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GREEN ACCOUNTING AND ITS IMPACT ON BUSINESS ENVIRONMENT

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ABSTRACT

Green Accounting, also known as environmental accounting or sustainable accounting, is a system of accounting that takes into account the economic, environmental, and social costs and benefits of business activities. It involves measuring and reporting the impacts of economic activities on natural resources and the environment, in addition to traditional financial measures.Green accounting is a crucial financial tool for reducing environmental costs. It is a necessary step towards sustainable building. It states that appropriate methods should be devised by business organisations to compensate society for environmental damage committed in the pursuit of profits. The environment is lagging behind in the race of economic progress. Human exploitation of natural resources has resulted in significant environmental issues, including pollution, climate change, global warming, ozone layer depletion and other natural disasters. The Social environment is an important part of PEST analysis. Green accounting explains how the corporate sector is harming the environment by its activities and how it can be reduced through timely decision-making. In long run, depletion of natural resources is harming the environment as well as long term availability of resources for generations to come whereas under GDP analysis these environmental factors are ignored. Therefore, maintaining a balance between economic development and environmental protection is critical at this time. The notion of green market and green entrepreneurship has also provided both opportunities and threats to business enterprises. Green Accounting considers the environmental cost of operations by identifying and assessing environmental liabilities while preparing financial statements. The purpose of this study is to look how the implementation of concept of environmental accounting will impact the business environment for the entrepreneurs.

Keywords: Environmental cost, PEST Analysis, Sustainability, Green Entrepreneurship

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LITERATURE REVIEW

(Prabhu Kandachar, in Materials Experience, 2014) focuses on the need of social sustainability, as it is the neglected component of sustainability.

(N Anil Kumar, T Sai Pranitha & N Kiran Kumar) The study explained that green accounting help businesses to understand and manage the potential quid pro quo between traditional economic goals and environmental goals. It is the best method to be followed for sustainable development (Ramesh L, 2013) conducted a study to evaluate the corporate practices relating to measurement, recognition and disclosure of environmental costs & benefits.

(Vandna, 2018) explains three forms of environmental accounting: Environmental management accounting (EMA), Environmental financial Accounting (EFA) & Environmental National Accounting (ENA). Highlighting the importance of Green Accounting, she explained that it ensures long term sustainable development and help strengthen human rights.

(Jui-CheTu and Hsieh-Shan Huang 2015) This study analyze the relationship between Green Accounting and Green Design for enterprises. They suggested that Green Accounting makes environmental expenditure a part of operational cost; thus, new thinking should be adopted for product design, in order to maintain the existing profits & enhance environmental performance. Green design is helpful for protection of environment.

(Haripriya Gunndimeda, Pavan Sukhdev, Pushpam Kumar, Rajiv Sinha & Sanjeev Sanyal) conducted joint research on Green Accounting Methodology for India and its states. They concluded that it is indeed possible to use a top-down approach and construct Green Accounts for India and its states & UTs. Top-down approach is both feasible and desirable to capture effectively the relativities of sustainable development across India's states.

(Manoj Yadav 2018) The study found that green accounting in India is in its preliminary stage. Unless common people of India are not aware towards environmental safety, development of green accounting is a little bit doubtful. He suggested to adopt a well-defined environmental policy as well as proper follow up to ensure that corporate comply with these rules & maintain adequate details of environmental aspects in their annual statements.

(Mr. Shashidhara D & Dr. Chandramma M. 2019) They emphasized on concept and importance of Green Accounting. They suggested that the government India should conduct some programs to educate corporate about green accounting and a separate audit committee should be formed to check the implementation of green accounting at a regular interval.

(Archana T A 2017) This study opined that even though Indian corporate comply with the rules and regulations with regard to environmental protection but no clear-cut policies are framed at the various levels for ensuring compliance to environment norms.

(Abdel-Mohsen O. Mohamed, Evan K. Paleologos, in Pollution Assessment for Sustainable Practices in Applied Sciences and Engineering, 2021) emphasised on the topic Intergenerational equity, which means that we only use the natural resources we need and leave the balance to future generations.

(E. Gnansounou, A. Pandey, in Life-Cycle Assessment of Biorefineries, 2017) explains the social acceptability, Social well-being, Resource conservation, Rural development and workforce training as the indicators of social sustainability.

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OBJECTIVES OF THE STUDY

1) To understand the concept of Green Accounting.
2) To review the SEEA Framework of UN.
3) To study the impact of adopting green accounting practices (such as SEEA) on business environment.

RESEARCH METHODOLOGY

This is a conceptual paper that is solely based on online literature and studies. The literature of various authors has been examined. The data was gathered from a variety of sources, including websites, journals, and papers.

GREEN ACCOUNTING AS A COMPONENT OF BUSINESS ENVIRONMENT

A business environment is a collection of forces both inside and outside of an organisation that influence its operation. The analysis of business environment is essential for every businessman. The analysis of business environment helps the businessmen to take advantage of opportunities and to overcome the threats. Covid 19 is the biggest lesson for entrepreneurs. Many business giants went in huge losses due the pandemic. On the other hand many new businesses established in such a short duration of time such as mask & sanitiser manufacturing, medical equipment manufacturing, E-commerce. Emerging Artists got an unique opportunity to showcase their talent on various social media sites such as Instagram, Youtube etc and converted their talent in business. Small Artisans use social media as a promotional tool and directly reach to the customers. The business environment is broadly categorised into two parts: Micro environment & Macro environment.

Internal Environment: It includes those factors which are present within an organisation. It includes policies, vision, mission, organisational structure, human resource of the organisation. Basically, these factors are controllable and their adverse impact on business environment can be reduced by timely decision making as these factors are within hands of the organisation.

External Environment: It includes those factors which are present outside the organisation. These factors are uncontrollable and can't be predicted by any business. It can be sub divided into two categories:

- **Micro Environment:** It includes those external factors which are closely related with firm's daily operations such as competitors, customers, suppliers, intermediaries, public etc. It covers circumstances beyond the control of the firm, but these can be analyzed and addressed by management to avoid any commercial losses.
- **Macro Environment:** These factors are highly risky factors as these can't be predicted by any organization. These factors influence every business differently. Basically,

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whole industry suffers due to any change in macro environment. Macro environment factors are analyzed on the basis of PEST analysis technique. PEST Analysis is thought to have been first proposed by Harvard professor Francis J. Aguilar under the acronym ETPS. Aguilar emphasized economic, technological, political, and social aspects as key impacts on the business environment in his 1967 publication "Scanning the Business Environment."

Political Environment: It includes the political stability, government policies, wars and conflicts, legislation, Law and order, pressure groups in an economy. It is evitable that conflicts between Russia & Ukraine have resulted into war which in turn has disturbed the economies of world. The consequences of Russia's assault on Ukraine have already shaken not just those countries, but also the rest of the world.

Economic Environment: Economic environment comprises of economic system, economic policies and economic conditions of a particular economy which further includes nature & stage of economy, monetary policy, inflation rate, intertest rates, GDP, exchange rates etc.

Social Environment: Social environment includes all those factors which are closely related to the society in which business exists such as population, lifestyle, ethics, buying pattern, health, safety & social sustainability**.**

Technological Environment: Technological environment includes all those factors which are related to the technology. Change in technology can bring new opportunities for businesses and help to increase production. On the other hand, technological advancements can also lead to closure of those business houses which are not able to cope up with the changing environment.

SOCIAL ENVIRONMENT, SUSTAINABILITY & GREEN ACCOUNTING

The businesses operate in a society. Hence, it becomes its responsibility to take care of environment in which it runs. It is now vital for businesses to devise strategies for advancing green causes in order to avoid penalties and promote sustainable development practices. These include lowering pollution, efficiently & judiciously utilisation of resources. Green accounting is a new trend in accounting that has global implications for business and society. Green accounting takes into consideration the volume of resource depletion while computing economic development. Environmental Financial Accounting, Environmental Management accounting, Environmental Cost Accounting, Ecological Accounting & Natural Resource accounting all are forms of Green Accounting or Environmental Accounting.

SCOPE OF GREEN ACCOUNTING

Environmental Cost: It includes the cost incurred on initiatives related to environmental protection by a body corporate i.e., R&D cost, Administration cost, operation cost & cost incurred on recovery measures.

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Capitalization of Environmental Cost: If the spending in nature produces the desired results, it leads to capitalization. For example, if the expense extends the life of natural resources or enhances the quality of the environment, it can be claimed that the cost is capitalised.

Environmental Liabilities: These are the duties owed to the environment or any third party as a result of past mistakes that resulted in natural resource deterioration.

Measuring Environmental Liabilities: It entails calculating the amount of such liabilities and recording the monetary liabilities in books of accounts. When preparing financial statements, non-monetary liabilities are shown in notes.

SYSTEM OF ENVIRONMENTAL ECONOMIC ACCOUNTING (SEEA)

SEEA is an emerging accounting methodology that incorporates environmental information into international economic accounts. The United Nations, the European Commission, the United Nations Food and Agriculture Organization, the Organization for Economic Cooperation and Development, the International Monetary Fund, and the World Bank Group collaborate to develop and implement the SEEA. In order to achieve sustainable development goals, it mixes economic and environmental data. When generating financial statements, SEEA considers environmental factors such as air emission accounts, environmental activity accounts, ecosystem accounts, and material flow accounts. It takes into account the value of natural resources when calculating a country's wealth. It will encourage governments to pay more attention to the environment. As a component of economic growth, this criterion ensures biodiversity, freshwater, wetlands, and forests. The SEEA Central Framework is aligned with the SNA since it employs the same accounting rules. The SEEA Central Framework enables the integration of economic (commonly measured in monetary terms) and environmental (typically assessed in physical terms) information in a determined framework. The SEEA Central Framework was later adopted as the first international standard for environmental-economic accounting by the United Nations Statistical Commission during its 43rd Session in 2012. This Framework basically works under three areas:

Environmental Flows include the physical and monetary flows of natural inputs (such as aquatic resources, water resources, mineral resources etc.), products (goods produced & consumed in a country), and residuals (such as air emission) between the environment and the economy. The stocks of natural resources cover the natural assets such as water in a particular economy both in terms of money and non-monetary form. Spending on environmental preservation and resource management, as well as the creation of "environmental goods and services," all are included in economic activity related to the environment. The SEEA Central Framework combines data on water, minerals, energy, wood, fish, soil, land and ecosystems, pollution and waste, and other topics into a single measurement system. In the 53rd session of UNSC target has been set to implement SEEA in at least 60 countries by year 2025.

1. **Beneficial Impacts:**
   - **Identification of Environmental Cost:** Green accounting provides useful information for making decisions about production level and structure, investment value, and environmental costs.

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- **Fulfilling regulatory requirements:** Corporates takes the assistance of social and natural systems to maximize profits. Hence, ethically it becomes duty of every entrepreneur to fulfill the regulatory framework set by United Nations & adopted by government. Non-compliance of environmental guidelines lead to penalties which in turn is an additional cost for any business.
- **Environmental Protection:** Green Accounting the best way to protect the environment for the future generations. If everything related to environment is accounted properly by various nations, then countries can make an analysis about environmental degradation and better environmental strategies can be adopted both at corporate level and national level.
- **Consistent Step towards achievement of SDGs**: Environmental accounting aids in assessing how well different companies or nations are meeting their social duties and acting as a volunteer for achieving Sustainable development goals.
- **Database for Environmental Information System:** It finds, collects, and analyses data on raw materials, energy, and other information on the business's environmental effect, resulting in more informed decision making and enhanced profitability and environmental protection.
- **Long Term Benefit:** Reducing company's environmental cost effect to increase its long-term viability. The company will have a better chance of long-term success it is less reliant on natural resources & assessing environmental cost on regular basis than the competitors because the cost of more reliant on natural resources will rise the costs as a result of climate change.

2. **Challenges for Nations:**
    - **Lack of Professionalism:** In order to implement green accounting professionals are required but there is lack of knowledge among individuals about this concept as it is in introduction stage.
    - **Cumbersome Process**: Environmental accounting is a difficult to manage task for business houses because it takes a lot of time and effort.
    - **Inconsistent Approach:** Environmental products and services valuation systems are flawed, and estimation values are only partial values.
    - **Difficulty in estimation**: Environmental goods and services have a wide range of social values that fluctuate fast. Hence, estimation of natural resources is difficult both in monetary form and non-monetary form.

CONCLUSION

According to the World Health Organization, "environmental dangers" such as air pollution, water contamination, and chemical exposure account for 23% of all deaths. UNEP says "Nine out of ten people throughout the world are breathing polluted air, which is hurting their health and decreasing their lifespan. Around 7 million people die each year as a result of diseases and infections caused by air pollution."

Natural resources are vital for survival of society and business itself is a part of society. Accounting is required to evaluate or quantify the environmental damage produced by industrial activity in a quantitative or monetary form. Although there are a lot of difficulties in this path of environmental economic accounting but appropriate techniques and legal

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framework should be devised so that businesses compensate society for environmental damage committed in the pursuit of profit.

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