CHAPTER 16

ENVIRONMENTAL MANAGEMENT ACCOUNTING
PRACTICES IN JAPAN

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Abstract. Environmental accounting practices in Japan have been led by two governmental initiatives. One is the MOE initiative which emphasized external disclosure. The other is the METI initiative which emphasized the applications of environmental accounting to internal management, namely Environmental Management Accounting (EMA). To characterize corporate environmental accounting practices in Japan, a questionnaire survey was administered to all companies listed in the first section of the Tokyo Stock Market. After a brief review of these governmental initiatives, this paper will examine the survey results. From the results it is found that environmental accounting is still oriented mainly toward external information disclosure, but that the application to internal management (EMA) has increased steadily. The survey results are also used to assess a set of hypotheses regarding factors and conditions important to promoting adoption and maximizing the benefits of EMA. Findings suggest that key factors include: a well-established environment department actively engaged in decision-making across the firm, understanding of environmental accounting concepts by top and middle management, and the use of specialized EMA tools.
1 INTRODUCTION

In Japan two governmental environmental accounting initiatives have been the primary agents for promoting, disseminating and producing those practices for private sectors. One is the Ministry of the Environment (MOE) initiative and the other is the Ministry of Economy, Trade and Industry (METI) initiative. The MOE initiative emphasizes the application of environmental accounting to communication with external stakeholders, and the METI initiative emphasizes internal applications of environmental accounting, which is environmental management accounting (EMA). The MOE initiative precedes the METI initiative; MOE published an interim report in 1999 and environmental accounting guidelines in 2000, whereas METI published its environmental management accounting workbook in 2002. Therefore, external environmental accounting has been more diffused than EMA in this country (see, Kokubu et al., 2003).

The MOE initiative undeniably influenced environmental accounting information disclosure in the form of corporate environmental reports. As Kokubu et al. (2003) showed, environmental accounting information disclosures in corporate environmental reports were heavily influenced in content and format by the MOE environmental accounting guidelines.

On the other hand, Kokubu et al. (2003) revealed that the use of environmental accounting for corporate management purposes in Japan is not so widespread. They argued that the development of EMA was critically important for corporate management. However, the survey of Kokubu et al. (2003) was conducted before the publication of the METI workbook. Before the publication, the environmental accounting knowledge of Japanese companies was restricted to the tools and methods discussed in the MOE guidelines; companies had little knowledge of the specialized EMA tools and methods.

The purpose of the paper is to re-examine the Japanese corporate practices of environmental accounting one year after releasing the METI workbook by a questionnaire survey and to analyse some factors to promote environmental management accounting practices. Before discussing the results of the survey we will briefly explain the two governmental initiatives on environmental accounting.

2 GOVERNMENTAL INITIATIVES ON ENVIRONMENTAL ACCOUNTING

2.1 MOE Initiative

MOE started its first environmental accounting project in 1997. It formed an environmental accounting committee and in 1999 published an interim report (MOE, 1999). MOE revised the report and released the environmental accounting guidelines in 2000 (MOE, 2000). These guidelines are not mandatory. Their main purpose is to encourage Japanese companies to disclose environmental accounting information to