

# Research on Environmental Cost Management of Chinese Enterprises

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## Abstract

Since the beginning of the 21st century, with the development of economy and the advancement of industrial technology, the phenomenon of human beings discharging waste and other pollutants to nature in the course of production activities has intensified. As an important individual who promotes economic and social development and is also a major pollution producer, enterprises have responsibilities and obligations to bear responsibility for environmental pollution and excessively consumed resources discharged during the production and operation activities, and establish and improve their own environmental management systems. Implement effective environmental cost management. Based on the theoretical research of environmental cost management, this paper deeply analyzes the current situation and existing problems of environmental cost management of Chinese enterprises. By absorbing and drawing on the international experience of environmental cost management of enterprises, it puts forward corresponding suggestions on how to improve the environmental cost management of Chinese enterprises. The countermeasures hope to help enterprises strengthen environmental cost management, establish a unified environmental cost management model, improve the environmental cost management system, and open up a new way for enterprises to implement environmental cost management.

## Keywords

Environmental Cost, Environmental Cost Management, Sustainable Development.

## 1. Introduction

As the promoter of the world economy, enterprises occupy and use a lot of natural resources. The upgrading of enterprise products provides a suitable "hotbed" for resource consumption and environmental damage. On the surface, the extent of human damage to nature has declined, but in reality, the total is still high. Today's environmental issues have transcended national and regional constraints and become another global topic after "economic development".

To reverse this situation, relying solely on government environmental control is not enough. Taking enterprises as the main body and implementing effective enterprise environmental cost management is the fundamental way to solve the problem. For Chinese enterprises, negligence in environmental management has resulted in the market's inability to allocate ecological resources reasonably and effectively. Therefore, it is urgent to conduct targeted research on the missing or insufficient parts of our country's environmental cost management. This article analyzes the current situation and existing problems of environmental cost management of enterprises in China, and absorbs and draws on the international experience of environmental cost management of enterprises, puts forward corresponding countermeasures to improve the environmental cost management of enterprises in China, and hopes to help enterprises

establish a unified environmental cost management model and sound environmental cost management system promote the sustainable development of Chinese enterprises.

## **2. Overview of Environmental Cost Management**

### **2.1. Overview of Environmental Cost**

#### **2.1.1. The Concept of Corporate Environmental Cost**

The 15th United Nations International Conference on Environmental Accounting, held in 1998, discussed and adopted the "Announcement on the Position of Environmental Accounting and Reporting." This is the first internationally comprehensive and comprehensive international guide on environmental accounting and reporting. The Announcement points out that environmental cost refers to the cost of taking or being required to take measures to manage the impact of corporate activities on the environment in line with the principle of being responsible for the environment, as well as other costs incurred by companies to implement environmental goals and requirements.

#### **2.1.2. Definition of Scope of Corporate Environmental Cost**

The environmental cost of an enterprise is from the perspective of the enterprise, and various expenses associated with the environment are generated by the daily development activities of the enterprise. Corporate environmental cost is a relatively micro concept, and environmental protection training costs, waste disposal costs, etc. all fall into this category of concepts. The environmental cost studied in this paper is based on the premise of sustainable development of the enterprise, and strives to reduce the social environmental cost, that is, the environmental cost based on the perspective of the enterprise.

#### **2.1.3. Characteristics of Corporate Environmental Cost**

##### **(1) Decentralized**

Under the traditional cost management model, companies generally only include the costs incurred in the product production stage into the product cost. But the environmental cost of the enterprise may be generated in every stage of the enterprise's production, operation and management activities.

##### **(2) Disequilibrium**

The environmental cost of an enterprise is not as balanced as that of other traditional cost items in the production stage of the product. It is often characterized by unpredictability and suddenness. For example, the impact of environmental pollution produced by a company is accumulating over time. This kind of hazard is very likely to burst suddenly at a certain point in time or at a certain stage; or in an environmental inspection, an accidental environmental problem It is very likely to cause a series of expenses such as claims and compensation. In addition, in addition to bearing the environmental costs incurred in the current period, the company may also be able to bear past environmental cost expenditures and future environmental costs that may arise.

##### **(3) Great Harm**

The damage caused by the enterprise to the environment in the current period may not be immediately discovered by the parties due to the limitation of detection technology or insufficient understanding of the hazards, but in the long run, such damage is likely to erupt instantly and cause a huge crisis. At this time, companies generally pay huge compensation costs, environmental costs and corresponding fines.

## **2.2. Objectives and Characteristics of Enterprise Environmental Cost Management**

### **2.2.1. The Connotation of Enterprise Environmental Cost Management**

It is generally believed that enterprise environmental cost management is a series of scientific management of organized, systematic forecasting, planning, decision-making, control, analysis, and assessment of environmental costs involved by the enterprise according to the goals and requirements set by the enterprise, thereby reducing the enterprise cost, and maximize the economic and environmental benefits of the enterprise.

### **2.2.2. The Goal of Enterprise Environmental Cost Management**

The goal of corporate environmental cost management is to coordinate the relationship between corporate environmental costs, economic benefits, and environmental protection benefits through cost management activities, and strive to obtain the highest economic benefits and the best environmental protection effects with the lowest corporate environmental costs, that is, to promote the corporate economy development and build a win-win situation with a harmonious ecological environment.

### **2.2.3. Characteristics of Enterprise Environmental Cost Management**

First, the main purpose of environmental cost management is to promote the services of traditional enterprise cost management in reducing environmental pollution and improving the environment. It is a double research and extension of traditional cost management in theory and practice. Second, list and reflect the subjects that involve environmental factors in traditional enterprise cost management to reduce the probability of conflict between the original financial standards and the current environmental standards. Third, the development of new enterprise cost management systems can help incentivize companies to actively participate in actions to improve the environment.

## **3. The Status Quo and Problems of Environmental Cost Management of Chinese Enterprises**

### **3.1. Most Companies have not Established an Effective Internal Environmental Management Center**

At present, the main intention of Chinese enterprises to set up environmental management departments is to control pollution emissions and resource consumption from production and operation activities, so as to meet the national environmental protection standards. However, most companies cannot provide accurate data on environmental costs, and cannot define the scope of environmental costs. The main reason for this situation is that the company has never established a sound management system and cannot effectively define the category and scope of the company's environmental costs. This is the basis for establishing an internal environmental management center.

### **3.2. The Enterprise has not Established a Perfect Environmental Cost Control System**

First of all, enterprises still regard "maximizing economic benefits" as their own development goals. They lack sufficient control concepts to keep pace with the times in terms of environmental cost control, and there is still no clear control of the enterprise. They blindly pursue at the expense of ecological resources. The economic benefits have expanded. Secondly, the purpose of domestic companies to establish an environmental cost control system is to cater to the relevant indicators of state organs. It is not really for the purpose of promoting the common sustainable development of society and enterprises to care about environmental issues arising from the production and operation process, and from the perspective of the

overall situation to establish a comprehensive environmental cost control system. Finally, when dealing with issues related to corporate environmental cost control, compared with foreign companies in the same industry, most domestic companies still use ex-post processing as the main control method, that is, focus on terminal processing, and do not consider environmental costs to the entire process of production and operation.

### **3.3. Enterprises are Seriously Missing the Environmental Performance Evaluation Index System**

Most of the current corporate environmental performance evaluation work carried out in our country stays at the stage of periodic or irregular evaluation of several individual indicators, and there is no comprehensive indicator system that reflects the level of corporate environmental performance. Through the analysis of the existing research results, it can be seen that there are still many deficiencies and defects in the research on this issue. First, the standards for environmental performance evaluation are mainly designed based on the needs of internal production management and national macro management of the enterprise, not to meet the needs of enterprise performance evaluation. Therefore, it is necessary to conduct specific research from the perspective of evaluating enterprise performance. Second, the main indicators to evaluate the environmental performance of enterprises, only to put forward the significance of the indicators in principle, the "quantization" of indicators has not yet achieved practical research results. Third, there are many qualitative normative research results and few applied research results, especially the lack of empirical research results. Most of the existing research is based on property rights theory, external effect theory, system theory, etc., and focuses on the analysis of economic theory. However, there are still some limitations to solve the specific practical problems of enterprise environmental performance evaluation.

### **3.4. Lack of Laws on Environmental Cost Management, Weak Supervision**

First of all, our country has not incorporated the formulation of environmental accounting related guidelines and standards into the scope of national work. In the existing "Accounting Law" of China, the role and status of environmental accounting are not established, nor are there related contents of environmental accounting supervision, accounting, etc., let alone how to make relevant guidance on environmental cost confirmation, measurement, control and other links and constraint. Secondly, because China's environmental laws mainly focus on preventing and controlling environmental pollution, basically do not touch the field of ecological environment, and these laws and regulations mostly use punishment as the main means to strengthen the environmental management of enterprises, and do not require enterprises to conduct environmental information externally. Disclosure, which makes companies lack the initiative to assume environmental protection responsibilities and obligations, lack of extensive supervision of the public. Finally, in our country's environmental protection, the phenomenon of "not complying with laws and strict enforcement" often occurs. In order to maximize economic benefits, companies often artificially whitewash environmental information and conceal environmental issues that violate laws and regulations. Therefore, from a judicial perspective, the government lacks supervision over environmental issues.

## **4. Countermeasures for Perfecting Environmental Cost Management of Chinese Enterprises**

### **4.1. Establish a Unified Environmental Cost Management Center**

The unified environmental cost management center can flexibly coordinate and coordinate among various technical departments within the enterprise, and make scientific and reasonable planning for the environmental cost of the enterprise. The environmental cost of an enterprise may be generated at every stage of an enterprise's production, operation, and management

activities. It is also easy to involve the expertise of various departments, such as the legal department, environmental engineering department, and ecological department. Establishing a unified environmental cost management center can not only directly reduce the company's expenditure in this regard, but also comprehensively manage and disclose all environmental cost data and information related to environmental factors in various technical departments. Enterprises can adopt different types of environmental cost management centers according to their own development scale, operation mode, and types of pollution.

#### **4.2. Establish a Perfect Environmental Cost Control System**

In order to solve the ecological crisis facing China as soon as possible, improve the phenomenon of insufficient environmental cost control of enterprises, and realize the coordinated development of ecological civilization construction and economic construction, political construction, cultural construction and social construction, we urgently need to strengthen the research on corporate environmental cost control, and keeping pace with the times according to the actual requirements of the capital market, control its own environmental costs within a reasonable range, improve the cost control capabilities and effects, and establish a perfect environmental cost control system.

Enterprises should adopt pre-cost control, mid-event cost control, and post-event cost control according to the time and space in which environmental costs occur, according to the pre-cost generation stage, the generation stage, and the processing stage. Through pre-cost control, control the environmental cost of the enterprise from the source; through the cost control in the event, reduce the generation of pollutants as much as possible; through post-cost management, companies take certain measures to reduce the discharge of waste materials or pollutants to the outside world.

#### **4.3. Establish an Effective Enterprise Environmental Performance Evaluation Index System**

The index system mainly refers to the evaluation index system, which refers to an index group composed of several interrelated indexes in order to complete a specific research purpose, and is a collection of measurable parameters describing and evaluating something. The enterprise environmental performance evaluation index system is an index system composed of many evaluation indexes, which together form a complete description of the company's environmental performance. A reasonable construction of the enterprise environmental performance evaluation system can make a large number of interrelated and mutually restrictive factors organized and hierarchical. It reflects the hierarchical structure and main characteristics of the company's environmental performance operation, and can also distinguish the impact of each layer of indicators and individual indicators on the overall evaluation.

Establishing an environmental performance evaluation index system is one of the important means to guide and promote enterprise environmental management. Although the International Organization for Standardization put forward environmental performance evaluation standards in 2009, which provides guidelines for the internal design and implementation of environmental performance evaluation, the indicators are versatile. It is relatively strong, and the indicators lack operability, which is a certain distance away from the actual situation of Chinese enterprises. Therefore, on the basis of the existing international standards, combined with the laws, regulations and policies promulgated by the state, in accordance with the reality of Chinese enterprises, the establishment of a set of standardized environmental performance evaluation index system has important practical significance for enterprises to strengthen environmental management.

#### 4.4. Formulate Relevant Incentive Mechanisms and Policies to Strengthen Government Supervision

The state should actively adopt the principle of fair and reasonable rewards and punishments. While strictly implementing restrictive and compulsory resource and environmental policies, it should formulate an interest-oriented policy that combines incentives and rewards, and establish good competition that will help our enterprises in environmental management. Order, promote enterprises to actively carry out various management activities such as environmental cost accounting and control.

If the company still starts from the perspective of its own interests, it will not actively participate in environmental management activities. At this time, the government should play the role of supervision and macro-control, so that enterprises can fulfill their responsibilities and obligations. In addition, the government can promote the public participation of the whole society in environmental supervision by proposing that companies publish environmental accounting information to the society.

### 5. Conclusion

Integrating environmental issues into the business activities of a company is of great significance to the survival and development of the company itself. It is not only a risk but also an opportunity for the company. Therefore, the implementation of scientific environmental cost management is a magic weapon for enterprises to achieve sustainable operations. Fundamentally speaking, the main destroyer of my country's ecological environment is enterprises. Therefore, to prevent and control environmental pollution, we must rely on enterprises to consciously do environmental cost management. To this end, the government should vigorously promulgate laws and regulations related to environmental protection, and actively supervise enterprises in fulfilling their social responsibilities. Therefore, if enterprises want to survive the fierce market competition, they should continue to find more effective management ways to reduce their environmental costs, in order to ultimately achieve the maximum of economic benefits, environmental benefits and resource benefits.

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