

CHAPTER 6

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The conclusions reached in the previous chapters and the recommendations that were developed are summarised in this chapter. In addition, recommendations are made regarding minimum requirements for corporate environmental reporting. Recommendations for future research are also made.

6.2 Conclusion Regarding the Awareness of Environmental Impacts

The awareness levels of auditors, managers and users were found to be low. In other words the preparers (managers), the auditors and the users of financial statements all had low awareness levels of the potential financial impact and disclosure requirements of environmental issues on business enterprises.

6.3 Conclusion Regarding the Willingness to Support More Environmental Reporting

Auditors, managers and users, each as a group, are willing to support more comprehensive corporate environmental reporting. In other words, the preparers of financial statements (managers) are as a group in favour of more corporate environmental reporting. So are auditors and users of financial statements.

The above conclusion was reached in both the empirical studies undertaken. In the second study, in particular, great care was taken to ensure that results of the study were representative and unbiased in any way. The conclusion that these three stakeholder groups are in favour of more comprehensive corporate environmental reporting can, therefore, be generalised to the whole population with considerable confidence.

6.4 Recommendations for the Accounting Profession and Government Regarding Corporate Environmental Reporting

There are ethical (refer to section 2.3 to 2.5) and pragmatic reasons (refer to section 2.6) for environmental reporting. Accountability was, however, accepted as the most important reason for disclosure for the purposes of this study in Chapter 2 (refer to section 2.2.2). Accordingly, the information rights of the users of financial statements should be respected and looked after. The two empirical studies both indicated that users want more environmental reporting.

In section 2.8, the question whether environmental reporting should be voluntary or mandatory was addressed. The conclusion was arrived at that, in theory, it should be compulsory. In both empirical studies, a specific question asked whether the additional environmental reporting should be done on a compulsory basis. In both studies and in all three groups, the responses averaged above 3, indicating agreement. In the first study, users were significantly more in favour of compulsory additional reporting than the other two groups. Their views are, according to accountability theory, more important than the views of the other two groups.

In summary, users have the right to information. They want more corporate environmental reporting on a compulsory basis and should, therefore, get it. The accounting profession and government, who are in a position to do something about this, should take note.

Additions to the fourth schedule of the companies act and/or a statement of generally accepted accounting practice could be a practical first step.

To ensure that the cost of disclosure do not outstrip the benefits to be gained, it may be appropriate to make environmental disclosure compulsory for only certain classes of company, such as public companies or companies listed on a stock exchange. This possibility was not addressed in the current study, and may be considered in future research.

6.5 Recommendations Regarding Minimum Requirements for Corporate Environmental Reporting

Additional reporting requirements should pass the tests of cost/benefit and information overload (refer to sections 2.7, 4.10 and 5.10). Too much information supplied can lead to information overload and/or to a situation where the costs of producing the information outweigh the benefits to be gained from doing so. Therefore, in setting a minimum reporting requirement, these issues have to be considered along with the requirements of users.

A recommended list of environmental issues that should be disclosed by corporations is given in Table 6.1 below. The items that users scored highest in the two empirical studies were taken as a basis, whilst cost/benefit and information overload was considered.

TABLE 6.1: RECOMMENDED MINIMUM REQUIREMENTS FOR CORPORATE ENVIRONMENTAL REPORTING

- a descriptive overview of the major environmental risks and impacts of the organisation
 - the environmental policy of the organisation
 - measurable targets in physical units and rand amounts, where applicable, based on the environmental policy e.g. emissions
 - performance against environmental targets and comparative figures (previous year)
 - accounting policies for recording liabilities, provisions, contingent liabilities and catastrophe reserves
 - environmental costs (energy; waste handling; treatment and disposal; legal compliance; packaging; fines; rehabilitation; recycling; etc.) by category, charged to operating expenses during the period
 - Rand amounts of environmental liabilities, contingent liabilities and reserves established in the current period
 - government environmental grants received
 - likely effect of environmental policy on future capital investment and earnings
 - environmental litigation the organisation is currently involved in
 - independent third party attestation of all environmental reporting
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Consideration could be given to drop independent third party attestation from the list, as users were not that positive about this in the first survey.

6.6 Recommendations for Future Research

In this research project, the groups, especially the manager group and the user group, were restricted to certain types. The project also concentrated on larger companies. Future research could, therefore, be conducted in the following areas:

1. Studies could be done where the manager group is expanded to include managers who are not necessarily directors of large listed companies. The results can be contrasted against the results obtained in this research.
2. Include users who are not "financially aware" and analyse the differences between these users and others. For example, environmentalists, who are users according to the King Report on Corporate Governance (IOD 1994:1) could be included.

3. The differences between small and large companies in the prevalence and appropriateness of environmental reporting could be investigated.
4. The response of users to different packages of minimum requirements for corporate environmental reporting, to ensure that information overload is not experienced, could be tested.
5. More work could be done on cost/benefit relationships of various types of environmental reporting.
6. Investigation into which classes of reporting entities should disclose which environmental information. For example, such reporting may be made compulsory only for listed companies.

6.7 Summary of Results

In South Africa, awareness levels of the financial impact and disclosure requirements of environmental issues on business enterprises are low. Individuals are, however, willing to support more comprehensive corporate environmental reporting, even on a compulsory basis. Users of financial statements are in many cases more positive about this than the preparers and the auditors of these statements. Users have the right to the information they require (refer to section 2.2.2). The accounting profession and government are in a position to make more corporate environmental reporting compulsory by, for example, amending the fourth schedule to the companies act and/or introducing a new accounting standard. Consideration should be given to making these laws or regulations compulsory for only public companies or only for companies listed on a stock exchange if it is felt that smaller companies should not be burdened with such regulations (refer to section 6.4). The items of environmental reporting listed in Table 6.1 can be used as a point of departure for such amendments/statements.