

The definition, history and importance of environmental auditing



Introduction

Environmental auditing is defined by the international chamber of commerce as the systematic examination of the interactions between any business operation and its surroundings. This includes all emissions to air, land, and water; legal constraints; the effects on the neighbouring community, landscape and ecology; and the public's perception of the operating company in the local area. An environmental audit does not stop at compliance with legislation. Nor is it a 'green-washing' public relations exercise. Rather it is a total strategic approach to the organisation's activities (International chamber of commerce, 1991). All businesses use resources and produce waste; as such they have an effect be it direct or indirect on the environment. Thus, environmental auditing is in place to monitor and regulate an organisations impact on the environment. This element of corporate social responsibility has 'attracted the most attention in recent years' (Clarke, 1998) and this is a reflection of the growing importance society place on environmental issues. This essay will introduce environmental auditing in further detail before moving on to discuss the key trends and the key stages which took place in the development of external auditing. Furthermore, Tesco and Shell will be used to highlight how environmental auditing has affected these organisations strategies and business models before finally drawing conclusions as to the future of the issue.

Before discussing the development of environmental auditing since the 1970s, it is first important to clarify what is meant by environmental auditing. The term auditing is one which is used far more widely than just the <https://assignbuster.com/the-definition-history-and-importance-of-environmental-auditing/>

verification of accounts, and therefore it is important to determine what is meant by auditing in the specific case of environmental auditing (Gray, 2000). An environmental audit report will identify the forms and classes of waste produced by an organisation. This may be completed privately by an external auditor, or may be the result of pressure from activist groups in which such an audit is demanded. Either way, often the result is a self reporting by the organisation detailing their waste disposal and future goals regarding environmental issues.

The objectives of this report are focused on trace the development of environment auditing over last several years. In chapter two, I will analyze the history of environmental auditing, changes, trends and developments. And then chapter three and chapter four will move on to discuss how environmental auditing has affected the practices of two large multinationals: Shell and Tesco. The case studies will cover the adoption process of environmental auditing, how companies have had to change their practices to meet changes in legislation over time, and, a review of any action which has been taken against companies, due to the neglect of environmental practices. Finally, chapter five will synthesise the ideas of this paper to draw conclusions as to the likely direction environmental auditing will take in the future.

CHAPTER TWO

The history of environmental auditing, changes, trends and developments

This essay will now discuss the history of environmental auditing since the 1970s. This period of time has been covered because it contains some of the <https://assignbuster.com/the-definition-history-and-importance-of-environmental-auditing/>

most prominent events that have been fundamental in the determination of more current trends that can be observed within the last ten years. Although environmental auditing is not a recent phenomenon, and is one which can be traced back to the beginning of the twentieth century, it was in the 1970s in which the situation 'gained prominence' (Owen, 2003 p. 6) when the clean air act was first legislated. The clean air act can be seen as the birth of environmental awareness, in which the US government took action to reduce air pollution in order to enhance air quality. Businesses in the US were made to comply with the legislation, and this could often involve the implementation of costly preventative measures in order to reduce pollution, especially for those organisations involved in high waste sectors (Hess, 2000). This legislation reflected a growing concern throughout developed nations in the 1970s regarding environmental quality, which was seen at the time as a pressing political concern. Earth day, a momentous event in 1970 acted as a 'national catharsis' in which society pushed for change regarding environmental issues. Great pressure was put on manufacturing industries and, increasing media attention was given to those firms which were seen to be having a detrimental effect on the environment (Environmental protection agency, 2010). The clean air act of 1970 was followed by the clean water act in 1972. The development of acts relating to environmental issues was slowly picking up pace which was causing increasing concern to firms, which were largely the only opposition to such acts. Perhaps the most salient development in this period was the event which saw 'Allied Chemical' indicted on account of 1094 pollution violations and forced to set up a system which monitored environmental risk (Groves and Pearce, 2005). The move to punish companies for bad environmental practice was a key

<https://assignbuster.com/the-definition-history-and-importance-of-environmental-auditing/>

development in environmental auditing and saw the beginning of a series of fines for those companies failing to comply with safe environmental practices. This is something which has become commonplace over the last ten years with a trend of increasing stringency regarding the governmental measurement of a firm's environmental impact and, the appropriate measures of control.

During the 1980s there was an increasing awareness of environmental issues politically, which led to the organisation of a professional auditing team to discuss environmental auditing in 1981. This was the first time in which environmental auditing had been discussed by an accountancy team, and by 1983, firms were already beginning to implement environmental audits. By 1986 the EPA had published an official policy report regarding environmental auditing; this could be seen as a call out to all other firms to follow safe environmental practices. The particular focus on this initial report being, that environmental auditing would help health and safety around the workplace. Meanwhile, in academic literature, the concept of environmental auditing was beginning to receive attention. This led to an increase in academic awareness of the subject which resulted in the conceptualisation and clarification of the topic (Cahill and Kane, 1984). During the last decade, there has been an increasing amount of publications surrounding the topic of environmental auditing, and this has led to a greater understanding of what it constitutes. Furthermore, there have been an increasing number of regulatory bodies ensuring that strict regulations are in place and that firm's activities are closely monitored (Porter & Linde, 1999). It can also be noted that, since this period, where accountants were first consulted on the matter,

there has been a recent trend within the last ten years whereby more and more intangible activities have been allocated quantifiable tangible costs, such that firms can be taxed and charged (Bovenberg & Mooji, 1997).

It is noted that throughout history, environmental auditing has been driven by catastrophic events that have caused significant environmental damage. It has been events such as these that have created pressure, which has been put on companies such as Shell, to implement preventative measures rather than measures which are responsive. The Union Carbide incident in India in 1984 caused many companies to sit up and pay attention to environmental concerns. The pesticide factory had failed to take appropriate actions to safeguard the disposal of waste gas and, during an evening in 1984, 3400 people were killed and 50, 000 were made invalid due to a poisonous gas leak. The report that followed the incident highlighted how the company had known there were problems with the pipe and that this could cause such an event, however, the company had chosen to ignore it as a way of cutting (short term) costs (Long, 2008). Other major events during the 1980s included the Exxon Valdez oil spill (Maki, 1991) and the Chernobyl nuclear leak. During the last ten years there has been a notable reduction in the amount of environmental disasters caused by neglect or incompetence on the part of firms. This is due to the influence of modern day environmental auditing which has caused companies to direct their focus towards tighter preventative measures rather than face potentially substantial costs.

The 1990s saw the development of legislation regarding environmental concerns. Furthermore, companies began to introduce more sophisticated environmental auditing systems (Siniscalco et al, 2000). In the last decade, <https://assignbuster.com/the-definition-history-and-importance-of-environmental-auditing/>

there has been a remarkable growth in the number of companies that report on various aspects of both their environmental and social policy (Owen, 2003). Such a rise in environmental auditing has continued consistently and remains to do so. Presently there has been a growth in the amount of companies focused on environmental auditing.

Furthermore, in the last ten years there has been a rise in the amount of 'self auditing' which is occurring within companies. The EPA has introduced a scheme in which companies can audit their own practices. This involves, the company in question, being able to report problems and even criminal violations without punishment, the caveat being that such problems are fixed. This therefore reflects a development from environmental auditing being viewed as merely the 'checklist' of the 1980s and 1990s to one which is more focused on managerial processes (Hiemstra, 2007).

CHAPTER THREE

Shell and environmental auditing

The Shell Oil Corporation is no stranger to environmental fines. Most recently, the company were forced to pay \$19.5 million in environmental fines due to violations at gas stations in the state of California (ABC news, 2009). The company have a long history of environmental fines, and, most noticeable is the \$1.5 billion dollars the company had to pay due to oil spills in Nigeria (Baker, 2006). Increasingly stringent legislation has caused the firm to face up to their actions, with negative effects on the company's bottom line profits. No longer can the company get away with negative

environmental actions and both governments and regulatory bodies will
<https://assignbuster.com/the-definition-history-and-importance-of-environmental-auditing/>

continue to punish the corporation until preventative measures are taken. Thus, it could be argued that the development of environmental auditing has had a negative effect on the firm. In response to such changes in environmental auditing, the company are taking increasing preventative measures in order to avoid the burden of large fines, and, to promote a 'greener' image to clients. This is reflected through the company's website in which a section highlights their commitment to the environment (Shell, 2010). Over the last ten years Shell have put an increasing amount of public prevention plans into place, thus highlighting how the company have responded to changes in environmental auditing by taking preventative rather than responsive measures.

However, despite greater reporting of their environmental practices, the company have come under scrutiny regarding their independent environmental audits. In 2008, the company were accused of 'manipulating' an environmental audit report so as to gain financial support for a new oil and gas project. It was shown through various reports that the company were 'attempting to downplay and edit environmental criticism' (Environmental Leader, 2008 p. 1). This therefore presents an inherent problem with environmental auditing, that those firms with something to hide will often try to cover up reports of damages by manipulating external auditors. It can therefore be observed that, despite attempts to appear greener and offer preventative methods, Shell Oil Corporation still have a long way to go before they comply with all EPA regulations, and, until then, the company will continue to be fined for activities causing damage to the surrounding environment.

CHAPTER FOUR

Tesco's and environmental auditing

Tesco's provide a prime example of the recent changes and trends that have occurred and developed over the last ten years, particularly the increasing trend of companies using environmental auditing as a marketing tool and as a means of competing with rivaling supermarkets such as Morrison's, M&S, Sainsbury's and Waitrose. In 2006, Sainsbury's announced the launch of its ethical business drive in order to win back the green moral high ground from Tesco (Measure, 2006). This followed Tesco's high profile green initiatives whereby less plastic bags were used and carbon emissions were decreased. Sainsbury's had in fact implement green stores 7 years previous to this, however, due to Tesco's actions being more visible to the public through superior marketing, this was not sufficiently effective on a competitive level. This perfectly encapsulates the current trends by which companies have moved from preventative measures of environmental problems, as a result of environmental auditing, towards the use of environmental auditing for the purpose of marketing the business and increasing its popularity among potential consumers within the market. This, however, potentially raises the presently salient issue of 'green washing', something that Tesco, in particular, have come under criticism for in recent years (Pierce, 2009). This usually involves the production and marketing of misleading reports regarding green standards, which raises issues of ethics in advertising. This has resulted in increasingly stringent environmental audits and more demanding standards that mean that it is becoming all the more difficult for companies such as Tesco to evade the associated penalties (Maltby, 1995).
<https://assignbuster.com/the-definition-history-and-importance-of-environmental-auditing/>

With this considered, and due to the often beneficial nature of sustainable practices on efficiency and popularity and, therefore, shareholder wealth, it would seem reasonable to predict that in the future, we will see less need for stringent external environmental auditing, as more companies will realise the long term financial and competitive benefits that are associated with lofty efficiency goals (Porter & Linde, 1999).

CHAPTER FIVE

The future of environmental auditing

From the above analyse conclusions can be drawn as to the future of environmental auditing. Firstly, there appears to be a current trend in the actions of companies moving from correction to preventative measures (Hiemstra, 2007). The Environmental protection agency, as mentioned, is encouraging a process of 'self auditing' and this is likely to be an increasing trend for the future in which more and more firms become pro active towards such issues. Furthermore, in the future, there is likely to be a greater agreement that an emphasis on environmental practices can enhance bottom line profits. Such a trend is apparent now as firms such as Morrison's use environmental audits to promote a 'green' image to their consumers which in turn could be said to be contributing to the company being voted retailer of the year.

Another trend, as reflected in the example of Morrison's, is the increasing reporting of a company's carbon footprint. As evidence of the global climate crisis increases, more emphasis of such issues will be included in

environmental audits, with the likelihood that this area will become a '
<https://assignbuster.com/the-definition-history-and-importance-of-environmental-auditing/>

central project for many companies' (Hiemstra, 2007). It can be concluded that the development of environmental auditing will increase, and it will develop into something which is no longer having to be imposed on firms, as firms begin to realise the benefits of good environmental practice and thus begin to self regulate. However, as shown in the cases of both Tesco's and the Shell Oil Corporation, there are examples where such companies are shown to manipulate environmental audits, and thus, this calls for more stringent, stricter processes in the future in which firms truly do undertake independent audits which continue to be regulated to a high standard.