organizational calculations and decision-making. EMA (environmental management accounting) procedures for internal decision-making include both physical procedures for material and energy consumption, flows and final disposal, and monetarized procedures for costs, savings and revenues related to activities with a potential environmental impact.

Environmental accounting provides a broad range of information about financial and non-financial aspects of an organization's environment performance. It also can generate information about how to use resources with environment related impacts that affect financial position of organization.

Today almost all big companies, corporations use environment accounting for promoting environmental management, to increase eco-efficiency. Eco-efficiency is an environmental management indicator, calculated with accounting methods. It is a ratio of sales to the amount of environmental impact of business activities. The last is calculated using the Life Cycle Impact Assessment Method, based on Endpoint Modelling (LIME). The calculation of this ratio and analysis of its trends permits to make conclusions about the influence of company's activity on environment, and tendency of this influence. Other indicators, specific for environment accounting are: pollution prevention costs, environmental remediation costs, global environmental conservation costs, amount of contribution of environmental conservation activities to the added values derived from productive activities and others. With the growing prevalence of environmental (and social) performance indicators being used as a basis for assessing an organisation and its environmental management (for example, in management remuneration plans) there is a need to have a mix of both financial and non-financial indicators to assess an organisation's environmental performance. For

example, some managers might be rewarded in terms of dollar savings in waste costs (a financial measure), whereas other managers might be rewarded in terms of reduction in spillage rates (a non-financial measure). So, today environmental accounting is between social and financial aspects.

In May 2002, the United Nations Environment Program (UNEP) released an extensive report saying that, "there was a growing gap between the efforts to reduce the impact of business and industry on nature and the worsening state of the planet" and that "this gap is due to the fact that only a small number of companies in each industry are actively integrating social and environmental factors into business decisions."

In some respects, many corporations are also victims of the ideologies that are prevalent in current mainstream economics that treat the environment in certain regards. Some corporations might wish to be more environmentally friendly but are unable to do so due to fears that their competitors will get away with it (sort of seen in the fiasco of the politics behind global warming issues). "Over" competition (or even the drive to reduce competition by larger players trying to head towards unaccountable monopolies and oligopolies) may be detrimental in this regards too.

The following reflects the world priorities

(Source: The state of human development, United National Development Report 1998):

Basic education for everyone in the world – 6 US billions

Cosmetics in the United States – 8 US billions

Water and sanitation for everyone in the world - 9 US billions

Ice cream in Europe -11 US billions

Reproductive health for all women in the world - 12 US billions

Perfumes in Europe and the United States - 12 US billions

Basic health and nutrition for everyone in the world -13 US billions

Pet foods in Europe and the United States -17 US billions

Business entertainment in Japan - 35 US billions

Cigarettes in Europe - 50 US billions

Alcoholic drinks in Europe- 105 US billions

Narcotics drugs in the world - 400 US billions

Military spending in the world - 780 US billions

The data, shown above indicate, that the human preferences and absolutely far from global humankind necessities and environment awareness.

In the situation, when enterprises have to competitive, satisfy client's needs and at the same time to be social-responsible and think about the Earth future, environmental accounting can become a salvation, a method to help to activate with greater profits for companies and less damages for the nature. As usual, companies use the following scheme to establish decisions for environmental management, using environmental accounting methods:

1. step: Evaluate the eco-balance of transactions
2. step: Identify major factors of environmental impacts
3. step: Draw up plans to reduce environmental impacts
4. step: Identify cost items, quantify these items by cost-effectiveness
5. step: Select measures to be taken
6. step: Conduct a cost-effectiveness and evaluate their contributions to achievement of sustainable environmental management

As we see the aim of environmental accounting and environmental management is not simply internal, to decrease costs, but helps to keep the environmental equilibrium.

Today the future of the Earth is in the hands of corporations rather than governments. Corporations are powerful and global-spread. Nevertheless, only a small number of companies in each industry are actively integrating social and environmental factors into business decisions. At the same time, the harmful influence of corporations is obvious. It is necessary to change the situation and to make corporations more responsible. Environmental accounting, its implementation and argumentation of its effectiveness is a deal of economists and accountants.

One small example shows the general tendency: those win, who use environmental accounting in professional way. Toshiba's environmental costs increased by 4% from fiscal 2003 to 38.9 billion yen due to higher costs associated with development of environmentally conscious products. Meanwhile, environmental benefits decreased by 18% from fiscal 2003 to 20.4 billion yen due to the increased environmental impacts resulting from the opening of new factories overseas. Environmental expenditure accounted for 3.29% of total expenditures in fiscal 2004 (3.13% in fiscal 2003). Environment related expenditure accounted for 2.89% of total expenditure in fiscal 2004 (2.48% in fiscal 2003).

Benefits that can be directly converted into monetary value, such as reduced charges for electricity, water, etc. were estimated in 2004 at Toshiba in amount at more than 2 millions yens, benefits concerning reduction in environmental impacts expressed in monetary value-more than 7 millions yens, reduction of environmental impacts at the usage phase expressed in monetary value – about 7 millions yens.

So, today environmental accounting saves money for the business and saves the environment from pollutions.

We are sure, that in conditions of globalization, when the main actors are corporations with their huge consumption of raw materials and other components of production process, the role of environmental accounting will grow in proportion of growth of number of corporations and their importance in the world economy. The business becomes more human or, at least, seems to become so and environmental accounting will be used more often, because the purpose of business is profit, but protection of the Earth – is a purpose of everybody.

Bibliografia:

1. Perspectives of environmental accounting (cover story) by John Surma, retrieved from The CPA Journal online.
2. "Environmental accounting" as a sustainable development tool" – recommendation of parliamentary Assembly of Council of Europe, retrieved from <http://assembly.coe.itn>
3. Overview of environmental management accounting, retrieved from http://www.emaweb.org/about_ema.htm
4. Environmental accounting, retrieved from www.epa.gov

