

# [Social and environmental accounting definition:](https://assignbuster.com/social-and-environmental-accounting-definition/)

Social and Environmental Accounting (SEA) has been defined by Gray and al. (1987, p. 9):

“…the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large. As such it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital. In particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to take money for their shareholders.”

Social and Environmental Accounting is often used as an “ umbrella term” to describe the impact of business activities on the society (both local and international), employees and consumers.. It offers a mechanism for reporting information that enables management to monitor key social and environmental opportunities and threats facing organization.

Social Accounting

Social Accounting can also be termed as Corporate Social Reporting, Non- Financial reporting or sustainability accounting. It is a way by which a business seeks to place a value on the impact on society of its operations.

As quoted:

“ The social impacts of organization underlie some real social issues – such as obesity, ill- health and community regeneration. The profound effects organizations have on society are becoming increasingly obvious. From the point of view of stakeholders, social accounting is therefore a critical part of delivering accountability and transparency. From organization’s point of view, social accounting can help to identify and manage social risk”

Adrian Henriques, professor of accountability, Middlesex University Business School, and Social author.

In the corporate sector, Social Accounting is used to collect and report information in CSR or sustainability reports.

Environmental Accounting

Environmental Accounting as green accounting or resource accounting is a crucial tool for understanding the role played by natural environment in economy.

Edu et Al (2009) stated that;

“…the use of environmental information to disclose the impact of corporate activities on the natural environment to stakeholders of the corporate entity or organization”

Environment accounts provide information which highlights both the contribution of natural resources to economic well-being and the costs imposed by pollution or resource degradation. Traditionally accounting suffers from limitation in dealing with environmental issues (Fortes, 2001), thus the principal reason for the non- existence of accounting standard dedicated to environmental accounting and reporting. Therefore, environmental reporting have been included in the field of CSR.

## Different Areas of Social and Environmental Accounting (SEA)

SEA has been broadly defined as the “ preparation and publication of an account about an organization’s social, environmental, employee, community, customer and other stakeholder interactions and activities and, where, possible, the consequences of those interactions and activities” (Gray, 2000).

SEA comprises of different areas (for example; CSR, Sustainability reporting and TBL) where each of them seems to be the same and interdependent. The acknowledgement of CSR, TBL and Sustainability implies the need to recognize the importance of disclosure of information on companies’ activities related to the social and environment. However, there are differences among them.

## The 3 main examples of SEA are:

## Corporate Social Responsibility (CSR)

## Sustainability Reporting

## Triple Bottom Line ( TBL or 3BL)

## Corporate Social Responsibility (CSR)

CSR involves being ready to be answerable for and willing to explain its social actions. According to the World Business Council for Sustainability Development defines CSR as, the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as a local community and society at large.

CSR concentrates more on the non- financial societal activities that a company contributes. Due to its great importance, CSR is being more and more integrated in companies’ cultures and ethics.

Governments across the world take the initiative to encourage businesses to adopt the concept of CSR by implementing new laws which businesses should adhere to. For example; in Mauritian Government has established a policy with the main objective of mandating registered companies to pay 2% of their book profits towards programmes that contribute to the social and environmental development of the country.

CSR in Mauritius

In 2008, Kemp Chatteris Deloitte (KCD) was appointed by the Government of Mauritius, in partnership with the Mauritius Council of Social Service (MACOSS) and the United Nations Development Programmes, to undertake a review of Corporate Social Responsibility in Mauritius Republic. This project mainly involves analyzing the main concepts of CSR in major industries and Small and Medium Enterprises (SMEs). The sample totaled 100 businesses in different sectors, namely; 59 large organizations and 4 banks in Mauritius and 37 SMEs in Mauritius and Rodrigues. And the methodology used was face-to face interview.

The findings revealed that most organizations initially engaged in CSR activities mainly to enhance their image vis-à-vis;

Internal community – 60. 3 %

External community – 54 %

Therefore this was mainly for image building. Whereas for multinationals, they are abide by their global policies to adopt the CSR concept.

There were also other reasons found, including corporate reputation and image, employee retention and loyalty, preservation of jobs, transparency, higher productivity…

37 % of the respondents carry out CSR activities in a formal way and 63 % in an informal way. The main CSR involvements in Mauritius are charity work (donation) and outsource its CSR responsibilities.

The practice of CSR is subject to much debate and criticism. Proponents argue that companies adopting CSR benefit in various ways such as a good reputation for the business. Critics argue that CSR distracts from the fundamental economic role of businesses. But however, it essentially is titled to aid to an organization’s mission as well as a guide to what the company stands for and will uphold to its consumers.

## Sustainability Reporting

The phrase Social and Environmental Accounting appears to have been replaced by Sustainability Reporting. Sustainability means treating the world as if we intended to stay. It is used as the key concept helping mankind’s future interactions with the environment.

The Australian Government defines Corporate Sustainability as encompassing strategies and practices that aim to meet the needs of the stakeholders today, while seeking to protect, support, and enhance the human and natural resources that will be needed in the future.

Sustainability concentrates on both the impact of environmental factors on a company and the company’s impact on environment.

The concept has known an increasing recognition as sustainability issues can materially affect a company’s performance, the need for transparency and disclosure among stakeholders groups and the need for companies to properly respond to issues of sustainable development.

Sustainability Reporting is largely voluntary worldwide. According to Global Reporting Initiative (GRI) guidelines more than 1000 organizations worldwide have registered their sustainability reports in 2008.

And According to a study published in the CSR Insight Report; Governmental, regulatory, and audit oversight of sustainability issues will become the norm within five years, in both the developed and developing world, across all industries.

## Triple Bottom Line (3BL or TBL)

The broader sustainability reporting framework is centered on three dimensions of performance – economic, social and environmental- and that is why it is widely known as the triple bottom line.

In 1994, John Elkington coined the term triple bottom line. It was later expanded and articulated in his 1998 book Cannibals with Forks: the Triple Bottom Line of 21st Century Business, in which he presents the ‘ Sustainable business’ as the new managerial paradigm of the next century The book sets out a broader picture of what a social responsibility agenda for business should entail. Therefore Elkington found that along with economical aspect of the businesses, social and environmental reporting are also important.

Arguments establish for TBL reporting are that information disclosed by companies should not be limited to market performance, but also non-financial information. TBL reporting has become a way to publish that information, based on the premise that monitoring and reporting social, economic and environmental performance, corporations can therefore be better prepared for future challenges and opportunities.

TBL encloses economic, social as well as environmental accounting. CSR usually involve some form of TBL reporting and is often used as a synonym.

TBL is known to be a formalized and enhanced vehicle to communicate with key stakeholders such as finance sector, suppliers, community rather than the shareholders only.

International Trend in Reporting

A survey is conducted by the KPMG Global Sustainability Services every 3 years, demonstrates the growth of the publications of reports containing environmental performance. The most recent one date 2008, the sample comprises of the global fortune 250, and the 100 largest companies in 22 countries.

The survey found that the rate of reporting among the largest 100 companies is 45 % average with the highest numbers in Japan (88%) and the UK (84%). Moreover, it was highlighted that the integration of corporate responsibility information in annual reports is on rise in France, Norway, Switzerland, Brazil and South Africa.

To conclude, according to KPMG, despite the rise in corporate responsibility references in annual reports is encouraging, most of them are still issued without any environmental and social information. But KPMG insight predicts a greater demand for environmental and social data by traditional financial report readers, such as investors.

## Importance and Utility of SEA viewed by Theorists.

## Accounting Theories.

The following theories; namely the Legitimacy theory, Political economy theory, Stakeholder theory and Social contract theory are considered to be a systems- oriented theories.

According to Gray et al (1996, p45)

… a system- oriented view of an organization and society…permits us to focus on the role of information and disclosure in the relationship(s) between organizations , the State, individuals and groups.

Within a systems- oriented perspective, the firm is assumed to be influenced by or to influence the society in which it operates. Corporate disclosure policies are considered as one of the crucial ways by which management can affect externalities opinions and respective about their companies.

## Legitimacy Theory

In general:

“ Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions “

(Suchman, 1995, p574, emphasis in original)

For Organizations:

“ Organizations continually seek to ensure that they operate within the bounds and norms of their respective societies, that is they attempt to ensure that their activities perceived by outside parties as ‘ legitimate’ “

(Deegan Craig, 2000, p253)

Legitimacy Theory is the most cited and poplar theory within SEA area. Legitimacy Theory is describe as a positive theory as it seeks to describe or explain corporate behavior (in term of efforts made to appear legitimate) rather than prescribing how organization should behave.

It implies that an organization’s image and success may be lurked if society perceives that the organization has breached its social contract. Where the society is not too pleased with the way that the organization operates, or legitimate manner, then society will effectively revoke the organization’s “ contract” to continue its operations.

## Stakeholder Theory

Stakeholder theory is about organizational management and business ethics that addresses morals and values in managing an organization, originally defined by R. Edwards Freeman in the book Strategic Management: A Stakeholder Approach in 1984.

Stakeholder theory (Gray, Kouhy & Lavers 1995b, p. 53) asserts that “ the corporation’s continued existence requires the support of the stakeholders and their approval must be sought and the activities of the corporation adjusted to gain that approval. The more powerful the stakeholders, the more the company must adapt. Social disclosure is thus seen as part of the dialogue between the company and its stakeholders”.

The entity should be used as a vehicle for coordinating stakeholders’ interests, instead of maximizing shareholders profit. Stakeholders including shareholders, customers, government, society…etc are those who influence directly or indirectly the activities of an entity, therefore managers have an incentive to disclose information about their various programs and initiatives to particular stakeholder groups to indicate that they are conforming to the stakeholders’ expectations

## Political Economy Theory (PET)

This theory explains that society, politics and economy cannot be treated alone but together, and that an organization does not operate in a vacuum but interact with the outside, . i. e. its stakeholders.

PET is said to have a broader way to tackle the issues concerning society which influences the operations of an organization, and what information it chooses to disclose.

According to Guthrie & Parker (1990, P166);

“ The political perspectives accounting reports political and economic documents. They serve as a tool for constructing, sustaining and legalizing economic and political arrangements, institutions, and ideological themes which contribute to the corporation’s private interests. Disclosures have the capacity to transmit social, political, and economic meanings for a pluralistic set of report recipients”

Therefore, PET also recognizes the use of social and environmental disclosures in annual reports as a strategic tool in achieving organizational goals, and in manipulating the attitudes of external stakeholders (Guthrie & Parker 1990).

## Other Accounting theories.

## Social Contract Theory

The contemporary version of the Social Contract Theory revisited by John Rawls (1999) in a ‘ Theory of Justice’, wants to demonstrate that individual and social group rights and liberties are founded on mutually advantageous agreements which are made between members of society. The concept of “ social contract” is important to understand the legitimacy theory.

Being socially and environmentally responsible, getting involved in CSR or sustainability reporting demonstrate that there is a certain contract between a company and its stakeholders.

Mattews (1993, p26 cited in Deegan, 2002. P 202)

“ The social contract would exist between corporations (usually limited companies) and individual members of society. Society (as a collection of individuals) provides corporations with their legal standing and attributes and the authority to own and use natural resources and to hire employees. Organizations draw on community resources and output both goods and services and waste products to the general environment. The organization has no inherent rights to these benefits, and in order to allow their existence, society would expect the benefits to exceed the costs to society”

## Slack Resources Theory

Slack resources are the excess resources which are important determinants of organizations structure, growth and performance (Penrose, 1959). As mentioned on the Blackwell Encyclopedic Dictionary of Organizational Behavior (2005), organizations can accumulate slack resources when they earn greater profits than they are expected to distribute. Slack resources are a concept that is the very core of organization theory.

As stipulated by Cyert & March (1963)

“ Slack Resources play a crucial role in allowing organizations to innovate by permitting them to experiment with new strategies and innovative project that might not be approved in a more resource-constrained environment.”

## Agenda Setting Theory

Agenda Setting theory is the theory that explains the impact of the media on its audience. It is said the Agenda setting is the creation of public awareness and concern of salient issues by the news media.

Bernard Cohen (1963) stated:

“ The press may not be successful much of time in telling people what to think, but is stunningly successful in telling its readers what to think about.”

And companies around the world have understood it. Nowadays, they use a lot of the media to get free publicity, for example: an apparition of their charitable donation on television. They attempted to assess the relationship between what stakeholders in one community said were important issues and the actual content of the media messages used during the reporting of their activities.

## Agency Theory

Jensen and Meckling (1976) argue that agency theory explains ‘ why accounting reports would be provided voluntarily to creditors and stockholders, and why independent auditors would be engaged by management to testify to accuracy and correctness of such reports. It appears that management have been willing to incur the costs to improve the credibility of accounting reports long before they were required to do so by law, and in many cases, voluntarily submitted to audit. Agency theory (Ross, 1971) has been used to explain management’s choice of particular accounting approach.

## The importance of stakeholders’ engagement.

The value of a company is influenced by the quality of its relationship with a range of external and internal stakeholders. Social and Environmental accounting and reporting is a means of communication between a company and its stakeholders.

Stakeholders include the internal and external ones, namely; shareholders and investors, employees, suppliers, society, banks, regulators and government. A stakeholder is defined as those who directly or indirectly influence the activities of a firm.

Stakeholders are increasingly interested in understanding the approach taken to the sustainability impacts of firm’s activities. The growth in ethical investment has persuaded corporations to give attention to corporate responsibility (Lydenberg and Grace, 2008 ). Moreover, competitive advantage can be achieved through environmental accountability (Bansal and Roth, 2000). In section 7 of the Code of corporate governance (2004) which deals with Integrated Sustainability Reporting, it is stated that:

“ Every company should regularly report to its stakeholders on its policies and practices as regards to ethics, environment, health and safety and social issues.”

Therefore, the ability of a company to communicate its activities and performance effectively with its key stakeholders can be critical to its long term success, viability and growth.

## Mandatory v/s Voluntary Reporting

## Mandatory Reporting

Mandatory Reporting are those information appearing in the reports in accordance with certain regulations imposed upon them by government or another authorized and recognized body. This enables companies to disclose a certain degree of information and a basic standard for disclosing that information, therefore comparison among different companies’ reports would be possible.

As stated by Deegan, Rankin and Voght (2000, p. 127):

“ Arguably, stakeholders have a ‘ right to know’ about the social and environmental implications of an organization’s operations at all times-not just when management has been ‘ shocked’ into action by ‘ legitimacy threatening’ events. Regulation might be necessary to ensure that this ‘ right to know’ is satisfied”

## Voluntary Reporting

While, the Voluntary Reporting approach makes sure that corporations will meet the requests of their stakeholders without any legislative instructions ( Maltby, 1997) . Deegan and Rankin (1997) found that voluntary environmental disclosures are considered in the decision-making process of several user groups of annual reports. Researchers in the voluntary disclosure field have argued that companies do not provide such disclosures to satisfy the user’s right to know but as a means to which the organization will be deemed legitimate by society and subsequently reap the rewards of such legitimacy (Guthrie and Parker, 1989; Deegan and Rankin, 1996; Wilmshurst and Frost, 2000; O’Donovan, 2002).

To conclude, it was found that companies are more willing to disclose larger proportions of positive information within a voluntary reporting framework than within a mandatory reporting framework. companies continue to use greater levels of self-puffery within a voluntary reporting environment than within a mandatory reporting environment, and suggests that stakeholders may be more likely to receive information that is less favorable to the corporation (and potentially more decision-useful to stakeholders) within a legislated disclosure environment.

## Where are the Social and Environmental Information Disclosed?

Annual Reports

Corporate Governance Section

Notes to the Account

Financial Statements

Director’s report

Stand Alone Reports

Environmental report

Social report

Sustainability report

Health and Safety report

Internet web pages

Company Brochures

Advertisements

## Motivations and Benefits For SEA

Transparency and Moral Concerns

SEA demonstrates a company’s willingness to properly manage its environmental, social and economic effects, therefore, establishing a good interaction with the stakeholders and demonstrating transparency.

Creating financial value

This often involves collecting, collating and analyzing data on resources and materials used by the company, and the examination of business processes. This process can help an organization to better highlight their opportunities for cost savings and revenue generation through more efficient use of resources and materials.

Creating of Reinforcement of Organization’s image

The reputation of a firm though being intangible is the most visible part of an organization. Sending an image where environmental, social and economic issues are taken into account, may bring stakeholders to good perceptions and in doing so, help to enhance the corporate reputation, leading to a rise in the value of the firm. But might also position the company as ’employer of choice’, therefore motivate and retain the existing staff and attract the talented potential ones.

Encourage Innovation

This concept may help companies to find new ways to achieve a good performance, efficient productivity and stimulate edge thinking. For example: developing new products by understanding the particular stakeholders concerns, needs and expectations.

Competitive Advantage

By considering all the aspects of Social and Environmental reporting, this may bring bigger advantage to the company in terms of differentiating their brands , products and/or services.

Attracting long term capital and favorable financing conditions

Investors include sustainability considerations within their decision processes. Through the publication of those reports, a mechanism is provided to ensure that the proper communication is established with this stakeholder group. Investors tend to take into account that their investments are profitable but also aspects as environment and social issues weigh in the balance.

Comply with legislation

Many Governments around the world issue laws concerning SEA which the companies are adhere to.

## Criticism of SEA

Integrating the SEA concept within an organization requires a lot of procedures and takes a lot of time and money. Working towards being environmentally and socially responsible, should start from the bottom of the organization, but is it really practical? Can this culture be inculcated to everyone or some of them might resist to this. The implementation of SEA doesn’t represent a guaranty for obtaining financial performance or environment/social-related performances.