

# Study on Environmental Accounting Disclosure of Hengan Paper Industry

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## Abstract

At present, with the gradual increase in awareness of environmental protection, there are high demands on production and operation companies that must carry out environmental protection activities. The media has paid particular attention to negative reports about environmental pollution in paper companies. Governments at all levels are gradually forming to monitor the assessment of environmental protection achievements of polluting enterprises in their jurisdictions. To promote better environmental protection activities and more standardized and comprehensive environmental management, it is necessary to establish a system that can disseminate corporate environmental accounting information. This paper focuses on the theory of environmental accounting information disclosure, the industry characteristics of the paper industry, and derives the overall status of environmental accounting information disclosure in the paper industry through case studies, literature review, and data analysis. In particular, the paper is an in-depth study of the impacts and problems arising from environmental accounting information disclosure in the Hengan paper industry and finally proposes policies to improve environmental accounting information disclosure, enhance the level of information disclosure in the industry and meet green finance..

## Keywords

Hengan Paper Industry, Environmental Accounting, Information Disclosure.

## 1. Introduction

While the social economy continues to grow significantly, the overall standard of living of the public is steadily rising, and consumer demand is becoming more and more vigorous, developing in the direction of diversification and personalization. However, while energy is consumed in large quantities, the impact of pollutants caused by it on the environment is becoming more and more serious. In the face of the increasingly serious ecological environment of various problems, the Party and the State have given high priority. Xiong Wenjin (2020) chose environmental accounting information disclosure of listed companies in the paper industry as the research object, and concluded that problems may still exist in the disclosure of environmental accounting information of listed companies in the paper industry in China, such as the disclosure mode is not standardized and unified, the disclosure content is self-interested, and the effectiveness of the disclosed information is low. [1] Wu Xiangyu (2021), in the study of environmental accounting information disclosure of listed companies in the paper industry, chose listed companies in the paper industry as a research sample, put forward some problems in the current information disclosure of the paper industry through the perspective of the location distribution and content of environmental accounting information, and put forward targeted suggestions in an attempt to provide new ideas and ways to manage ecological stubbornness from the perspective of environmental accounting. [2]

## 2. Overview of environmental accounting disclosure

### 2.1. Concepts related to environmental accounting disclosure

Environmental accounting, also known as green accounting, is the assessment and accounting of environmental pollution, environmental pollution prevention, environmental protection, and environmental development costs by relevant laws and regulations, as well as the assessment and reporting of the effectiveness of environmental protection and development, to the extent that it adequately reflects the assessment of environmental performance and the impact of environmental activities on the overall economy of the enterprise. It integrates the two disciplines of accounting and environmental economics to achieve harmonious development of the economy and environmental protection by using reasonable price management.

Environmental accounting is measured in monetary terms, using certain methods of translation. However, its monetary significance is not entirely based on the labor theory of value. It is neither an exchange nor a product produced as a result of human labor nor does it require measurement and accounting. In turn, some of these products fall under the accounting category of environmental accounting. Therefore, a theory of value that can measure non-exchange and non-labor products is the theory that needs to be established for environmental accounting.

Environmental accounting information refers to environmental protection, pollution prevention and abatement, environmental resource utilization, and other financial information related to the environment about the enterprise, excluding non-financial environmental accounting information of the enterprise. [3]

Environmental accounting information disclosure is not only the most important part of the environmental accounting system but also the final result produced by environmental accounting work. The purpose of environmental accounting information disclosure is to disclose the use of environmental resources and the treatment of environmental pollution by enterprises, which is a key part of the problem of managing environmental pollution and discovering environmental governance loopholes.

### 2.2. Theoretical basis of environmental accounting information disclosure

#### 2.2.1. Social responsibility theory

Ollivan Shelton, a famous American scholar, proposed the theory of social responsibility in 1924. After the theory was proposed, it not only posed a great challenge to the goal of corporate financial management - maximizing profits - but also required companies to operate themselves while taking responsibility for other stakeholders. It includes the safety of employees, the quality of products, the service system to consumers, the development of the country, and the protection of the natural environment. The only way to achieve sustainable development of the enterprise and the environment is to have sustainable development of the whole society. Therefore, enterprises not only need to establish a correct view of the environment and enhance their sense of responsibility but also dare to assume their responsibilities and obligations to society and play an important role in the development of environmental protection.

#### 2.2.2. Stakeholder Theory

An important tool for evaluating listed companies is the completeness of information disclosure, and companies are usually only interested in realizing their interests and thus will avoid disclosing information that is harmful to the company. Stakeholders do not get important data disclosed, such as environmental costs, and companies disclose information that only benefits the company. Stakeholder theory suggests that if stakeholders have a strong legal and

environmental awareness and require listed companies to ensure timely and accurate disclosure of environmental accounting information, then as a fiduciary, the company must fully disclose this information and must take into account these stakeholders, maintaining the good reputation of the company in the public. [4]

### **2.3. Principles of environmental accounting information disclosure**

#### **2.3.1. Importance principle**

According to the survey results of the Ministry of Natural Resources, more than 50% of enterprises only report the environmental summaries or reports they prepare to their superiors or relevant environmental protection agencies, but do not disclose the reports and their data to the public. Due to the continuous improvement of environmental protection policies, the future development of listed companies is closely related to them, but the disclosure content of listed companies at this stage is not conducive to the monitoring and evaluation of companies by external information users or government departments. Therefore, governmental departments must take measures to supervise listed companies so that they can become the main object of disclosure of environmental information of enterprises in China.

#### **2.3.2. Mandatory principle**

At present, environmental damage mainly comes from the production and operation activities of enterprises, especially the chemical, paper, pharmaceutical and other environmentally sensitive industries, which bring great harm to the environment, and enterprises make profits by doing so. Regarding the resources consumed and the ecological environment damaged, the enterprises eventually pay the corresponding price according to the principle of "whoever makes a profit, whoever bears it." However, it is rare for companies to proactively disclose to society the increased costs of ecological damage. The only thing that can drive this behavior is the law because it is mandatory. To make the disclosure of environmental information true, the governmental accounting management and environmental protection departments must implement mandatory requirements and encourage companies to disclose as much environmental information as possible.

#### **2.3.3. Consistency principle**

Whether for listed companies or ordinary companies, government departments or social organizations, state-owned enterprises or foreign enterprises, there should always be a consistent principle for environmental issues. As long as environmental pollution-related issues are involved, they need to be publicly disclosed. The content and requirements of disclosure should be consistent for each disclosure target to properly measure social and environmental information.

## **3. Analysis of environmental accounting disclosure of Hengan Paper**

### **3.1. Introduction of Hengan Paper Company**

Established in 1985, Hengan Group is currently the largest manufacturer of household paper and maternity and child hygiene products in China. It was listed on the Hong Kong Stock Exchange on December 8, 1998, and on June 7, 2011, Hengan International was listed as a constituent stock of the Hong Kong Hang Seng Index. Hengan owns four well-known Chinese trademarks, namely, An Er Le, Xin Xiang Yin, Seven Degrees of Space, and An Er Le, and its three leading products, sanitary napkins, diapers, and household paper, are among the top in the domestic market. While realizing enterprise development, Hengan pays attention to social responsibility and has paid a cumulative tax of over 35 billion yuan since its listing alone. In the past forty years of development, Hengan and its major shareholders have donated more than 2 billion RMB. Through continuous innovation and quality products and services, Hengan strives to become a top international household products company. Hengan Paper has three large

paper manufacturing bases in Hunan, Shandong, and Fujian, and five international paper processing bases in Chongqing, Fushun of Liaoning, Weifang of Shandong, Jinjiang of Fujian, and Changde of Hunan, with an annual design capacity of 300,000 tons of paper products. We have set up 10 branches in Hunan, Shandong, Fujian, Liaoning, and Chongqing.

### 3.2. Status of environmental accounting disclosure in Hengan Paper

The main disclosure methods of Hengan Paper are through three methods: corporate annual report, social responsibility report, and environmental report. The main disclosure methods of Hengan Paper from 2018 to 2022 are shown in Table 1. From Table 1, we can learn that Hengan Paper's main disclosure methods are similar in different years. The annual report and environmental report are the necessary disclosure methods every year, while the social responsibility report disclosure methods only disclose the environmental protection responsibility in 2018 and 2022, and none of the environmental protection responsibility is disclosed in 2019-2021. This indicates that the environmental accounting information has a strong spontaneous nature, which causes inconvenience to the information users, who cannot quickly and completely understand the content of environmental accounting information disclosure. Hengan Paper only discloses textual descriptive information such as the company's environmental protection objectives, environmental protection publicity activities such as how to enhance awareness of environmental protection and energy conservation, and striving to create an ecological and energy-saving enterprise in both the social responsibility report and the environmental report, without disclosing relevant data information, resulting in information users being unable to conduct comparative analysis.

**Table 1: Key disclosures for 2018-2022**

Year	Annual Report			Social Responsibility Report				Environment Report
	Board Report	Important Matters	Statement Notes	Environmental Protection Sustainable Development	Environmental Protection Development	Environmental Protection Responsibility	No classification disclosure	
2018		√	√			√		√
2019		√	√				√	√
2020		√	√				√	√
2021		√	√				√	√
2022		√	√			√		√

### 3.3. Reasons for environmental accounting disclosure problems in Hengan Paper

#### 3.3.1. Lack of mandatory provisions of relevant laws

Since the development of environmental accounting in China is still imperfect, under the current conditions of only environmental accounting laws and regulations, enterprises can't disclose environmental accounting information in a standardized manner. [5] The proportion of enterprises with the awareness of actively disclosing environmental accounting information is too low. The vast majority of enterprises do not pay enough attention to environmental accounting information disclosure, equate environmental accounting with traditional accounting, and do not consider environmental accounting as a separate branch. Therefore, companies generally do not set up departments related to environmental accounting in their department settings. Based on this background, enterprises also do not have clearly defined and enforced laws and standards for disclosure methods and contents, resulting in Hengan Paper's lack of detail and comprehensiveness in environmental accounting information disclosure and a series of problems, leading to information users not being able to obtain complete and effective information.

### **3.3.2. The relevant regulatory system is not perfect**

The supervision of environmental accounting is similar to the supervision of accounting, but there are substantial differences. This is because there is no clear provision in China's law on the subject of supervision of environmental accounting information disclosure, and there is no official body to supervise the information disclosure. The government also lacks substantial attention to information disclosure, and the existing governmental regulatory system is unable to impose specific constraints and strict controls on enterprises when they produce ecologically destructive behaviors or pollution events in the course of production and operation. Because these systems and measures are only superficial, there is no clear subject of supervision. Therefore, it is easy to form enterprises that prefer to bear the penalty of low-cost pollution emissions, but also do not take the initiative to introduce high-cost more advanced environmental protection equipment and technology research and development and to maximize corporate interests, at the expense of ecological damage to the wrong thinking and behavior.

## **4. Measures to improve environmental accounting information disclosure of Hengan Paper**

### **4.1. Strengthen the orientation of environmental accounting information disclosure**

The institutional measures of environmental information disclosure need to be improved continuously. The imperfection of environmental information disclosure in China's relevant laws leads to a significant impact on environmental information disclosure. The law explains what kind of information enterprises need to disclose in the carrier, but the specific content and which carrier are not pointed out. Therefore, the state should make clearer and more severe legal provisions, and improve the system of optimizing environment-related guidelines and normative guidelines, so that Hengan enterprises recognize the importance and obligation of environmental information disclosure.

On the other hand, the relevant departments need to be strictly regulated in all aspects. Today's government departments have many problems in the allocation of environmental information disclosure regulations. The information asymmetry of multiple departments for supervision and control makes most government departments not clear about where their responsibilities lie, which makes government departments shirk their responsibilities or not manage at all. To better regulate the disclosure of environmental accounting information, it is necessary to have a clear division of responsibilities between the various departments and to cooperate properly with each other to prevent disagreements between them. Therefore, the relevant departments, which represent the main responsible party for managing and regulating environmental behavior, must take the lead, communicate with each other frequently, continuously improve the regulatory system, put key policies into place, and closely supervise the disclosure of environmental accounting information by enterprises.

Finally, it is assumed that when the disclosure of environmental information of Hengan enterprises reaches complete, they can apply for national green finance policy and can provide lending services to this enterprise after meeting the relevant conditions. At present, China has strengthened the top-level design of green finance, and the green finance policy system has been improved, and it has become the first country in the world with clear government policy support and comprehensive construction of a green finance system. [6] Unlike traditional finance, the most prominent feature of green finance is that it pays more attention to environmental and social benefits. When an enterprise borrows from a financial institution, the financial institution needs to verify whether the enterprise meets the indicator for providing the loan. This indicator implies an important item for financial institutions to assess the risk of

the enterprise. Its important indicators are the adequacy of environmental accounting information disclosure and the level of disclosure of that enterprise.

#### **4.2. Improve the way of environmental accounting information disclosure**

Standardize the disclosure of annual reports and related disclosure contents of environmental information. The quality level of annual report disclosure is improved by regulating the content and quantification of environmental information disclosure in two aspects. The implementation of laws and regulations related to environmental protection, the existence of environmental accidents, the number of resources consumed, the emission and recycling efforts of waste gases and liquids, and environmental management activities such as plant greening, environmental protection investment, and research and development, should be included. When quantifying environmental accounting performance information, disclosing only the emissions of pollutants, it is necessary to explain the source of the data and the method of calculation, and internal and external users of the information can judge whether the disclosure is true or not. When disclosing the current year's emissions, data from previous years should also be provided to help inform users visualize whether pollutant emissions have improved and to make companies aware of the need for long-term attention to environmental accounting performance information.

#### **4.3. Strengthen the supervision of environmental accounting information disclosure**

Improve the internal supervision system of the enterprise. Establish an independent environmental audit department based on the enterprise's internal audit department, establish a perfect internal supervision system, implement the internal supervision system, supervise the information control of the actual controlling shareholders, and reduce the potential risk of moral hazard. To improve the internal supervision system, the internal audit department of enterprises needs to train a large group of professionals with knowledge related to environmental accounting to supervise and review environmental management, environmental performance evaluation, environmental risk control, environmental policy evaluation, and environmental policy evaluation of enterprises to ensure the authenticity and reliability of environmental information and the effective implementation of environmental protection measures and give timely feedback so that enterprises can truly assume environmental protection work and social responsibility, and provide high-quality environmental information to internal management, external stakeholders, the public and government departments.

### **5. Conclusion**

China is committed to building an environment-friendly and resource-saving society and has achieved good results. To achieve this goal, it is necessary to strengthen the management and supervision of corporate environmental accounting information disclosure and to establish a sound system of corporate environmental accounting information disclosure. At present, China's relevant systems and laws in this regard are not perfect, and there are many problems in the disclosure of environmental accounting information of listed companies in the paper industry. We have to learn the experience of other countries in terms of laws and regulations as well as system integrity, combined with our national conditions, and provide standardized and operable practical methods for the environmental accounting information disclosure system and system of China's paper industry. The most important thing is that both the government and enterprises should pay more attention to the need to proactively enhance the demand for environmental information and environmental awareness, whether from compliance with the legal system or compliance with the internal control of enterprises. At the

same time, to ensure a high level and quality of information disclosure, companies should make environmental accounting information disclosure an important part of their internal control and set an example. In this way, the level of environmental accounting information disclosure in the paper industry can be improved while promoting the growth of corporate strength and the development of green finance.

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