

Analysis of institutional theory and stakeholder theory to ases



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The increase in the environmental degradation caused by carbon emission and climate change has necessitated the governments to pass several laws to ensure that business organisations integrate the environmental issues in the management policy. To satisfy the stakeholders, many large and medium organisations have integrated the environmental issues in the management policy in order to enhance overall corporate image. (Kumar, Chandra, Bhagaban, 2007). However, the issue is different with related to accounting profession. There is heated debate in the accounting literatures on the efficacy of integrating environmental accounting in the organisational practices. While there are camps that argued that accountants cannot close their eyes on environmental issues given the importance accorded to environmental issues. There are supporting camps that argued that there is need to integrate the environmental accounting in the management control in order to achieve the organisational change. (Environmental Protection Agency, 1996). The supporting camp argued that integrating the environmental accounting in the traditional accounting is a process that can result to organisational change. This could also result in effectiveness of organisational performances and in increase in the efficiencies of management operations. However, the opposing camp revealed that there cannot be organisational changes with the response of environmental demand. (Larrinaga-Gonealel, Bebbington, 2001).

The objective of this paper is to analyses the issues whether environmental accounting should be integrated in the organisational policy in order to achieve organisational changes.

To enhance greater understanding of this study, the paper is structured in two-fold. The part A analyses the issues whether environmental accounting should be integrated in the organisational policy in order to achieve organisational changes.

The second part of the paper outlines four theoretical paradigms studied in Organizational Context of Management Accounting

Outline of the issues in the case study with management control and management accountability.

To provide greater understanding of the environmental accounting with relation to management control and management accountability, it is essential to outline the issues in the case study.

From the case study, it was identified that the intention of Spanish government was to reduce environmental emission after joining the European Union (EU) in 1986. Thus, ASES, which was a large company that generates electricity utilities in Spain tried to integrate environmental concern in the management issues. However, there was conflicting issues on the spectrum of the efficacy of management application of accounting techniques to the environmental issues. Typically, the supporting camp was the Director of Environmental Affair (DEA), who believed that ASES could achieve management accountability with the ability to control costs and increase performances if environmental accounting could be integrated in the accounting system of the organisation.

The DEA believed that the integration of environmental accounting in the environmental issues could achieve management control that will make ASES to enhance efficient in organisational resources. Contrary to DEA initiations the ASES's accounting department was not convinced that there should be inclusion of environmental aspect in accounting statement of ASES.

The two theoretical perspectives, the institutional theory and stakeholder theory could illustrate these opposing views between Department of Environmental Management, and ASES's Accounting department. (Larrinaga-Gonealel, Bebbington, 2001).

The paper compares and contrasts the two theoretical perspectives to enhance greater understanding of the issues in case study.

Compare and Contrast of the Institutional theory and Stakeholder theory

Management accountability is essential in order to ensure transparency of information. The measures to ensure quantitative performance are true test of management accountability. To achieve management performances, the institutional theory beliefs that effective management performances need to integrate environmental accounting report in the financial statements of organisation in order to conform to institutional practices. Similar with Stakeholder theory that beliefs that organisation needs to satisfy the stakeholders in complying with legal framework with reporting the financial data to the stakeholders. With increase in the intensification of environmental sustainability, some stakeholders are demanding

organisations to supply environmental accounting in the accounting report.
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Typically, shareholders, and other stakeholders believe that it is their right to receive information on the conduct of organisation with regard environment accounting. (Rowe, Wehrmeyer, 2001).

Despite the common perceptions of institutional theory and stakeholders theory with relation to environmental accounting. The two theoretical paradigms separate themselves from the point that institutional theory believes that organisation could only gain legitimacy and be shaped by the institutional environment. On the other hand, stakeholder theory only beliefs that the interests of the stakeholders are the ultimate important of organisation, and outcome of an organisation depends on the firms satisfy its stakeholders. (Husillos, Alvarez-Gil, 2008, AFAANZ 2010).

Thus, the two theoretical perspectives provide greater understanding in analysing the issues in the case study.

Analysis of the institutional theory and stakeholder theory with relation to interpret the issues in the Case study.

The Conventional approach has been generally criticised as being insufficient in explaining the rational behind the organisational motive with regard to organisational environmental values. With increase in the needs for environmental accounting, the Institutional Theory has been argued to provide greater understanding on the environmental value of an organisation. (Qian, Burritt, 2008). The institutional theory draws a greater understanding on how organisation reacts to the needs of environmental accounting. Typically, the institutional theory refers to the habits, norms and customs that guide the organisations. In the contemporary business <https://assignbuster.com/analysis-of-institutional-theory-and-stakeholder-theory-to-ases/>

environment, organisations act in accordance with set out norms and rules in order to survive in an environment an organisation is operating. With the intensification of environment sustainability, organisations need to relate to the routing methods of environmental policy in order to secure legitimacy. The institutional theory explains the process by which organisations could secure legitimacy through conforming to the norms and rules lay down by the institutional environment. (Rowe, Wehrmeyer, 2001).

On the other hand, “ stakeholder theory suggests that organisations have a variety of stakeholders and that a moral, social and legal obligation is owed to these stakeholders to satisfy their interests” (AFAANZ 2010, p. 3). The stakeholder theory reveals that managers need to take into legitimate interests of the groups or individuals who can affect the activities of an organisation. These groups or individuals are being termed as stakeholders. With intensification of climate change and carbon emission, stakeholders are increasingly holding management responsible for the management decision with relevant to environmental decision. Stakeholder theory further explains that stakeholders are increasingly demanding that organisations need to inculcate environmental accounting in the management control. Typically, stakeholders shape the management control in order to enhance performance systems.

Likewise other functions in an organisation, the institutional theory argued that accounting roles in an organisation need to contribute to the environmental management through the application of environmental accounting. (AFAANZ, 2010, Rowe, Wehrmeyer, 2001).

It is essential to realise one of the norm and values that ASES organisation recognised was to abide by the environmental conformity by implementing “green”. Although, the ASES tried to satisfy the stakeholders by implementing the green initiatives, however, there were divergences of interests among the stakeholders of the ASES organisation that make the argument of stakeholder theory not to be valid within ASES because ASES failed to satisfy the interest of all stakeholders. Although, ASES attempted to implement norm and values as being discussed by institutional theory, however, there are certain cases where ASES did not implement environmental sound behaviour. This was revealed with the disinterest of some stakeholders within the organisation who did not belief in integrating environmental accounting policy in the accounting systems of the organisation.

To enhance greater understanding of the interpretation of the Case, it is essential to examine the method the interpretation of the Case differs between each theoretical perspective.

How does interpretation of the Case differ between each theoretical perspective

The interpretation of each of the theoretical perspective in the case is different. The method the Director of Environmental Affairs and Director of Accounting Affair interpreted the institutional theory are different. For instance, Director of Environmental Affairs believed that ASES should implement organisational changes because there was poor management practice with relation to the environmental management. The major reason was the inability of ASES to provide non-financial data of generating plant

that provides the electricity. A Director of Environmental Affairs believed that there was need to identify environmental costs and investments, and the creation of environmental accounting was essential to enhance operational improvement. However, Director of Accounting Affair believed that implementation of institutional theory was not important in the accounting system, and environmental accounting could not be integrated in the accounting system.

In the interpretation of the Stakeholder theory, the interest of two important stakeholders in the case (Director of Accounting Affair and Director of Environmental Affairs) was not satisfied equally.

The Director of Environmental Affairs believed that “ accounting was deemed to play an important role generally in management’s control of the organization; the role of accounting in the “ greening” process was seen as being crucial for achieving some progress on strategic environmental goals”. (Larrinaga-Gonealel, & Bebbington, p. 278).

Despite the argument presented by the Director of Environmental Affairs, the issues were not totally being accepted by Director of Accounting affair. The ASES could not integrate environment accounting in accounting system because of the different method the two stakeholders in the organisation interpreted the norm and belief of ASES with relation to environment.

Conclusion

The paper provides the institutional theory and stakeholder theory to discuss the conflict of interest that have emanated within ASES organisation. As

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being discussed by institutional theory, the rules and norm of organisation with relation to environment was being followed by ASES organisation in order to achieve organisational changes. Nevertheless, there was divergence of interest in integration of environment accounting in the accounting system. Typically, the ASES found it difficult to satisfy the all the stakeholders as being indicated by stakeholder theory with relation to integration of environment accounting in the accounting system.

PART B

Introduction

In the management accounting practice, there are unique methodologies and theoretical perspectives that could be employed to gather empirical data in order to address a problem. This part B of this paper examines the paradigms in the Organisational context of management accounting. There are several methodological assumptions in the Organisational context of management accounting. This paper presents four of them.

Methodological Assumption in Organisational context of management accounting

These methodological assumptions are as follows:

Positivist paradigm: “ In the positivist paradigm, the object of study is independent of researchers; knowledge is discovered and verified through direct observations or measurements of phenomena; facts are established by taking apart in phenomenon to examine its component”.(Krauss, 2005, p. 759).

The management accounting employs positivistic paradigm as a concrete structure, which include the objective reality and knowledge gain from data. These information processors are employed to achieve organisational efficiency and the goals of an organisation. Typically, the management accounting employs the positivistic paradigm to achieve efficient low cost and efficient operations. The positivistic approach employs key variables to retrieve meaning through the interpretation of ex post fact.

Qualitative Research paradigm: The qualitative paradigms approach employs the process of conducting research through personal subjective approach where the research instrument employed is unstructured interview. Essentially, the Qualitative Research paradigm employs combination of case study, interview, observation and participation to gain insight into phenomenon. However, the qualitative paradigms are incapable of understanding the subjective experience.

Quantitative Research paradigm: The quantitative paradigm employed the research instrument such as survey and questionnaires to collect data as well as using statistical techniques to explain and predicts relationship in management accounting. The quantitative paradigm argued that to studying phenomenon, there is need to employ objective approach that is independent of individual thought and individual perception.

Hermeneutic paradigm: The Hermeneutic paradigm explains that human experience is a tool in studying the phenomenon. The use of imaginative variation helps in illuminating research during data analysis, and this helps in interpreting and understands the outcomes of the empirical study. In the

accounting context, hermeneutic approach employs individual judgment to understand the social world. In the implementation of organisation research, hermeneutic paradigm provides the framework to understand text and the decision making process. Typically, the use of hermeneutic approach is to employ the combination of variety of data, and personal experience and judgement to gain insight into the phenomenon. (Kosmala, 2005, Williams, 1998, Neill, 2006).

The theory is very important when studying accounting. The next section provides the importance of theoretical lens in accounting.

The importance of theoretical lens when studying accounting.

In accounting, there are different perspectives on the importance of theoretical lens. Irvine and Deo (2006) pointed out that the use of theory was very important when accounting researcher is employing qualitative techniques to compile data. The theory provides the method of interpreting qualitative data. Likewise, sociology discipline that employs social phenomenon to interpret data, accounting has also employed the use of social context in accounting practice. Several accounting research employed the use of qualitative method to interpret data, and to make qualitative technique in accounting to be more credible, the importance of social theory has been proposed into the qualitative technique. The importance of social theory in the qualitative research is that an accounting student will be able to interpret data through subjective lens, and this helps in explaining the method the accounting and society are interwoven. (Irvine, Deo, 2006).

However, some group of researchers believed that social theory is insufficient in explaining the important of theory in accounting, and the importance of theory in accounting depends on the level a researcher view the world. (Tomkins, and Groves, 1983).

Thus, the accounting theory has been proposed. The importance of accounting theory is seen to systematically create new knowledge by which the general framework of accounting practice could be guided. In addition, the accounting theory provides the rules and practice on the method to record and report issues. Typically, accounting theory make use of accounting concepts, accounting principles, and accounting techniques to identify, measure and communicate economic information in order to make informed decision in accounting practice. The accounting theory helps to interpret message in preparing the financial report, and this could enhance decision-making. (Victoria University, 2008).

Despite the importance of accounting theory in studying accounting, there is criticism that revealed that accounting theory is too general and there is inconsistence in the practice of accounting theory.

However, Cohen and Holder-Webb (2006) proposed the agency theory to overcome the shortcomings of other theories. The author argued that the agency theory is the most popular theory in accounting research. The importance of agency theory is that students will be able to understand its basic proposition. The analysis of agency theory reveals the separation of ownership and control, and the agency theory teaches accounting students the method of dealing with the real world. It is essential to realise that

agency theory relates with economic theories that deal with transaction cost economics that has been mostly employed in accounting study. Thus, agency theory helps managers to make rational decision when the issues of contract and opportunism arise. Typically, many of the students studying accounting will be involved in drafting contract and accounting document when their organisations intend to enter into contract agreements with other firms. The importance of Agency theory will equip students with issues relating to contract agreement between firms.

Conclusion

This part examines the different paradigms employed when study accounting. The paper revealed that Positivistic paradigm, qualitative Research paradigms, quantitative Research paradigms, and Hermeneutic paradigm are very useful in organisational context in management accounting. Although all of these paradigms may have their shortcomings however, each of the paradigms is useful in studying organisational context in management accounting. The paper also provides the importance of theory in studying accounting. From the discussion of the paper, it is revealed that theory is a centrepiece by which accounting study could be applicable to the social and practical phenomenon. Although, the paper identifies social theory, accounting theory and agency theory as important when studying accounting, however, the paper argues that agency theory is more applicable to accounting based on the method the agency theory makes accounting students to understand the real world.