

# Business Ethics and Environmental Accounting with Special Reference to Indian Corporate Sector

Jaspreet Kaur

Department of Commerce and Business, St. Soldier (Co-Ed) College, Phagwara, Punjab, India

**Abstract:** *In past few years 'Environment' has emerged as 'buzz' word. Changes in the conditions of environment have compelled the stakeholders in corporate sector to use 'Environment Ethics' along with business ethics. The relation of business and environment has not escaped one. The business cannot survive by detrimental effects on environment. But, the corporate sector in India is still in dilemma to adopt it in accounting practices and disclose the costs/ benefits of environmental accounting. This paper aims at the study of concept of business ethics, its origin, environmental ethics, laws relevant to environment, environmental accounting in Indian Companies.*

**Keywords:** Business Ethics, Environmental Accounting, Corporate Sector in India

## 1. Introduction

Business Ethics and Environmental have superlative importance in 21<sup>st</sup> century. Both these have been developing and growing all over the globe. Business ethics are principles of right and wrong in decision making that govern conduct and behavior of an individual in business organization. An individual cannot survive alone so he lives in society and businessman is a part of that society. Society is integral part of business environment. The concept of environment is not a new one as it has been discussed from decades. Businessman and environment have close relation. Environment is like donor for the businessman which provide immense resources to him for his business activities and as a part of society it is the obligation of the businessman to protect and preserve it i.e. give something in return to environment. But the businessman is exploiting the precious wealth of nature so blindly that it would stake life of future generation at risk. He has created unbalance in nature. Nature is also warning with its acts of collapse. *As argued by Bill Nye, "Climate change is happening, humans are causing it, and I think this is perhaps the most serious environmental issue facing us."* Is it ethical? That's why the environmental ethics have emerged in past few decades. Environmental ethics is a link between human and environment. It is about how to live a good life in moral and ethical way without any harm to other living creatures. *As Franklin D. Roosevelt says, "A nation that destroys its soil destroys itself. Forests are lungs of our land, purifying the air and giving fresh strength to our people."* So it's the peak time for the businessman to take duty protect it environment, because *"Plans to protect air and water, wilderness and wildlife are in fact plans to protect them."* *As argued by Stewart Udall.* For country like India it is a challenge to develop the economy and to protect the environment. For this, alignment is required which is termed as '**Environmental Accounting.**'

This paper focuses on the study of environmental ethics and arrangements for that in Indian scenario, which are also of paramount importance all over the world. The businesses have to pay some consideration to nature in exchange of its worthy

natural resources; 'Environmental Accounting' is a good option for this harmonization. The Government of India has framed a no. of Acts, guidelines and policies in this area for companies of India from time to time. The Ministry of Corporate Affairs (MCA) has also issued National Voluntary Guidelines 2018 in this regard. We will be discussing about it, the companies which are following these acts and guidelines and are environmentally ethical.

## 2. Objectives of Study

- 1) To understand the importance of business and environmental ethics.
- 2) To get knowledge about 'Environmental Accounting.'
- 3) To know about various acts established for the companies to protect social life and environment by Govt. of India
- 4) To know about the companies which are working towards environment protection in India.
- 5) To evaluate corporate strategies of environment protection
- 6) To suggest for improvement in corporate policies.

## 3. Review of Literature

### Origin of Ethics

The word 'Ethics' is originated from Greek word '**Ethos**' that means a set of moral principles. Ethics is philosophy of moral values that means doing only those things which are right. It has traces in the earliest exchange forms of bartering. According to a book Socrates is presumed to be the first person to study this topic about 2500 years ago. Ethics is like soul of a human being that guides him. *J.S. Mackenzie has defined ethics in his book, "Study of what is right and what is wrong in human conduct". Hasting Rashdall states, "Ethics provide a systematic study of the nature and standards or moral judgments based on our ideas of good and bad."* *Peter F. Drucker defines, "There is one only one ethics, one set of rules of morality, one code that of individual behavior in which the same rules apply to everyone alike."* Thus Ethics is science of good or bad, standard of conduct and moral choices that help the society for doing good and ethical in life.

### Concept of Business Ethics

Business Ethics is the application of general ethics to business. *Hartman (1998)* explains business ethics as the business behavior based on standards of right or wrong rather than entirely on principles of accounting and management. Business ethics helps to create trust, cordial relations with stakeholders, friendly atmosphere, and high profits and protect the society and surroundings. *Cater McNamara defines, "Business ethics is generally coming to know what is right or wrong in the workplace and doing what is right- this is in regard to effects of products and services and in relationship with the stakeholders. Attention to the ethics in the workplace sensitizes managers and the staff to know that they should act so that they retain a strong moral compass. Consequently, business ethics can be strong preventive medicine."*

### Concept of Environment Ethics

Till now, we studied about the application of ethics to human beings only, but environmental ethics is about use of ethics for non- human beings. This term believes that there is a direct relation between environment and human beings. It is based on inculcation of right or wrong for non-humans too. *Wikipedia defines, "Environmental Ethics is a part of environmental philosophy which considers extending the traditional boundaries of ethics from solely including humans to including non-human world. It exerts influence on a large range of disciplines including environmental law, environmental sociology, ecotheology, ecological economics, ecology and environmental geography."* According to *Nature.com, "Environmental Ethics is the branch of applied philosophy that studies the conceptual foundations of environmental values as well as more concrete issues surrounding societal attitudes, actions, policies to protect biodiversity and ecological system."*

### Laws relating to Environment under Constitution in India

- 1) Natural resources are precious wealth which should be protected and conserved and this is also reflected in constitution of India. *Article 39(b)* stipulates that state policy shall be directed towards the distribution of resources for common good. As it is *Article 48A* (Directive Principles of State Policy) of Part IVA assigns duty of state govt. *Article 49* is about state's policy to protect the monuments and place of national importance from disfigurement and damage. *Article 51A* (fundamental duties) of Part IV A explains that every citizen should protect natural environment to preserve wildlife and nature of the country. Although Industrial Licensing Policy have exempted all most all companies from a no. of regulations, but Environmental clearance is still required from various govt. authorities.
- 2) The official notification on Environment Audit by Ministry of Environment and Forest in 1992 under Environment Protection Act has mandated all Industrial Units for submission of statement on environment.
- 3) There is also a regulation under Indian Companies Act, 1956 in which environment related policies or problems are to be included in Director's report.

With the Global trend of environment protection Govt. of India have also established various laws in light of Environmental Ethics which are given as below:

- 1) The Wildlife Protection Act, 1972.
- 2) The Forest Conservation Act, 1980.
- 3) The Air (Prevention and Control of Pollution) Act, 1981.
- 4) The Water (Prevention and Control of Pollution) Act, 1974.
- 5) The Environment Protection Act, 1986.
- 6) The Hazardous Waste Management Regulations.
- 7) The Biological Diversity Act, 2001.
- 8) The National Green Tribunal Act, 2010.

### National Voluntary Guidelines

MCA ( Ministry of Corporate Affairs) and IICA ( Indian Institute of Corporate Affairs) after a discussion decided to update the National Voluntary Guidelines on Social, Environmental and Economic responsibilities of Business (NVG) which were earlier released in 2011. A draft is framed in 2018 of these guidelines. These guidelines are proposed to apply on all kinds of businesses i.e. sole proprietor, partnership firms, companies and other type of businesses. The highest governing authority of each entity will be responsible for adherence of these guidelines. In case of companies, the BoDs will be highest authority, however it will be owner/s, partner/s, and any other highest structure in case other types. It also provides framework for MNCs to conduct their overseas activities also. The guidelines (revised) contain 9 principles which provide guidance to business for adherence and adoption. These are discussed as follow:

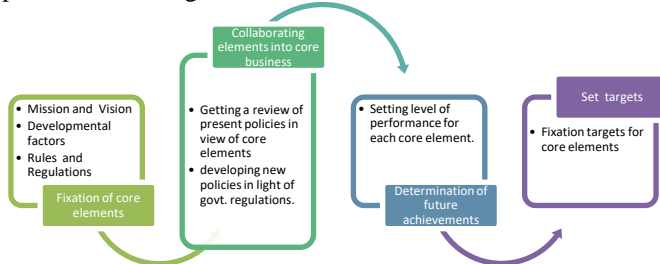
- a) **Ethical governance of business collaborated with transparency and accountability:** This principle is based on ethical decision making that should be disclosed with all stakeholders because it can influence their interests and business have obligation towards them.
- b) **Safe and Sustainable way of providing Goods and Services:** The businesses which perform activities of production or manufacturing should ensure that the designs and techniques of product are continuously improved and the goods and services they provide are of good quality.
- c) **Policies for employees should be based on equity, respect and well- being:** The business should follow respective rules and regulations for appointing employees, their training, development and remuneration etc. there should be no discrimination of any kind.
- d) **Considering interest of all stakeholders:** The business should protect interest of all its stakeholders whether they have majority or minority. It should pay fair benefit to investors and the policies of expansion and development should not have detrimental effect.
- e) **Respect for Human Rights:** Human Rights as included in Constitution of India are to be followed. No decision should have negative impact on human rights. If any right is abused, there should be grievance redressal cell in the organization.
- f) **Conservation and protection of environment:** Business should follow environmental ethics while using natural resources. Innovative and efficient techniques should be

brought into use to reduce the abusive effect of business on environment.

- g) **Adherence to national and international legislations:** the business should follow respective legislation while framing policies for growth. It should have scope for fair competition.
- h) **Overall and equitable development:** The business should take initiatives for development of overall economy i.e. marginalized and underdeveloped regions should be given due attention and these development plans should be bonafide for all sections of society.
- i) **Responsibility towards Consumers:** The business should have the responsiveness for their customers. The customers should be provided freedom to choose the products and services which are safe for usage and are available to them at fair and reasonable price.

### Adoption Process

For the adoption of these principles the MCA has suggested a process which is given as below:



## 4. Statement of Problem

Environment has emerged a subject of concern from past few decades. It has direct relation with business world. The Indian Corporate Sector has overlooked it however some corporate houses are attempting to cope up the problem. This paper is centered on:

- 1) Has environment any bearing on business or is neglected one?
- 2) How it is harmonized?
- 3) Why Indian Corporate sector has been lagging being ethical?

## 5. Research Methodology

Research is moving from 'unknown to known.' It is a process of collecting data and its analysis for the purpose of advancement of knowledge in any area or field.

Research Methodology is a systematic study of collecting data, organizing and analyzing data and making conclusions from it. According to Clifford Woody, "Research methodology is defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organizing and evaluating data; making deductions and reaching conclusions; and at last carefully testing the conclusions to determine if they fit the formulating hypothesis."

Study of this paper is worked out on the basis of secondary data and exploratory research. The author has gone through published research papers, journals, articles, books, online sources, and websites. The published reports of concerned companies on relevant topics have also proved helpful. The focus is to get knowledge about the concept of 'environment accounting' and its relevance in Indian corporate sector.

### 5.1 Harmonization of Environment Ethics into Corporate Sector/ Environmental Accounting

Every businessman believes that he should use the resources to its fullest whether they are material or human. He is chopping the trees, polluting air, water and soil to make multistoried buildings and corporate houses. His industrial processes are paving way to destruction. He has hampered the natural cycle which is disturbing the life of plants and animals. He has no idea what he is doing. He has some obligations toward nature as it is our breathing system, once lost cannot be regained easily and promptly. So the businessman has to make a balance between nature and business. He should take actions, prepare strategies that can improve and protect the ecological life and could create a balance. In recent times, Indian Companies are using the accounting technique known as 'Environmental Accounting' in this regard as we discussed in above pages. *Environmental Accounting is a method of integrating environment principles into reporting and disclosure practices. It is a technique that will calculate the economic efficiency of environmental protection and conservation operations of the business as a whole. Business Dictionary defines 'Environmental Accounting' as, "Use of traditional accounting and finance principles to compute the environmental costs of commercial and industrial decisions."* Environmental Accounting may be applied in following forms:

- **Environmental Management Accounting:** It is a process of managing fund flow in protection of environment and effect on business during a specified period of time. Disclosure may be made to stakeholders about these investments.
- **Environmental National Accounting:** Here focus is on adhering to national laws of environment with spirit of protecting them and assuring that business is performing anti-pollution activities.
- **Environmental Financial Accounting:** This type deals with finance i.e. it keeps a record of costs of and benefits from environmental activities. As a rule of thumb businessman expects profits by incurring expenses here too.

### 5.2 Current Scenario of Environmental Accounting in Indian Corporate Sector

Environmental friendly business can not only contribute in preservation of natural resources but it is also a house of opportunities such as Innovations, new customer base and market, profit generation and wealth maximization. The businessman can get competitive advantage by:

- Saving in Costs

- Introducing concept of Green Marketing
- Innovations in technology.
- Effective and responsible planning.

All we need to do is prepare some plans for management of environment in such a way that its use has no harm on living creatures of the society. Some of the businesses are already following these practices which are discussed as under:

**Asian Paints:** Following GHG Protocol, the company has introduced a technique to monitor GHGs (Green House Gas) Emissions in all its business units. GHG Emission has 2 categories:

- Scope 1 is Direct GHG emissions which are the result of fuel consumption and
- Scope 2 is Indirect GHG emission which arises from electricity consumption.

The company is attempting to increase its efficiency in its operations from the very first step of designing. This will benefit both society and business.

**Wipro:** Wipro company is taking following steps for environment as per its reports:

- 1) Reduction in GHG emission by 11000 tons of CO<sub>2</sub> eq.
- 2) To reduce per employee fresh water consumption by 5% every year. 38% water is recycled.
- 3) To ensure that not more than 5% of its total generated waste goes to landfills. More than 93% of solid waste is recycled or reused.
- 4) It has 19 green buildings. It saved 93 million units of energy over 5 years.
- 5) To convert 5 of its existing campuses into biodiversity spots till 2017.
  - **RPL (Reliance Petroleum Limited):** RPL have introduced vapor recovery system, draining system for minimizing the leakage of hydro carbons. It has also planted around 2 million trees in its refinery site. Also planted in agro forestry and horticulture. Furthermore it also trains its employees in safe operations which are also good for society.
  - **Maruti Udyog Limited.:** MUL modified its existing affluent treatment plant to take care of effluent plant due to capacity expansion. It is also monitoring its Paint Shops, Air quality, engine testing shops and stack emissions and is maintaining parameters regularly. It has generated a green belt of around 3000 plants.
  - **NTPC (National Thermal Power Corporation Limited.):** It has made progressive environment policies and is planting more than 1.5 crore of trees as per its disclosures practices.
  - **TATA Steel:** TATA Steel is conserving its natural resources by monitoring its overall raw material consumption in producing per ton of steel and iron. Water used for industry comes from surface water and in 2010-11, 35% of the water was recycled and the sources of water have no bad impact by its withdrawal. Energy consumption has also fallen in 2010-11 from

2009-10. GHGs emission has also been controlled. By-product gases are used for power generation. It has also planted trees in Jamshedpur, where the industry is located. It is also improving its solid waste management.

***US- Based think tank Ethisphere Institute has selected 2 Indian Companies in Most Ethical Companies for 2018. These two companies are WIPRO and TATA STEEL.***

### 5.3 Why Indian Companies are less in no. on World's Ethical Companies List?

Indian Companies have some drawbacks which drops them on World's List. Following are the reasons:

- a) Poor Corporate Governance.
- b) Unethical Code of Conduct.
- c) Lack of cordial relations between Employer and Employees.
- d) Lack of transparency in dealings.
- e) Irresponsible behavior of BoDs.
- f) Faulty Corporate attitude and strategies.
- g) Distrust among stakeholders and management.
- h) Fewer adherences to rules and regulations.
- i) Poor clarity of plans and policies.

## 6. Findings

The above study shows that:

- 1) Business Ethics is a way of dealing in an organization; it guides the businessman in right direction.
- 2) Corporate activities are damaging the environment at the cost of lives of future generations from decades.
- 3) Now, the corporate sector is heading towards its protection and some of the companies have started disclosing their environmental activities in financial reports and its impact on environment. This technique is 'Environment Accounting.'
- 4) Indian Constitution has many laws for environment accounting and these have been amended with the passage of time.
- 5) Ministry of Environment has made some environment laws compulsory even for the businesses performing exempted operations.
- 6) Some Indian Companies are included in list of 'Most Ethical Companies in the World' also.

## 7. Suggestions

- 1) Concept of 'Green Marketing' should be promoted i.e. product should be eco- friendly and harmless.
- 2) The Industries indulged in Manufacturing and Production should be examined on various tests while issuing Environment Clearance.
- 3) Disclosure of Environment Activities of business and its impact should be made compulsory for all types of business forms of organization.



- 4) The laws of environment should be implemented in improved and strict way.
- 5) The business should be made aware of its obligations towards environment by periodical notifications through media channels.
- 6) Defaulters should be penalized and strict action should be initiated against them.
- 7) Maximum limit on usage of natural resources may be fixed on the basis of size of business.
- 8) Consumers should have the knowledge of environment concepts while consuming the products and services so that they can use it wisely.

## 8. Conclusion

Increasing concern for environment and awareness of stakeholders has made it challenging for every business to disclose the practices relating to environment. Although companies have started following some techniques of disclosure but real bonding with environment and reports is still missing. As Charles Darwin says, "The love for all living creatures is most noble attribute of a man." So man has to connect with nature in exchange of its resources. This can be done by a strict environment ethics policy which can provide long term competitive advantage and lead to new opportunities. With effecting environment accounting the business can attract more customers and can retain existing ones. The bond of loyalty and trust can be stronger; can build corporate image and goodwill. Ethical practices will lead to stability and growth of business.

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