Environmental Reporting: Significance and Issues: A Case from Sri Lanka

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Abstract

Recent surveys on environmental reporting of developed countries suggest that stakeholders' demand for environmental information and the reporting of firm impact on the physical environment have dramatically increased during the last few years whereas environmental reporting of developing countries lag behind that of developed countries. However, it is concluded that existing environmental reporting even in developed countries are deficient and not of a standard to satisfy the information requirements of various groups of stakeholders. This is mainly due to an inadequate supply of environmental information as there are impediments to encourage environmental reporting at firm as well as at national level.

This study examines the significance of environmental reporting from a stakeholders' point of view (demand), existing reporting practices (supply) and if the supply is inadequate, reasons for short supply and implementation problems of environmental reporting in developing countries, particularly in Sri Lanka. A mixed research methodology such as survey, interviews and documentary evidence is used for data collection of this study. The study found that, a gap exists between demand for and supply of environmental information and it has happened due to an inadequate supply of such information, as there are many problems in an implementation stage of environmental reporting practices in Sri Lanka. These problems are broadly identified as political, organizational and individual factors.

Key Words: Environmental Reporting, Sustainable Reporting, Stakeholders rights, Organisational legitimacy

1.0 Introduction

Traditionally, corporate reporting procedures have focused exclusively on providing financial information to stakeholders (Maunders & Burritt, 1991). Later on, with the changes in social value and technical know how, stakeholders are more concerned about the social and environmental protection and sustainable development. Thus, stakeholders demand information on the social and environmental impact of business activities in addition to the traditional financial reports. Consequently, with an understanding of ñ stakeholders rightsò and ñorganisational legitimacyò environmental reporting practices at firms level have been increasing over the last few years. However, it does not adequately meet the stakeholdersô

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demand for environmental information. Therefore, a gap between demand for and supply of environmental reporting exists in both developed and developing countries due to an imbalance of demand and supply of environmental reporting. Although, many researchers such as Gibsion & Guthrie, 1995; Gray, Owen & Adams, 1996; Deegan & Rankin, 1999 and Rajapkse, 2001 have emphasised this situation, they have not studied reasons for this situation and have not recommended how such reporting practices could be improved. Therefore, it is a social responsibility of researchers to identify reasons for the short supply of environmental reporting practices and convey them to policy makers in order to make suggestions to improve the quality of environmental reporting in both developed and developing countries.

This study is designed to identify the impediments in order to encourage environmental reporting practices, particularly in Sri Lanka, since environmental reporting practices in developing countries lag behind that of developed countries (Shiraz, 1998; Lodhia, 2000). Therefore, objectives of this study are to,

i. review existing demand for and supply of environmental reporting in Sri Lanka.
ii. identify dominant impediments in order to encourage environmental reporting practices in the Sri Lankan context *and*,
iii. to make suggestions to eliminate such impediments in order to improve environment reporting practices in Sri Lanka.

2. 0 Literature Review

2.1 Environmental Reporting in light of Stakeholder Theory and Legitimacy Theory

Expansion of industrial activities may adversely affect the natural environment. Thus, societal concern on environmental matters and demand for environmental information has increased dramatically, particularly during the past two decades (Christopher, 1997). Similarly, a number of research studies emphasise the need for a broader range of social and environmental information to stakeholders. For example, relevance of social and environmental information to investors (Belkaoui, 1976; Ingram, 1978; Jaggi & Freedman, 1982; Shane & Spicer, 1983), investorsô demand for social and environmental disclosures (Epstein & Freedman, 1994), pressure from lobby groups for environmental disclosures (Tilt, 1994), demand for environmental information and expectations of annual report users (Deegan & Rankin, 1997). But, traditional corporate reporting procedures have focused exclusively on providing financial information to stakeholders (Maunders & Burritt, 1991). Because it is generally accepted that one of the purposes of financial accounting is to report on how managers are entrusted with the economic resources of an entity and how they discharge stewardship towards stakeholders (FASB, 1978). However stakeholder theory has recognised the stakeholdersô órightô to know information on the environmental impact of the organisations operations.

Environmental issues are business issues (Gray, 1993). According to the Legitimacy theory, since there is a "social contract" between the accounting entity and society at large it is the social responsibility of an entity to protect the societal interest on environmental issues (Deegan, 2000). Therefore " environmental reporting has derived as a recognition of stakeholdersô rights and as a partial discharge of the associated accountability" (Gray, 1990). In addition to that the following factors may influence the need for environmental reporting of accounting entities:

- to legitimise the current activity of the business entities (Gray, 1993);
- to provide information relating to environmental risk impact of activities to shareholders, lenders and others in the investment community (CICA,1993);
- to make adjustments to the national accounts in order to produce a better instrument for steering the economy (Willums, 2000);
- to expand corporate accounts to reflect the handling of environmental and social assets by the company (Willums, 2000);
- to provide information about sustainability, eco-efficiency and eco- justice (Gray, 2000);
- to identify cost savings and new business opportunities (Kolk,2000);
- to create positive public relationship, to make a company more attractive to customers and investors (Kolk, 2000).

2.2 Current Status of Environmental Reporting Practices and Issues

Financial reporting practice is based on the concept of stewardship, which is understood as the relationship between the managers and shareholders (Mathews & Perera, 1991). In practice, most of the accounting standards explicitly or implicitly maintain the investors (shareholders and creditors) as the reference users and financial reports are mainly prepared to meet information requirements of those reference users (FASB, 1978; Moneva & Llena, 2000). Consequently, the financial reporting framework suffers from considerable shortcomings in some areas such as social and environmental disclosures (Moneva & Llena, 2000). Although environmental protection and pollution control is now subject to statutory controls in some developed countries - for example, criminal liability of company directors and managers for non-disclosure of environmental information (Hicks, 1995), compulsory green reporting in Denmark (Vedso, 1996), environmental protection policy of Victoria (Bell, 1996), Japanese guidelines for public disclosure of environmental accounting information (SEAJ, 2000a), environmental accounting project of USA (SEAJ, 2000b), mandatory requirements of social and environmental reporting of UK(SEAJ,2000c), mandatory environmental and social reporting in France (SEAJ, 2002a), environmental reporting regulations of Finland (SEAJ 2002b), environmental reporting does not form as a part of the financial statements even in most of the developed countries. It seems that environmental reporting still takes the form of voluntary disclosures (FEE, 1995; Gray & Kouhy, 1995). As a result, current environmental disclosures do not adequately meet the usersô requirements of information (Gibson & Guthrie, 1995 and Gray, Owen & Adams, 1996). Deegan & Rankin, (1999) claim that environmental reporting of both developed and developing countries have been deficient and not of a standard to satisfy the information needs of various groups of stakeholders. Because environmental disclosures are typically descriptive or qualitative unverified statements (Gray et al., 1995; Deegan & Gordon, 1996; Chan & Miline, 1999). Also, most of the environmental disclosures tend to be self-laudatory and favourable to their corporate image (Deegan and Rankin, 1999).

However, there is a growing trend of environmental reporting of worldwide business entities that depict firms in a positive light (Deegan & Gordon, 1996). Guthrie & Parker, (1989); Gibson & Guthrie, (1995); Deegan & Gordon, (1996); and Deegan & Rankin, (1996) reviewed the environmental reporting practices adopted by Australian corporations and they have concluded that the proportion of corporations which disclose environmental information is increasing across the time, along with the amount of environmental disclosure incorporated within annual reports. Gray et al., (1995); Chan & Milne, (1999) support previous researchersô findings and state that, over recent years, the reporting of a firm impact on the physical environment has dramatically increased. Kolk (2000) says that, at present, environmental reporting is becoming more and more common in business. According to a study of the Institute for Environmental Management and the accounting firm KPGM, 35% of the worldôs 250 largest corporations now issue environmental reports together with the traditional annual financial reports (Kolk, 2000). But, social and environmental reporting practices in developing countries lag behind that of the more developed countries and has a long way to go in order to meet the increasing demand for environmental information and related international standards (Lodhia, 2000; Belal, 1997; Siddiqui, 2001). It believes that the lack of adequate resources and qualified personnel has contributed to ad-hoc and patchy environmental reporting practices in these countries (Shiraz, 1998). Environmental reporting award schemes have been introduced in Asian countries to promote and to improve quality of environmental reporting practices in the region (SEAJ, 2002c).

3.0 Methodology

A mixed research strategy was employed in this study to maintain the mix of advantages of both quantitative and qualitative approaches, particularly to maintain validity of quantitative data (Hussey & Hussey, 1997). Accordingly, a triangulation methodology such as survey, interviews and documentary evidence is used in data collection. The Institute of Chartered Accountants of Sri Lanka (IACS) circulated survey instruments/ questionnaires, among its members. As their response rate was low, survey instruments with covering letters and return envelopes were mailed to selected members of the ICASL in late 2002. Finally, 48 useful responses were received. Questionnaire[2] was designed to examine their attitudes on environmental reporting practices in general and particularly in the Sri Lankan context and it is divided into five sections such as organisational policies and management support, role of accountants and accounting, reporting practices and guide lines, motives of business organisations and knowledge and awareness of report preparers. Additionally ten members of the IACS and ten Chief Executive Officers (CEOs) of private sector business organisations were randomly selected and interviewed to get their feedback on environmental reporting. Detail syllabi of accounting courses offered by leading national universities in Sri Lanka and professional accounting bodies were reviewed to scan environmental accounting education in Sri Lanka. The Company Act, the National Environmental Act and the Income Tax Act were also reviewed to assess their provisions relating to environmental reporting. Data relating to the demand for and supply of environmental reporting and stakeholders attitudes on environmental reporting were quoted from the articles published in the journal of IWE, Vol.3, 2001and SEAJ, vol.22, 2002.

4.0 Case from Sri Lanka

Media has frequently reported that, there is an increasing trend of stakeholdersô concern and demand for environmental management and sustainable development information in Sri Lanka (Siriwardena, 2000; de Silva, 2000; Wimalasurendre, 2000; The Island, 2000; Munaweera, 2001; Wimalarathana, 2001; Weththasinha, 2001 and Colombopage, 2001). Thus, researcher conducted a survey in late 2001 and early 2002 to verify the reality of the media reports and its results were summarised as shown in table 01 and table 02.

According to table 02, a majority (52%) of the Sri Lankan stakeholders has an awareness of environmental management activities of business organisations and are knowledgeable of its environmental impact. Researcher further found through interviews that the various groups of stakeholders incorporate the environmental information in decision-making process. Accordingly, shareholders, bankers and financial institutions used this information to minimise their investment risk whereas stockbrokers used this information to evaluate the investment proposal of their clients. Environmentalist organisations are always concerned about the environmental issues of business organisations in Sri Lanka. Government organisations specially, Central Environmental Authority of Sri Lanka, uses environmental management information of business organisations when they review on-going environmental protection programmes before renewing environmental protection license (see for more details, ñ

[2] **Questionnaire is available on request**

*Environmental reporting expectation gap*ò, the Journal of IWE, vol.3, 2001, p.99-119).

Table 1
Stakeholder categories surveyed / interviewed and their responses

Category	Number of			Responses	
	Surveys	Interviews	Total	Received	Proportion%
Shareholders	125	10	135	34	27.20
Bank/ Financial Institutes	-	08	08	-	-
Investment analysts	-	06	06	-	-
Environmentalist Organisations	75	05	80	27	36.00
Govt; Organizations	-	05	05	-	-
Consumers	-	10	10	-	-
Company Executives	-	05	05	-	-
Company Accountants	80	10	90	31	38.75
Employees	-	10	10	-	-
Academics & Researchers	-	08	08	-	-
Accounting bodies	-	02	02	-	-
General public	-	10	10	-	-
Total	280	89	369	92	32.85

Source: survey and interview data

Table 2
Stakeholders' concern on environmental reporting

Category	No. of respondents	No. of respondents concern on Environmental Reports	Group Proportion %)
Shareholders	44	12	27.27
Bank/ Financial Institutes	08	06	75.00
Investment analysts	06	02	33.33
Environmentalist Organisation	32	24	75.00
Govt. Organizations	05	03	60.00
Consumers	10	00	00
Company Executives	05	03	60.00
Company Accountants	41	33	80.49
Employees	10	04	40.00
Academics & Researchers	08	06	75.00
Accounting bodies	02	01	50.00
General Public	10	00	00
Total	181	94	51.93

Source: survey and interview data

This study highlights the various groups of stakeholdersô and their interest on environmental protection information of business organizations. They believe that the financial information alone does not sufficiently satisfy their information needs. It implies that, with the changes in social values such as social responsibility and social attitudes, stakeholders in Sri Lanka are also have started to incorporate the information relating to ecological balance and eco-efficiency etc., with their decision makings. According to media reports presently there is a huge demand for social and environmental information of business organizations from the society (The Island, 2000a; The Island, 2000b; The Island, 2000c).

Since the majority of stakeholders demand environmental management information of business organisations, researcher reviewed annual reports of selected quoted public companies in Sri Lanka to find out the adequacy of the disclosures of environmental information in the annual reports to meet stakeholdersô demand for the same. The summarised results are shown in Table 03.

Table 03
Summary of the Social Disclosures of the Top Fifty Companies, 2001/2002

Sector	Annual Report Reviewed	Separate Social & Environ--mental Report	Within the Annual Report				Do not Disclose
			Separate Report	Chair's/ Director's Report	Vision/ Mission Statement	Within Financial Report	
Banking, Finance	14	-	4	4	-	-	6
Beverage, Food,Tobacco	11	1	1	1	1	-	7
Chemical	2	-	1	-	-	-	1
Construction	1	-	-	-	1	-	-
Diversified	4	-	3	-	1	-	-
Hotel/ Travel	1	-	1	-	-	-	-
Manufacturing	6	-	2	-	-	1	3
Motors	2	-	1	-	-	-	1
Plantation	5	-	3	1	-		1
Stores/ Supplies	1	-	-	-	-	-	1
Textile	1	-	-	-	-	-	1
Trading	2	-	1	-	-	-	1
Total	50	1	17	6	3	1	22

Source: annual reports

The results of table 03 show that 22 companies (i.e. 44% of the sample) have disclosed their responsibility to development and protection of the social and physical environment, which may be adversely affected by the companyôs operations. Except one company others have disclosed only qualitative environmental information within their financial statements. However, these disclosures seem to be self-laudatory statements rather than qualitative information. Thus, the environmental information provided in the financial statements is not at all sufficient to make decisions relating to social and environmental issues of business organizations. Moreover, the results of annual report reviews show that, although private

sector organizations in Sri Lanka disclose material financial information, their environmental disclosure practices are poor and not of a standard to satisfy information requirements of stakeholders (see for more detail, ñ *environmental reporting expectation gap*ò, the Journal of IWE, vol.3, 2001, p.99-119 and ñenvironmental reporting practices: evidence from Sri Lankaò SEAJ, vol.22, 2002, p.3-4).
To get further individual views of stakeholders regarding current environmental reporting practices, they were asked to respond to the statement, ó*Current environmental reporting practices in Sri Lanka are incomplete and inadequate'*. Responses to this statement are shown in Table 04. Survey findings indicate that the majority of stakeholders (about 69%) strictly believed that the current environmental reporting practices in Sri Lanka do not produce material and useful information to make their economic decisions. All respondents have mentioned that, this is due to the absence of environmental reporting standards and regulations, and its voluntary nature.

Table 04
Stakeholders' views of current environmental reporting practices

Category	No. of Respondents	No. of Respondents	
		Do not have idea	Inadequate
Shareholders	44	16	28 (63.63%)
Bank/ Financial Institutes	08	-	08 (100%)
Investment analysts	06	-	06 (100%)
Environmentalist Organisation	32	18	14 (43.75%)
Govt. Organizations	05	-	05 (100%)
Consumers	10	10	00
Company Executives	05	-	05 (100%)
Company Accountants	41	-	41 (100%)
Employees	10	-	10 (100%)
Academics & Researchers	08	02	06 (75%)
Accounting bodies	02	-	02 (100%)
General Public	10	10	00
Total	181	56	125 (69.06%)

Source: survey and interview data

5. 0 Discussion

Although the financial reporting of quoted public companies of Sri Lanka consist of high standards of financial nature disclosures (Wickramaarachchi, 2002), survey findings highlighted that the majority of the stakeholders are not satisfied with existing accounting reports since there is no adequate disclosure of environmental transactions and their impact.

On the other hand, these financial reports do not show a ñtrue and fair viewò due to the lack of adequate disclosures and independent audit attestation for environmental accountability of business organisations. Consequently, validity and reliability of financial reports is questionable. Thus, it is the responsibility of the firm to produce such information to meet stakeholdersô requirements since stakeholder theory has recognized the stakeholdersô right for such information.

Therefore, this study attempts to identify the critical impediments in order to encourage environmental reporting in developing countries, particularly in Sri Lanka. These identified critical impediments can be discussed under three categories as follows.

5.1 Lack of Political Pressure

(a) Provision in the Company Act: Financial reporting of quoted public companies in Sri Lanka is basically governed by the provision in the Company Act of No. 17 of 1982 and the accounting standards issued by the Institute of Chartered Accountants of Sri Lanka (ICASL). Although the sections 143-173 of the Company Act emphasises the requirements, procedures and other relevant information applicable to the financial accounting and auditing of public companies, it is silent on reporting of social and environmental impact of these companies. But in some developed countries, the Company Act has provided reporting obligations of environmental information in their annual reports. For example, in section 299 (1) (f) of the Company Law Review Act 1998 of the Commonwealth of Australia *(general information of operations and activities), the directors' report for a financial year must state ……*

> *(f) if the entity's operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or a State or Territory- details with the entities performance in relation to environmental regulation"* (Burritt, 1999).

As a result of this provision, annual report disclosure obligations might be extended to include reporting on performance in relation to other environmental issues such as environmental policies, emission levels for pollutants, environmental management systems and waste management systems, fines for breaches of environmental regulations, results of environmental audit and levels of company capital expenditure on environmental initiatives (Burritt, 1999).

(b) Provisions in the National Environmental Act: According to section 23 A of the National Environmental Act, No.47 of 1980, companies which carry out the prescribed business activities in part A and B of this Act should obtain an Environmental Protection License (EPL) which should be renewed once in every three years. When EPL is renewed, a detailed report called ñ Environmental Impact Assessment Reportò should be submitted. Although, this report consists of the progress and contribution of environmental protection of the previous year, there is no prescribed mandatory requirement for public disclosure of this information. However, in some developed countries, for example, section 35 of the

Environmental Protection Act of Denmark says that environmental reporting of ñlisted companiesò is compulsory from 1996 whereas section 37B of the Swedish Environmental Protection Act of 1994 has established the requirements of environmental reporting (Vedso, 1996). The Environmental Management and Pollution Control Act, 1994 (Tasmania) has emphasised that it is a responsibility of the directors to produce environmental reports and it provides óoffencesô that result from contravention with consequent criminal liability for persons and companies found guilty of such offences by the court (Hicks, 1995). But, there is no such type of provision in the National Environmental Act of Sri Lanka.

(c) Provision in the Income Tax Act: Netherlands has introduced tax breaks for environmental protection investments (Bovy, 1996). Thus, it will be an incentive to promote environmental reporting and environmental auditing. Currently, in Sri Lanka, many industrial firms have made huge investment in physical environmental protection projects, particularly, with the financial assistance of e- friends[3] loan scheme of the National Development Bank (NDB, 2002). But no provision has been made for tax break or tax incentives for environmental friendly investments in the Income Tax Act, No. 28 of 1979 (Sri Lanka) and its amendments.

(d) Professional Guidelines: Some developed countries have already proposed accounting standards for environmental reporting and auditing. For example, accounting standards for environmental liabilities in Australia (Gibson, 1995), provisions for environmental reporting in section 12 of Dutch Law (Visdo, 1995), United Nations International Standards of Accounting and Reporting and Standards and Guidelines in the ISO 14000 Series (IFAC, 1998). But, so far no attempt has been made to develop accounting standards or guidelines for environmental reporting in Sri Lanka. However, ICASL has issued a circular to its members to encourage environmental auditing and to produce an environmental audit report with an annual report of the public companies.

> ñAll respondents to survey and interviews said that ñ*as a result of lack of political pressure, particularly, the absence of regulations, standards and guidelines, which prescribe the environmental reporting practices, current environmental disclosures in annual reports of business organisations in Sri Lanka are incomplete and inadequate".*

Environmental reporting practices in Sri Lanka are entirely voluntary activity as in some other developed and developing countries. Since prevailing accounting standards, guidelines and policies do not adequately cover environmental reporting practices in Sri Lanka, all respondents have emphasised that ñ*professional accounting bodies should act in order to develop guidelines for environmental reporting in a broad sense. This is necessary because,*

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[3] **e-friends loan scheme is funded by the government of Japan and it administrated by the National Development Bank. It grants a maximum of Rs. 50 million per enterprise as term loan for investment in environmentally friendly projects with comparatively low interest rate.**

although, many industrial organisations currently invest considerably in environmentally friendly projects, so far no commonly accepted accounting guidelines have been developed in order to disclose the value and impact of such investments in financial reports".

Lack of reporting standards and guidelines for environmental transaction is the common characteristic in accounting discipline of most of the developed and developing countries. Therefore, still they work within the traditional accounting framework which, an accounting was identified as a technique for quantification or calculation of business transactions for the smooth functioning of modern business (Power & Laughlin, 1992). Accounting is therefore understood largely as work rather than interaction (Harbermas, 1971). Hence, accounting practices (accounting standards, guidelines etc.) are designed to record business transactions rather than social transactions. As a result, there is neither a legal nor professional requirement for environmental reporting. Hence, the reporting of environmental performance is not standardised and remains predominantly voluntary (see Gray & Owen, 1993; Deegan & Rankin, 1999). However, at present there is an urgent need to develop a set of international accounting guidelines for environmental reporting and auditing since social concern on environmental protection (stakeholdersô pressure) is growing day by day.

5.2. Organisational Factors

(a) Organisational Policies and Management Support: There should be a high level of management support, which lead to accounting polices for environmental disclosure. Gray et. al., (1993) report on the results of a series of interviews, site visits and investigations undertaken in UK, New Zealand and Canadian organisations. It shows that not only accountants but also the senior management have rarely contributed to the development of environmental policies for their organisations.

Almost all the respondents of the survey and interviewees agreed that, ñ*companies should have developed their own environmental management and environmental accounting policies, which comply with existing related national and international guidelines. But the problem is that so far there is no acceptable environmental accounting guideline".* This implies that an absence of environmental reporting guidelines is the main impediment to encourage environmental reporting practices and to develop own environment management and accounting policies at the firms level. Furthermore, 62% of respondents said, ñ*although we have introduced some sort of environmental management policies, we do not have environmental accounting policy*ò whereas all other respondents said, ñ*so far we have not introduced either environmental management or environmental accounting policies into our reporting mechanism".*

Townsend (1996) said that in order to provide the best environmental accounting and reporting senior management and cross-functional and skilled teams are required. The statement that *"the top management and middle management should extend their support to implement* *environmental accounting policies within the company"* was addressed in surveys and interviews. Although, all respondents agreed to this statement, CEOs said that, ñthe *accountant involvement in environmental reporting is not sufficient"*.

Finally, it can be concluded that, although organisational policies and management support are the most important factors which lead to the production of material social and environmental disclosures in the annual reports, the involvement of both top management and middle management (including accountants) of Sri Lankan business organisations to incorporate environmental issues within the financial statements is low.

(b) Shortage of Staff: Although, recent surveys on environmental reporting suggest that worldwide stakeholdersô demand for environmental information has dramatically increased. See for more details relevance of social and environmental information to investors by assessing their impact on stock market return (Belkaoui, 1976; Ingram, 1978; Jaggi & Freedman, 1982; Shane & Spicer, 1983), investorsô demand for social and environmental disclosures (Epstein & Freedman, 1994), pressure of lobby groups for environmental disclosures (Tilt, 1994), demand for environmental information and expectations of annual report users (Deegan & Rankin, 1997) and stakeholders demand for environmental information (Rajapakse; 2001). One of the most dominant problems in providing this information is that the shortage of qualified staff (Shiraz, 1998). As a result an existing accounting information is based on the traditional financial reporting framework, which is more emphasised on the reporting of financial nature information rather than the reporting of non-financial information such as social and environmental reporting (Maunders & Burritt, 1991). Moreover all respondents, except four have mentioned that ñ*at present we do not have qualified staff to integrate the environmental effects of their operations into the traditional accounting reporting mechanism and equipment with modern technology to measure environment pollution"*. This implies that the report preparers do not have technical knowledge to measure or to verify such types of environmental pollution.

Accordingly, shortage of qualified staff is one of the dominant problems, faced by the business organisations in developing countries in the process of implementing suitable environmental reporting practices in their organisations.

(c) Conflict with business motivations / Cost of Reporting: Existing financial reporting framework suffers from considerable shortcomings in some areas such as social and environmental disclosures (Moneva & Llena, 2000). If organisations need to introduce environmental reporting, the existing financial reporting framework should be reorganised with new employment in the areas of accounting, engineering and sociology etc. Consequently, reporting on environmental issues present additional cost to entities in developing countries (Shiraz, 1998). 81% of respondents to the survey and interviews said, ñ*Business organisations do not motivated to supply environmental disclosures as it is an additional burden to them and as there is no cost benefit to the firm"*.

It implies that, although environmental reporting is becoming more and more common and is rapidly expanding among business organisations in developed countries (Kolk, 2000), business organisations in developing countries consider it as an additional burden to them and a waste of efforts. The reason for this situation is that lack of awareness or negligence of the concepts such as social responsibility, organisational legitimacy and stakeholdersô rights etc. as they are mainly motivated by profit rather than environmental protection.

5. 3 Individual Factors

(a) Lack of Knowledge and Training: Expected duties of accountants will change according to professional, technical and societal development. Changing social values and norms make changes in external reporting with special emphasis on organisational legitimacy and social responsibility (Geno, 1995). Hence, accountants should have a clear understanding about information requirements of the society. Earlier researchers have emphasised that one of the most important variables, which affect the involvement of the accountant in the organizationôs environmental reporting is knowledge and it is necessary for developing some form of environmental accounting practices (Ajzen & Fishbein, 1980; Schifter & Ajzen, 1985; Ferguson, 1988; Newman et al., 1989; Derwent, 1989; Gray, 1990; Lickiss, 1991). Bebbington et al., (1994) found that the accountants' apparent lack of knowledge about the possibilities of environmental accounting and also that present education and training programmes inadequately prepare accountants for environmental issues. So they suggested that accountants should undergo relatively common training processes that might equip them to respond to environmental issues.

82% of the total respondents said ñ*we do not have adequate knowledge and training to integrate environmental information with financial reports"* whereas all respondents said *" accounting education in Sri Lanka does not offer appropriate accounting curricula to enhance report prepares' knowledge of environmental reporting*ò. Although, academic and professional bodies in developed countries such as Australia, UK, New Zealand and USA offer environmental accounting courses with academic programmes (Gibson, 1997), in Sri Lanka none of the academic or professional bodies offer such courses with their academic programmes. All accounting courses are based on traditional accounting concepts and practices. As, Medley (1997) says, by providing training and guidelines accountantsô knowledge of environmental issues should be improved.

(b) Attitudes: Social norms and values are not immutable. Changing social values and norms constitute one motivation to make changes in external reporting with special emphasis on organisational legitimacy and social responsibility. With the social and economic changes, the existing accounting system needs to be modified (Burchell, Clubb & Hopwood, 1985). Perera & Mathews (1991) emphasis that societal values influence accounting systems to disclose additional information. Hence, there should be a positive attitude among report preparers (top management, accountants and auditors) to disclose the environmental impact and social responsibility of their entity as additional disclosures. Studies in developed countries suggest that there is a growing trend of attitudes and awareness of report preparers that environment as an important management and social issue (Gibson & Guthrie, 1995). As a result of the growing and attuned attitudes towards environmental matters, report preparers are motivated to produce better information about environmental issues of their entities (UN, 1991; Ross, 1990; Deloitte, 1990).

Sri Lankan evidence shows that there are no clear positive attitudes among report preaprers to integrate environmental information with financial information. Common view of 58% of the total respondents is that ñ*environmental reporting* (*external) is a useless effort since there are no accepted guidelines and measurements and it may be an additional burden to medium and small scale business organisations".* However, the view version of the remaining respondents is that ñ*the role of accounting and accountants should be expanded to enable the disclosure of non-financial information such as social, environmental and sustainable information within the existing financial reporting framework and clear environmental management and environmental accounting policies should be developed at the level of individual firms".*

Although, accounting was introduced to Sri Lanka by Great Britain (UK) during the colonial period to facilitate the plantation sector, so far no attempt has been made to develop an accounting system suitable to local conditions (Perera, 1975). It implies that, accounting culture of Sri Lanka is still based on an early stage of western accounting culture, which emphasises more on the technical aspects of accounting. Later on, UK and other developed countries have identified the social requirements of accounting information and have developed accounting discipline by way of introducing new accounting curriculum and accounting practices enabling them to meet those requirements (Gibson, 1997). Consequently, accounting report preparers of those counties have perceived the social requirements of accounting information and they have changed their attitudes and behaviour in order to produce such information and at present most of the companies issue social and environmental reports as supplementary reports to the existing traditional financial reports (Bebbington, 1994; Kolk, 2000). However, there are no such improvements of attitudes and behaviour of accounting report preparers in Sri Lanka and they do not have adequate knowledge, training and guidelines, which facilitate the environmental reporting. Absence of environmental accounting courses in accounting curriculum of academic and professional accounting programmes have adversely affected the development of positive attitudes and behaviour of report preparers to initiate environmental reporting practices in Sri Lanka.

6.0 Summary and Conclusion

This study mainly attempts to find answers for two basic questions. They are;

i. Why environmental reporting is required?

ii. Why environmental reporting is not in practiced?

According to the media, with the changes in social values, stakeholdersô concern about the protection of the physical environment, eco- efficiency and sustainable development etc. have dramatically increased during the last few years. This situation can be confirmed on the basis of the findings of this study. Furthermore it says that, environmental reporting needs to be produced since the majority of the stakeholders (about 52% of the surveyed group) are interested in such information of business organisations. Having an understanding of this situation and concepts of organisational legitimacy and stakeholders right for environmental information a few leading business organisations (about 19% of the sample reviewed) in the country have made an attempt to produce information on the firmsô impact on the physical environment or cost of environmental related activities. However, existing environmental reporting practices in the country are insufficient to meet stakeholders demand for such information. About 69% of the stakeholders in the surveyed group were also not satisfied with the existing environmental reporting practices in the country. Thus, it can be concluded that supply of environmental information is inadequate to meet the information requirements of various groups of stakeholders in the country.

The study also attempts to examine the impediments to environmental reporting in Sri Lanka. It has revealed that political factors (lack of legal provisions in the Company Act, in the National Environmental Act, in the Income Tax Act and lack of professional guidelines for environmental accounting and auditing), organisational factors (lack of organisational policies and management support to implement environmental management and reporting, shortage of qualified staff to carry out environmental reporting practices and conflict with business motivations as they identified that environmental reporting as an additional burden) and individual factors (lack of knowledge and training of report preparers, and their negative attitudes about environmental reporting) to be the main impediments to prevent environmental reporting in Sri Lanka.

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