Dr Chris Kelsall

Social and Environmental Accounting (SEA)

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DR CHRIS KELSALL

SOCIAL AND ENVIRONMENTAL ACCOUNTING (SEA)

Social and Environmental Accounting (SEA)
1st edition

ISBN 978-87-403-2869-1
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TABLES AND DIAGRAMS

PREFACE

First and foremost, I hope the reader enjoys reading this short book and takes from it a developing interest in Social Environmental Accounting (SEA) and how important SEA is now and will become within the accounting field.

The aim of this book is to provide the reader with an entry into the ideas and discussions that have formed into SEA. The book is quite short, just over 100 pages long, and therefore focusses on introducing central discussions in SEA. This book provides an introduction to core discussions and research in SEA from within the accounting community. Wherever possible further references and readings are included in the text that the reader can follow up later if they so choose to develop even further their understanding of SEA.

In furthering the aim of this book:

Chapter 1 helps develop a clear introductory understanding of Social and Environmental Accounting (SEA);

Chapter 2 focusses on the different but inter-linked concept of sustainability in the business context;

Chapter 3 develops from the perspective of the firm and how they relate to society in terms of Corporate Social Responsibility (CSR).

Chapter 4 develops a particularly important topic in this area for accounting of the SEA reporting approaches.

Chapter 5 sets out some of the challenges and developments for the future in SEA.

Having a clear understanding of the terminology used in SEA is important. This is why SEA is split into three distinct chapters 1-3, the issues of SEA, sustainability and CSR. These terms are often conflated. One key aim of this book is to separate out these different areas.

In having a clear understanding of the terminology used in SEA, a better understanding of the importance of SEA in the accounting community is reached. Specific important issues can be highlighted and understood, and the development of this concept within the accounting domain followed.

This book is written in a clear style so the issues can be understood, and to aid this process where possible illustrative accounting and business examples, case studies, have been used to help explain the concepts in real terms. As well as the use of illustrative real world examples, diagrams have been used to help explain the details of some of the concepts.

The field of social and environmental accounting is one that is subjective and value laden at its core. SEA is also a developing subject area and this means that there are issues and debates that are on-going. Whilst efforts have been made to make this book as impartial as possible, the authors own views will have flavoured this work. To mitigate against this from being too much of a polemic, wherever possible, if there are arguments on issues then both sides of the debate have been included in the analysis.

Should the readers have any comments, suggestions and or questions in respect of this text the author is happy to receive this feedback.

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LEARNING OUTCOMES (LOS) - OVERVIEW

After reading this book and working through the questions the reader should have:

- An understanding of what Social Environmental Accounting means and how this sits in the accounting field;
- An understanding of the sustainability concept from within the business community;
- What Corporate Social Responsibility means and how firms can drive this forward, as well as how this sits in relation to SEA and sustainability;
- The development of the SEA reporting and importance in the accounting field;
- That SEA is a developing concept, and understanding and being able to discuss some important challenges in SEA moving into the future.

Primarily the core LOs above have been linked to the 5 Chapters in the book. In starting each chapter in the book, the main LO is broken down into a number of specific subsidiary LOs for the chapter.

ABOUT THE AUTHOR

Dr Chris Kelsall has been a Senior Lecturer in Accounting at the University of Central Lancashire (UCLan) in the UK since 2012. Dr Kelsall has been teaching accounting students for nearly two decades. As well as teaching, Dr Kelsall has been involved in a number of validation and re-validation events, and has been the external panel member at a number of external validation events both in the UK and in Hong Kong. Prior to joining UCLan Dr Kelsall was the external examiner for the MSc Financial Management and MSc International Finance and Investment at UCLan.

Before joining Higher Education Dr Kelsall was a Management Accountant working for a charity in the housing association sector. Dr Kelsall mainly teaches management accounting and corporate finance. Dr Kelsall retains his links with the accounting profession, and is the Chair of the ACCA Lancashire and Cumbria regional panel.

Dr Kelsall completed a PhD at Sheffield University Management School in 2015 and has presented at a number of international conferences. Research interests include: social an environmental accounting; audit quality; the accounting profession.

About the peer reviewer

Dr Zakaria Ali-aribi is a Reader in the Lancashire School of Business and Enterprise at the University of Central Lancashire.

Dr Ali-aribi has a wide range of teaching experience in higher education at undergraduate and postgraduate level including: financial accounting; management accounting; Islamic finance; financial management.

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Learning Outcomes

Main Learning Outcome

- Able to define what is Social and Environmental Accounting (SEA);

Subsidiary Learning Outcomes

- Have a clear understanding of the accounting profession (UK);
- To be aware of some of the social environmental issues and accounting;
- To be able to explain the Triple Bottom Line (TBL);
- To understand the concept of Full Cost Accounting;
- To understand what Life Cycle Costing is about.

Review Questions Chapter 1 - at the end of Chapter 1.

1.1 INTRODUCTION

The current accounting system favoured in the Western world is a process that has developed over the last one hundred and fifty years (Walker and Shackleton, 1998). In essence, accounting is a process in which organisations performance and actions are numerically recorded. This recording and decoding process is at the heart of the creation of an organisations financial performance information, culminating in the creation of the firm's profit. Accounting and therefore accountants are central to the running of a modern business in society. Accountants are involved in both the financial 'recoding' process (creating accounts), and also the independent expert assurors of the performance (profit) information of the firms. Organisations and the business community are at the heart of how all major industrialised economies in the world work.

Most business organisations are valued and then initially compared in terms of profitability performance. Forbes for example list the Fortune 500, and list out the US incorporated firms that have made the most profit on a worldwide basis. The most profitable firm on the Fortune 500 in 2017 was Apple inc. showing an annual profit of $48.3 billion (Forbes Fortune 500). The profit measure is accepted as the way to evaluate businesses performance. It is worth underlining the point around the changing nature of accounting and business. What holds sway as the central agreed rules and way firms report and operate will continue to change. This is where social and environmental accounting comes in, as an area ripe for much more development and inclusion as a normal part of accounting.

This summary discussion of what accounting is brushes over the complexity of the accounting process but does highlight a couple of important issues. Accounting is and always has been evolving, a developing process; it is central to the running of the business system; accounting is therefore a social science.

What therefore can be noted, about the accounting process is:

- it is constantly changing;
- it is not an objective natural science but a subjective social science;
- it is closely linked to a changing society.

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The business community and society is rapidly changing, this process of change seems to become ever quicker. Current changes include: the movement towards on-line business; the growth and importance of global trade; the development of a '24/7' culture with business and trade constantly occurring; the increase in automation and added to this role of artificial intelligence; the development of social and environmental concerns linked to the role of business.

These are some of the current areas of change in the business process. These will be the drivers of change in the development of the accounting system for the future. This section is to explore in more depth the development of the social and environmental concern in business and accounting. It is also clear that all of the changes are to an extent inter-linked and so the other important developments will inform and be included in the specific discussions on social and environmental accounting.

1.2 ACCOUNTING AND SOCIETY

Accounting is an important part of society, being a central link within the business community. Accounting has often portrayed itself as operating as a neutral observer (Tinker, 1985) that does not impact on and or influence the 'factual' financial information firms produce, but merely reports the financial results. This image is one that has been carefully crafted and controlled by the Professional Accounting Bodies (PABs) over the last one hundred and fifty years, and also by the 'Big Four' accounting firms.

The PAB consist of the chartered accounting bodies, in the UK these include:

Professional Accounting Bodies (UK)

ICAEW – the Institute of Chartered Accountants England and Wales - https://www.icaew.com/

ACCA – Association of Chartered Certified Accountants -https://www.accaglobal.com/uk/en.html

CIMA – Chartered Institute of Management Accountants - https://www.cimaglobal.com/

CIPFA - Chartered Institute if Public Finance and Accountancy - https://www.cipfa.org/

ICAS – Institute of Chartered Accountants Scotland - https://www.icas.com/

CAI – Chartered Accountants Ireland - https://www.charteredaccountants.ie/

In most countries around the world there are country based accounting practice bodies. In the US there is the American Institute of Certified Public Accountants (www.AICPA.org) who provide PAB services to over 400 000 members.

In Denmark there is the FSR – Danish Auditors (www.fsr.dk).

In the European Union there is Accountancy Europe (formerly the Federation of European Accountants – FEE, current web-site www.accountancyeurope.eu) which has 51 national accounting body members from across 37 countries in Europe (including all of the UK chartered accounting bodies).

There is also the International Federation of Accountants (IFAC – website www.ifac.org) which is a global umbrella body for national accounting bodies, with an estimated 1.5 million accounting members (through their national bodies) worldwide.

In respect of the Big Four firms, these are:

Big Four (Professional Service Firms – PSFs)	Web-site
PwC	https://www.pwc.co.uk/
KPMG	https://home.kpmg.com/uk/en/home.html
EY	https://www.ey.com/
Deloitte	https://www2.deloitte.com/uk/en.html

Table 1 – The big four (Professional Service Firms – PSFs).

The Big Four have an unprecedented place in society and are widely and globally known and recognised. They are seen as trustworthy and have featured in carrying out a number of projects and reports for the government that are far outside of straightforward accounting work. Deloitte for example provided much of the information to enable the smooth running of the 2012 London Olympics. PwC produced health and wellbeing reports that have fed into an agenda of the UK government, following the lead of Prime Minister David Cameron (UK Conservative party Prime Minister between 2010 and 2016). In furtherance of this they now self-define themselves not as accountants but as 'Professional Service Firms' (PSF). This level of trust is currently being explored, partly as a fall-out from the collapse of the UK firm Carillion plc (see case study 2 - pages 16-17).

The accounting practice community – the groups involved in creating financial accounting statements and carry out the assurance of this information, the relationships between the groups is illustrated in the following diagram.

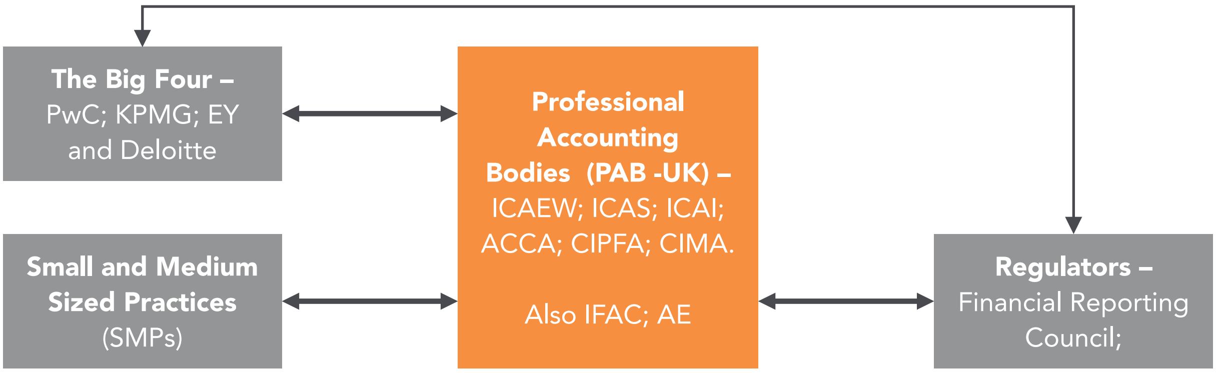

Diagram 1 - The Accounting Practice Community (UK):

The accounting practice community (UK) diagram indicates a number of issues: central to the accounting practice community are the professional accounting bodies; contact with the regulators is generally through the PAB then via them to the accounting firms; the Big Four firms are large enough so that direct contact with the regulators does take place. In this sense Ramirez (2009) view of the Big Four as 'pseudo macro-actors' holds well to explain their behaviour. That is the Big Four are *seen* as leaders within the accounting practice community, but unlike the PAB, they are *not representative* and in contact with the other accounting firms – SMPs.

The accounting practice community can also be seen as a very insular sector with limited engagement with the outside world. Accounting is for the most part a self-regulating profession, with minimal regulatory control, most of the control is mainly in terms of as an oversite function.

For most of the time, this manicured image of the neutral observer is retained (Tinker, 1985), helping to keep the professional mystique of the accounting profession, and in particular the Big Four in place. When financial scandals have emerged some of that mystique has been torn down, and the judgement calls and influence of the profession can be more clearly seen.

Two examples can help to show the buried social implications of accounting.

Case study 1 – Accounting and business trust - Enron (2001)

Enron was an energy trading business based in Texas, USA. In 2000 Enron posted revenues of $101bn with assets of $62bn. The firm's auditors were Arthur Andersen – at the time one of the Big Five accounting firms. The firm also had additional accounting work carried out by Arthur Andersen. The firm used a number of aggressive accounting manoeuvres including hiding large group debts in hundreds of corporate shell firms. When the hidden debt began to emerge, with the support of a whistle-blower, the Enron business unravelled. The share price falling from $95 per share to $1. The firm ended up filing for bankruptcy. Almost as important was the collateral damage to Arthur Andersen resulting in the disappearance of them as an accounting firm. In addition to the lack of accountability and rigour in the audit process, they were accused of falsifying data and misleading investigators – shredding large numbers of documents to evade criminal responsibility. This event led directly to the Sarbanes-Oxley act (2002) in the US that tried to tighten corporate governance rules; it also highlights the continuing problems with firms having one auditor for a long period of time (audit rotation has been pushed especially in the EU); and the separation of audit work and accounting work by the same firm. These are still on-going concerns in the business world. This had a significant effect on the trust levels placed in the accounting firms. The other big accounting firms influence and power has been shown in the way they were able to come back from the tarnishing of their reputation.

Case study 2 – the public view of the role of accounting - Carillion (2018)

Carillion plc was a FTSE 100 firm in the UK - one of the 100 largest firms by capital value. Founded only in 1999 they aggressively expanded the business from a base of construction to one including cleaning and catering services and other outsourcing services to the UK government. They had a turnover level of £5bn in 2016. They were still heavily involved in construction and had a number of projects that ran into cost overruns

The collapse of Carillion in January 2018 was foreshadowed by an £845m profits warning in July 2017 – cutting the profit forecast by nearly £1bn. Much of this was due to public private partnerships where the profits on contracts were much lower than forecast. It was estimated £375m was for write-downs on contract profits such as: the £350m Midland Metropole Hospital in Sandwell; the £335m Royal Liverpool Hospital; £745m Aberdeen bypass. These contracts and work has yet to be completed. It was the view, with the public sector tightening public spending since the recession in 2008, Carillion had agreed a number of public sector contracts at too low a value.

Another sign of a cashflow problem was Carillion was squeezing suppliers signing them upto be paid after 120 days which was a clear warning that the firm were running out of cash.

As part of the debt, the firm owed nearly £500m to the pension scheme. In the end, the banks would lend the firm no further money to keep operating, and the government – despite awarding several further public contracts to the firm following the profits warning and clear and imminent signs of collapse - were not prepared to go further and bail them out with the requested £300m. This resulted in Carillion plc collapsing with the loss of over 3000 jobs; nearly £1.5bn of debts (including the £500m pension deficit); with the UK government estimated to have to spend an additional £148m to complete contracts that were unfinished by Carillion.

Accounting has come in for complaint in relation to the Carillion debacle. The auditors, KPMG, were held up to ridicule in terms of claiming to know nothing about the firm's financial problems before the profits warning. The directors of the firm received share bonuses they cashed in before the crash of the firm. The culpability and greed shown by the directors – receiving large bonuses including shares that were liquidated quickly can

be spread to other financial experts, including: the banks/professional bodies including accountants - all their fees were paid before the collapse of the firm. This is in stark contrast to the large number of small contractors and suppliers who have been left out of pocket by the firms collapse. In fact, investigations into the collapse are to yield further fees for the professional firms and again this has led to public disquiet.

At this point in time the trust in the Big Four accounting firms is being challenged, with the Competition and Markets Authority in the UK investigating the four in terms of efficiency and public benefit (BBC, 2018a).

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The Big Four accounting firms have agreed to discussions on a voluntarily 'cap' on the number of large firm audits they carry out. As an example, in the UK the FTSE 100 firms, presently the Big Four audit 99 of these firms. The idea is that within certain groups the number of audits the Big Four do will be limited. This is currently in a discussion phase between the Big Four firms and the professional accounting bodies (ICAEW, ACCA) (Hosking, 2018b). Part of the reason for these discussions is to avoid any mandatory changes that would impact-on them. A significant factor for the accounting community at present is that it is self-regulating. The professional accounting bodies appear to have accepted public disquiet in the audit process, and the Big Four firms wish to avoid mandatory rules. This shows some significant pressures pushing forward change in the accounting assurance system (BBC, 2018; Hosking, 2018b).

The point of including these two mini-case studies of corporate failure, Enron and Carillion, is they show the influence of the accounting profession within the business community and the far reaching implications of business and accounting on the rest of society. Accounting is a vital part of modern society. The relationship between accounting and society is a finely balanced one, based on trust, and this can easily be broken. The two scandals indicate the pressures on this bond of trust, but more, they indicate the power and influence of the accounting profession to keep their public position even when events indicate the public view of the profession has fallen. The relationship between the accounting profession and the public is one that has been distant and from the accounting professions' perspective has been ignored. More recently, there are signs, such as the head of ICAEW, suggesting that the profession needs to review how they carry out their work to bring this more in-line with public perceptions. In the past, this has been portrayed as the public not understanding what accounting and accountants were trying to do especially via the audit process.

1.3 SOCIAL AND ENVIRONMENTAL ISSUES AND ACCOUNTING

As has already been said, accounting is a social science – not an objective and factual science, but one crafted in and of society. Accounting operates to serve the business community. The role of business and trade is central to society, with the current most dominant model being the western capitalist model. This a model of economic performance that has as fundamental tenets: free trade between different countries and regions; capital markets providing funds to firms in which investors can invest and buy shares in many of the firms; the view that profit is the main aim of business; limited or low regulation and interference in the business community by governments. This limited interference and inefficiency will lead to more of the returns able to be and encouraged to be re-invested in the business model.

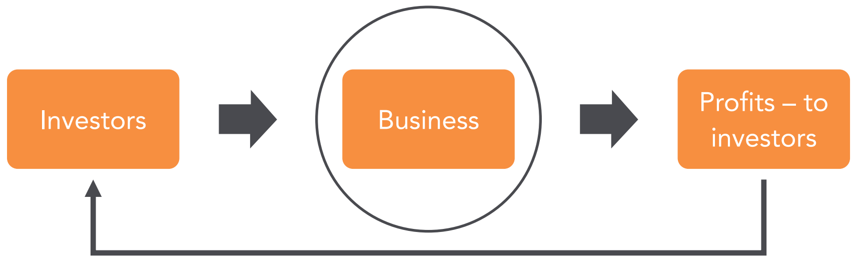

Diagram 2 - A flow diagram of the Capitalist Business Model.

The resources in the diagram show a smooth and harmonious flow, there will be leakages from the system, not all 'profits' are re-invested back into the economy. This is not a perfectly balanced model and governments are forced from time to time (such as after financial crashes, the latest being in 2008) to intervene to get the economy operating again. At this time another of the frictions on a smooth flow of resources, interest rate charges on money, is being discussed in the US with the view the President is interfering with the independence of the Chair of the Federal Reserve – supposedly an independent body that sets the US interest rate for the federal Reserve (Hosking, 2018a).

All of these tenets in essence create a business market that is seen as being self-serving, focussing on producing the highest level of profit, whatever other costs or implications to society. This was the view of Milton Friedman (1970) whose view at this time was that the only social concern of a business was to make a profit.

Social accounting has been an area of interest in the academic community, but one that has been quite perplexing. As an example, starting with the academic journal Accounting, Organizations and Society which is a leading 4* journal on accounting issues. In the first edition of the journal in Medwar (1976) produced an article titled: The Social Audit: A political View (Medwar, 1976, v1 i4, pp 389-94.) In this research article there was a brief exploration of how a process of 'social audit' could be carried out. This set the idea of a social audit, and related this to two firms. The development of the social audit has been slow and limited. A particular problem is the measures of social issues – both added values and costs, these are quite difficult to quantify. The strength of accounting as a process has always been the apparent ease with which a number has been able to be crafted into a value. We have for example two key values: the Profit Value and the Net Asset Value. Both showing different sides to the firm's performance, but from an accounting point of view a consistent value (year to year and firm to firm) is created. The interpretation of what the number means is more of a discussion, but the starting point has been the ease with which a consistent number can be created.

Social values have not progressed well down this base route. It has proved elusive in the accounting community to establish a social value and the corresponding numbers. An argument can be made that perhaps this is part of the challenge that not everything that is important has a clear and identifiable numerical value. When talking of a firm supporting poverty alleviation – what is the value of this, the number of lives saved? With poverty itself measured in different ways including absolute and relative measures (see discussion point section 2.2), then the impact of one firms operations in relation to this social issues is unlikely to have one easily calculated value. Greggs plc (a national UK bakery) could argue that the breakfast club in schools across the UK the firm supports is helping alleviate relative poverty, what is the value of this – this in fact maybe in accounting terms seen more as a cost to Greggs? The extra educational values (qualifications) gained compared with children in similar under-privileged areas? (See discussion point on Business in the Community – BiTC, section 3.6).

Accepting the view that not everything that is important socially can be valued, putting a value to these factors does have some benefits: highlights gains from the actual process; gives a benchmark for future support; provides an easy to understand value; is easier to communicate this information. For these reasons it is of social value itself for the accounting community to try and develop and marshal a set of consistent social values for organisations.

A body in the UK called the Social Audit Network (SAN) have tried to carry out some social audit work (Social Audit Network). Notably, SAN is not connected to accounting and so have set at looking at this from a different perspective. This is less interested in the numbers and more in the context and aim and objectives of the entity in creating the

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social audit. The limitation is that the starting point for SAN is they are looking at social audits from the perspective of social enterprises – businesses set up and or with a main agenda to provide social benefit. Examples include housing associations; not for profit bodies (SAN, 2018). This therefore is in effect an audit to ensure the organisations live upto their objectives. Unlike the wider social audit agenda in the accounting community, which is perhaps more looking at social issues within all types of business entity.

Social audit from an accounting perspective is therefore having to deal with the tension in most businesses between social issues and making a profit. The impact in following the ‘highest profit at all costs’ can be seen in some ways in the recent financial crisis and demise of firms such as Lehman Brothers. Implicit in the business model promoted by the banks and other financial providers was the need for increasing profits and growth. This need for continual profits growth moving businesses into more risky business ventures. In the case of the financial crisis, a main component was the creation of the Collateralised Debt Obligations (CDO). These were bundles of debt including both low and high risk debts as one packaged ‘safe and guaranteed’ higher return asset. In the end, these CDO as assets proved value less.

There has been more of a move towards placing the business community and implicitly accounting into a less socially divisive place, where social concerns are taken more into account. This has received further traction and has to an extent speeded up following the 2008 financial crisis. One of the core issues with accounting that has also limited this movement has been the focus on what can be accounted for – the focus on the numbers. This has had a significant effect on the relationship between accounting and society and also the environment. This has led to a slow transfer and dissemination of accounting into social and environmental concerns. If the values of social and environmental issues cannot be clearly defined in monetary terms then the relationship with accounting will be limited. This is an issue that has held back the accounting process in supporting and promoting social and environmental concerns as part of the business community.

Social issues are difficult to put a value on. A good example to illustrate the problems can be seen with the rise of fracking. The fracking process involves the use of water and chemicals pumped at high pressure into underground shale deposits to fracture the shale deposits and release trapped gas. This shale-gas has been seen by governments in the US and UK as a way of creating low cost gas, depending on the shale gas deposit levels, for the next thirty to forty years. The arguments in the UK involving firms such as Cuadrilla, have been particularly strongly opposing ones. From the business perspective the benefits they have claimed include: cheap gas; economic investment in the local economy. The protestors have complained about the environmental degradation and unknown long-term consequences of the process. It has been much easier for Cuadrilla to put a figure on the economic benefits in areas of the fracking process and the potential value of the gas (Lusher, 2018). On the other side, it is difficult for the anti-campaign to put values on the environmental and social costs of this process, especially as much of the impact of the process is scientifically unproven. This illustrates how important accounting has become as a voice and communication tool in society. Anyone who is able to put some numerical value to an argument, if this can be independently assured, this then gains considerable credibility.

In terms of environmental values developing further in accounting than social issues, this can partly be explained with the development of more measureable value for environmental concerns. Business is an important part of society that is involved in the extraction, manufacture and resales process of goods and commodities. This therefore involves lots of interaction with environment issues, including: resource extraction; pollution; energy use; distribution costs. A common theme amongst these is energy use and recently carbon accounting has been used to put values on the user of these resources. That is the value of energy use can be measured and converted in a carbon value that can then itself be valued. This coincides with the development of carbon trading schemes trying to value and then limit the use of carbon.

Being able to value something in financial terms should not mean that the argument is now closed in favour of this value or the most important value. It can be used as one measure and one indicator in the discussion. It is more evident that many important issues cannot be easily measured but must be taken into account – essentially the core issue around social and environmental concerns. This is one of the problems with accounting though, that it works much better and has developed predominantly in terms of creating and measuring and recording values. These values could be for resource use, staff use, even the use of intangible assets – such as a brand value.

Accounting as a professionally regulated service has professional ethical standards, and the profession have spent time recently establishing and then developing the professional ethical standards (see section 3.3). This concern and development with professional ethics is slightly askew from the development of 'business ethics' as defined as social and environmental accounting.

1.4 THE TRIPLE BOTTOM LINE (TBL)

Accounting is an effective discipline for coining new phrases and concepts. In looking at the rise of social and environmental accounting the term Triple Bottom Line was developed and popularised, especially by John Elkington (1997). The concept involves three components: Social, Economic and Environmental. These components are linked like 'tectonic plates' in the earth's surface. They are connected and rub against each other in a tension between the different perspectives. In looking at each of the different categories the point made using the TBL is first: all three issues should be taken into account; they are connected; changes in one variable will have a knock on effect (tension) often counter the change in the other category. This also requires more of a priority given to social and environmental concerns, as the view of business has been that the economic value outweighs any other values.

One question that arises quite quickly is how is this different from social and environmental accounting? The first way to explain this is to state that in essence there is little difference between the two terms. Each is exploring economic, social and environmental issues. Developing this a little further, perhaps the difference can be viewed as being in the implementation phase of the concepts – how the results are reported. Social environmental accounting is quite open as to how this is interpreted, whereas with TBL in the reporting stage this is usually a closely controlled comparative positive and or negative summary of each of the three concepts.

An example helps to define this, if we look at a TBL appreciation of the retailer Primark – part of the Associated British Foods plc group. Primark are an international retailer primarily of low cost clothes. The profit generation model (economic issue) is to sell large volumes of clothes at very low prices. This has proved financially successful for Primark, though this has caused problems for competitor firms. They have been catering for a growing demand (social issue) of cheap clothes, so cheap in fact that they could be viewed almost as disposable clothing that did not need cleaning. As many individuals felt 'time poor' this notion that the clothes could just be disposed of and replaced has been quite appealing. Whilst catering for this social demand this has created concerns (environmental), in the waste of clothes being disposed of, and whether or not they could be recycled. This also resulted in some negative social issues. Following the collapse of a factory called the Rana Plaza in Bangladesh in 2013 leading to over 1000 deaths, several international firms including Primark were held as failing in their 'social responsibility'. Whilst the factories were suppliers to the firms and not owned by them, the costs were kept low, aided by the factory being based in Bangladesh, where there was a lower level of health and safety. Even so, it was held that the larger firms had a 'social' responsibility to monitor their supplier factories and to implement policies that were more aligned to how the factories may operate in home markets (see Human Rights and Democracy Report, 2014).

The ideal of TBL would therefore be to report on social and environmental issues as well as economic performance. Effectively all firms are required by statute to produce a set of financial statements on an annual basis (economic information). For larger firms, this information is assured by members of the accounting profession. The production of any social and environmental information concerning the firm is a voluntary process. Whilst just producing a report is not the answer in making firms become more social and environmentally responsible, it can provide information that is of use in directing the firm and investors views onto these issues. It also pushes forward the agenda in terms of this information on social and environmental aspects of the business performance, producing consistent and comparative data. A downside is that in copying the financial reporting process, this can result in the creation of a range of social and environmental measures, which can focus on a narrow range of issues and areas. A firm's managers may operate within the law, but not the spirit of the law. This is a different issue, not getting firms just playing the game of TBL reporting and concern, but genuinely ensuring a balance between the economic, social and environmental performance of the firm.

The TBL concept has not developed much over the last couple of decades. There are issues with the concept, in particular there is considerable uncertainty in terms of the values that can be ascribed to environmental but in particular social issues. Research into social values has appeared much slower than the environmental interest and focus. There are several explanation for this perceived phenomenon including: global concern over environmental factors; ability to put values to environmental factors; wider topic focus in terms of social issues – what are they? subsuming of social concerns into environmental agenda.

The measurement of these aspects of the organisations performance has to some extent held back TBL reporting. As has the notion of firms reporting positive and negative results – no firm would particularly want to be seen as having negative social values.

The following example TBL reporting format illustrates the possible images of values for the economic, social and environmental aspect of the businesses performance. Overall, a negative value to society (see Bebbington, Gray, Hibbit and Kirk, 2001) would not be a good motivator for firms to embrace this reporting process.

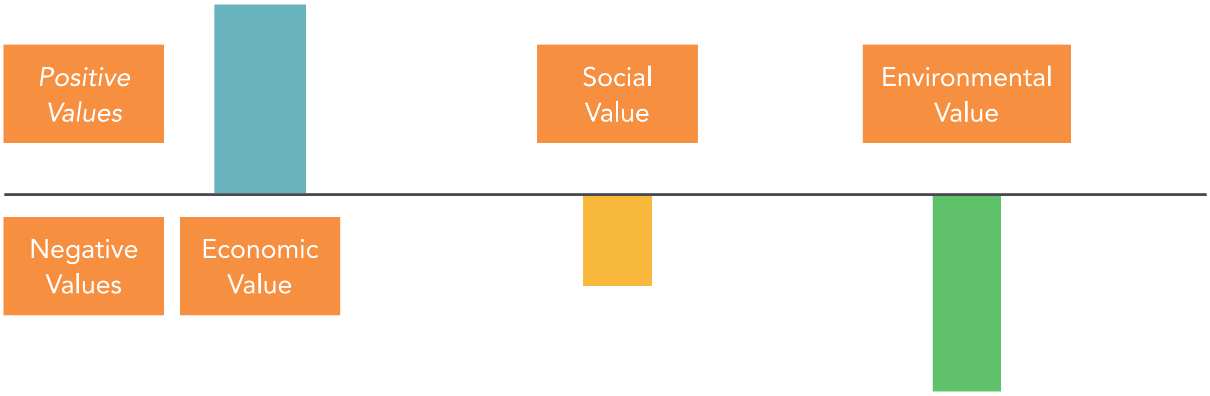

Diagram 3 - Illustrative example of a TBL report.

In support of TBL reporting, the intention is to provide measures of the impact of a firm's operations in terms of economic, social and environmental factors. Importantly though this is to provide information for firms to act on this information. The details of the 'positive' and 'negative' values are just indicators and should be viewed in an open and supportive way to encourage firms to be open and use the results to help move the firm forward. This will in the end benefit both the firm and society if TBL is viewed as a way to improve performance to the benefit of the firm and society.

1.5 FULL COST ACCOUNTING

Accounting has been involved in attempts to create a workable measurement framework for social, environmental and economic aspects of a business. As a minimum this is looking at how to quantify what had been termed as 'external costs' in the past and excluded from the firms control and cost calculation, into something they are accountable for and can be quantified (Antheaume, 2007). This resulted in for example Full Cost Accounting (FCA). In FCA, measurement is made of economic, social and environmental impacts of the firm. These can be either positive – income/revenue values or negative – cost/liability values. This has been claimed as beneficial to the firms in developing more effective values in decision making, and in a wider sense is useful in public policy decision making (Antheaume, 2007, p. 212). This can also be seen as an addition to the TBL reporting process, taking into account external factors (social and environmental) which have been more clearly quantified.

There were a number of developed FCA examples including the Sustainability Assessment Model (SAM) process that included working with alcohol producers and chemical firms. The SAMS process also working with BP plc the petroleum exploration and refining business. This is different from TBL as it attempts to 'balance' the three areas in measurement process. This would commonly end with a positive economic value, and negative social and

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environmental values for the firm. It is perhaps clearer and easier to see why many business operations could be seen as generating a negative (cost) in terms of environmental factors, with: travel costs; energy use in heating and lighting and running computers; extraction and resources use. These costs would outweigh the environmental benefits. In terms of social issues it can be a little more variable and debatable in terms of the benefit/cost equation. Firms with negative social values could include: those employing staff on temporary or zero hours contracts; low paid staff; not employing local staff. For some firms the social costs of the business itself can be high, examples of firms that could have very high social costs include: British American Tobacco; Diageo – drinks manufacturer; BAE Systems – armaments manufacturer; BET365 – on-line gambling business.

One main reason FCA in this format has not taken off is the difficulty in working out values for the economic and social aspects but more importantly when these experiments have been carried out the overall picture for the firms was one of a negative overall contribution to society (Bebbington, Gray, Hibbit and Kirk, 2001). In a sense, this can be seen as a fundamental part of the 'social contract' between business and society. The business is to provide some value – in most cases economic value. For this, society will allow the firm to operate. So even firms such as gambling based firms; drinks manufacturers; cigarette produces – whose products and services have considerable social and environmental harm, they are still allowed to operate due to the economic benefits. Society will allow a firm to operate if they have benefits that can be perceived as outweighing costs. The economic, social and environmental factors do not have to be in balance if we accept the concept of the 'social contract' – allowing firms to operate in society even if there are concerns about the business operations/product/service.

FCA has not gone down well with businesses who would be reluctant to engage with a process that ends by showing them as a negative value to society. The image created is against the one developed by business of a valued part of society providing economic benefits – profits; employment; taxes.

The businesses that have engaged in the FCA process are extractive firms such as BP plc. This is counter-intuitive in one sense, as they can be seen as a firm that will have large environmental costs. Keeping an open mind, this could be an attempt to try and measure and then start to act on some of the environmental challenges the firm has. As a counter, this could also be a way of opening up and in being involved in and therefore controlling the discourse around the environmental issues.

1.6 LIFE CYCLE COSTING

Predominantly manufacturing organisations have traditionally viewed the production process and consequent costs as the only relevant costs to take into account. A firm such as Toyota, one of the biggest volume car manufacturers, would concentrate on ensuring stock purchasing and holding systems, and the production process and delivery systems operated as efficiently as possible. These would be the major operating concerns, and feed into the costs and ultimately profit and bottom line of the firm. Firms in effect had been able to focus solely on the internal business processes. This was useful in allowing firms clear cost information, but this also created problems for society. Following this approach, anything 'outside' of the firm in terms of cost and issues could be discounted and ignored by the business. This could be seen as a green light for corporate cultures to use the organisation structure to avoid issues such as: environmental pollution and waste disposal; recycling levels and costs; any supplier costs and problems – only concern to push the supplier cost down as far as possible; ignoring locally sourced resources in favour of cheaper globally sourced stock. Companies have developed into groups of firms to 'bound' their operations and responsibility to entities within the group. This is fundamental to the capitalist business model of free enterprise – run on the basis of many SMEs each motivated by self-interest and profit levels.

Diagram 4 - Traditional Manufacturing Operating Model.

Continuing with the example of Toyota, issues outside of the operating system include: the using-up of finite resources including metals in a mass production process; the 'adversarial' relationship with suppliers viewing them as costs to be cut to the minimum; the disposal costs when a vehicle comes to the end of its useful life.

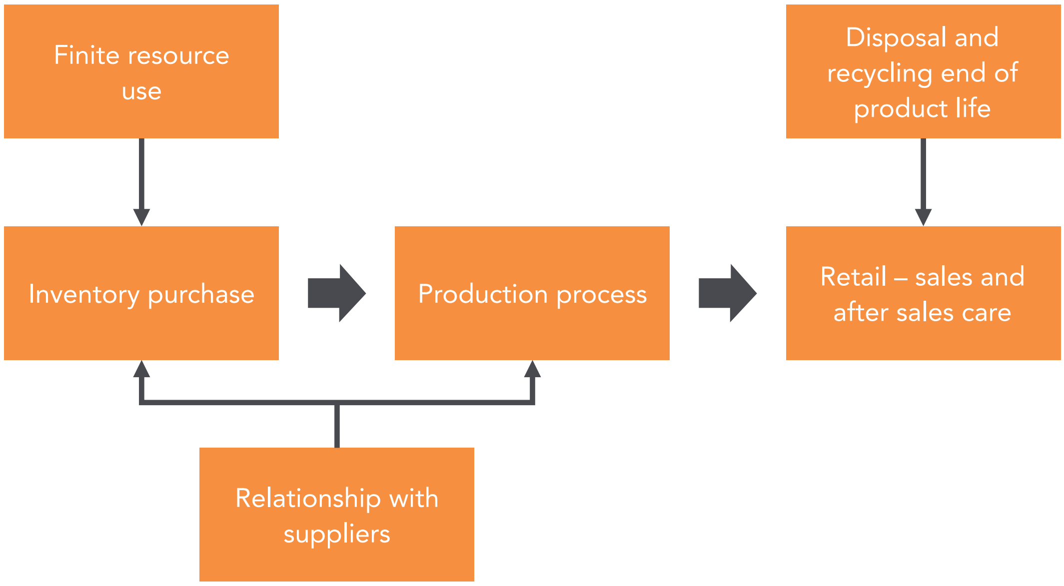

Diagram 5 - Manufacturing Operating Model including External Factors.

This is where Life Cycle Costing (LCC) comes in. In essence, it is an attempt to take into account more values and costs than the traditional view of the operating system. Using the example of Toyota, this would mean: taking into account the costs of 'using up finite resources'; the costs of working more 'collaboratively' with suppliers; the costs of dealing with recycling and disposal at end of life of the product.

The external factors can be developed more in terms of the possible cost issues in this example:

Finite resource use – this could mean that the firm either has to try and replace the 'finite' natural resources with synthetic equivalents (this could include research and development costs) or even try and recycle the most finite resources – which is a cost to the firm;

Collaborative relationship with suppliers – this could include better contact in terms of systems such as shared Enterprise Resource Planning (ERP) systems with suppliers; providing training for suppliers to work more closely with your firm; engaging in longer term contracts. This could all lead to extra costs against the extra benefits.

Disposal and recycling – first of all this would incur extra research and development costs with the aim for more cars to be designed using recyclable materials. It would also mean that even after sales the firm would need to keep in contact with the products and how they could eventually be recycled back into the system.

LCC is therefore a process whereby more of the external costs are included in the overall value and cost of the product (Gray and Bebbington, 2001). This can be seen as adding the Pre and Post-Production costs into the system and the firm taking more responsibility for these costs – such as disposal costs. In adding these into the equation, it creates an incentive for the firm to find ways to minimise and be more efficient in terms of these costs. The increased awareness and efficiency drive can start in the initial research and design process. Firms are encouraged to improve the supply chain and minimise the use of finite resources. Firms are also motivated to ensure their products are ones with as many recyclable components in the product, as well as the ability for the components to be recycled at the end of the products life cycle.

The car industry uses a large amount of finite resources in producing cars especially around metals – aluminium, steel, zinc, copper go into cars. These are finite resources and need to be reduced in use and recycled. Introduced in 2002 the European Union End of Life directive (http://ec.europa.eu/environment/waste/elv/index.htm, accessed 22 August 2018) means that the scrapping of old cars is now the responsibility of the car manufacturer. In the past an owner may have paid a scrap yard to dispose of the car, now the car can be taken to the manufacturer. This therefore puts pressure on the manufacturers to make the cars they produce as 'recyclable' as possible. There are now cost incentives to increasing the recyclability of the cars produced. The targets are to have reached a 95% recyclable level by 2015.

Further reading:

Bebbington, J. and Gray, R., Hibbit, C and Kirk, E. (2001) Full cost accounting: an agenda for action, ACCA Research Report 73, Certified Accountants Educational Trust: London.

Gray, R. and Bebbington, J. (2001) Life Cycle Assessment and the Mass Balance, Chapter 9 in Accounting for the environment 2nd ed., Sage: London, UK.

Medwar, C. (1976) The social audit: a political view, *Accounting, Organizations and Society*, 1 (4), pp. 389-94.

Ramirez, C. (2009) Constructing the governable small practitioner: The changing nature of professional bodies and the management of professional accountants' identities in the UK, *Accounting, Organizations and Society*, Vol. 34 No. 3-4, pp. 381-408.

Tinker, T. (1985) *Paper Prophets: A Social Critique of Accounting*, Praeger, New York.

Chapter 1 Questions

Discussion questions

1. What is the role of the Professional Accounting Bodies and Big Four firms in developing the accounting practice field?
2. How have corporate failures influenced the development of accounting practice?
3. In defining Social and Environmental Accounting (SEA) highlight key differences with the traditional financial accounting systems.
4. What are the particular challenges in trying to account for social and environmental issues?
5. How is the Triple Bottom Line different than SEA?
6. Why might the idea of Full Cost Accounting be difficult for firms to agree with?
7. How might an example of Life Cycle Costing work in respect of producing a bicycle?

Chapter 1 Question – answers

Discussion Questions

1. The Professional Accounting Bodies are the central key-holders for the accounting community. They control entry into the chartered accounting bodies with an examination process; control the Continuing Professional Development and align the professions to facing new challenges. Social and Environmental Accounting is one the PAB are aware of and have been involved in developing it including for example the ACCA held Environmental Accounting Reporting awards from 1991. They have also carried out some research in this area on the developing roles of accountants.
   Although the Big Four may be confused as part of the PAB by the general public, they are separate stand-alone profit making businesses. They are however 'thought leaders' and with their highly efficient, well supported employees the firms make a real difference in developing new services such as for: climate change advice; sustainability reporting. The criticism is though these are generally for their own interests and for multi national business and governments and so not develop down well for Small Accounting Practices.
2. Corporate failures, such as Enron and Carillion (section 1.2) can be seen as 'disruptors' to the accounting system – they demonstrate its fallibility and the need for change.
   In the example of Enron – not only did this lead to the demise of Arthur Andersen a big five (at the time) audit firm. It also led to changes in standards in particular to corporate governance in the US with the development of Sarbanes-Oxley act.
   With Carillion's demise still being quite fresh in the UK, it has led to the Big Four audit firms being referred to the Competition and Markets Authority in the UK which may lead to changes in how the big firms are audited and who can assur them developing to include groups/networks to challenge the Big Four firm dominance.
3. Social and Environmental Accounting covers issues that are more difficult to quantify –social and environmental. Included in the economic measures of the firms performance are also measures looking at the social and environmental impact of the firm. The process is voluntary at the moment, and so a range of different reporting systems have emerged. Financial Accounting is also controlled by a number of standards and statute whereas SEA is still an area that is not statutorily controlled.
4. The specific challenges for SEA are: identifying the social and environmental impacts of the firm; measuring the social and environmental factors; reporting back on SEA issues in an accurate and consistent manner; comparability (or lack of) due to the different reporting systems and emphasis companies place on different issues.

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5. The Triple Bottom Line requires all three of the components – social, environmental and economic to be measured and shown in either a positive or negative view of the impacts and issues under each of these headings. It is close to SEA although the focus is more on the reporting process and less on the accounting evaluation of the specific issues.
6. Full Cost Accounting requires the measurement of each of the SEA factors to be shown in one summary. This is primarily thought (Bebbington, Gray, Hibbit and Kirk 2001) this would result in a negative picture of the firm – with the social and environmental 'costs' prescribed to the firm overwhelming the economic benefit of the firm. This would create the imagery of business being a 'net cost' to society and might be difficult for firms to agree with.
7. LCC –Pre production the design of the bike would need to try and minimise resource use and also where possible use recycled components; production of the bikes would need to be as efficient as possible and also using limited transportation and heavy industry as possible (requiring much energy and carbon emissions!). The end bikes should be well made, last for a while and able to be repaired easily and eventually recycled into the next phase of bikes.

2 SUSTAINABILITY

Learning Outcomes

Main Learning Outcome

- An understanding of the concept of sustainability from within the business community

Subsidiary Learning Outcomes

- What is the concept sustainability;
- How sustainability concept and issues can be specifically linked to the business community;
- Sustainability models – how there is more than one way to view this concept in relation to business;
- A wider conceptual view of sustainability – though still relating this to the business community;
- What the UN Sustainable Development Goals (SDG) are
- What the UN Global Compact is.

Review Questions Chapter 2 – at the end of Chapter 2.

2.1 INTRODUCTION

This section develops beyond social environmental accounting, which is closely linked to trying to view and create accounting information from a more social and environmental perspective.

Sustainability in the business context, and sustainable development is a wider perspective on how organisations in the business community develop and grow moving forwards into the future. It covers issues around sustainable development and the role of bodies most especially the United Nations in affirming sustainable guidelines.

There are issues in particular the prevalence and usage of sustainability – in terms of social and environmental concerns from a wider perspective this can be seen as a social and global goals and not just developed from within the business community. This leads to the SDG which are national goals governments from around the world have signed upto.

More in line with the business and organisation context the Global Compact are some goals that have been set for business leaders, and these have been developed from the wider SDGs.

2.2 THE SUSTAINABILITY CONCEPT

The main definition used in terms of sustainable development is called the Brundtland definition (1987, p. 41) produced in a UN report that defines sustainable development as:

> "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

In fully understanding sustainable development it is also important to take into account two vital extra points that are sometimes dropped from the Brundtland sustainable development definition:

resources should not be seen as unlimited (this is against the growth is good mantra) and that there should be a move towards social equity.

These are crucially important 'extra' factors that need to be included in a discussion of sustainability, and allow this idea to be developed beyond just an extension of the social and environmental accounting concept.

One point that develops from this definition is the forward-looking nature of sustainable development – it is looking into the future. Most businesses operate on much shorter time spans, with financial accounts produced on an annual basis, but often firms (especially retailers) judged in terms of how the last quarter or trading period has gone. This is especially noticeable in the Christmas retail period where sales can account for significant portions of the firms overall performance, and so a hawk-eyed view of the performance over this period is key for analysts and investors in the firm. There have been recent discussions in the US to look at moving away from a statutory requirement for all public firms to produce quarterly results back to just an annual report (in the UK the requirement is for an annual and interim statement – so effectively reporting every 6 months). The aim is to move towards a more long-term view of a firm's performance than a short-term quarterly (or even monthly) view of the firm's performance.

Sustainability superficially at least can be seen as the relationship between social, environmental and economic factors. The term is being used in relation to the business environment. Many deep green ecologists would not start a discussion of sustainability from the position of the business community. In fact, the business community are frequently held up as an impediment to a more sustainable society. Environmentalists could argue the biggest environmental problem is business and consumption, with large amounts of natural resources used to maintain the expanding human population with it racing through the 7 billion humans level and heading towards a projected 10 billion human population by 2050. There is also an argument that business is the main cause of inequality with some of the estimates that 20% of the worlds population, 1.5 billion people, are living in extreme poverty (UN Global Assembly, 2011).

Discussion point - Poverty.

Absolute and relative poverty – in the first case it may seem simple to define what poverty means. For many this normally would be seen as a person's inability to provide basic needs for themselves and their family: an inability to feed, clothe, shelter and protect a person/family. This perhaps is nearest to the definition of *absolute poverty*. In addition to help contextualise absolute poverty on a global basis, a basic value around having less than $1 per day is commonly used as a proxy to meaning the person and dependent family would be deemed in absolute poverty (UNESCO,2018). The UN estimated in 2011 that there were upto 1.5 billion people living in absolute poverty (UN Global Assembly, 2011). The levels of absolute poverty are not evenly spread around the world, with the vast majority of people living in absolute poverty living in Africa and Asia.

Relative poverty varies and is dependent on the country within which the analysis takes place. It deals with the rising issues of 'social exclusion' i.e. people feeling unable to be involved in society through lack of means. Relative poverty is a slightly more contentious and difficult phenomenon to calculate. The definition is around people having an income lower than a level that would allow them to maintain an average standard of living in the community. Using the UK as an example, one measure that is used is if a family has an income of less than 60% of the median annual income (Joseph Rowntree Foundation, 2018). In 2017 this equated to values of median income £27 300 and therefore a relative poverty level for households in the UK with income of less than £16 380 (ONS, 2018).

In 2018 the UN sent a special rapporteur to look at the situation in the UK for the poorest. The findings were that there are people in the UK (the 5th biggest economy in the world) who are reliant on food banks to survive; the poorest have been punitively impacted on by welfare reforms; there is a growth in homelessness and children living in poverty. This is all exacerbated by the government being in a state of denial in terms of the problems (Bulman, 2018).

The Joseph Rowntree Foundation develops its own poverty definition and understanding using a model of three levels of poverty, as shown in the diagram below:

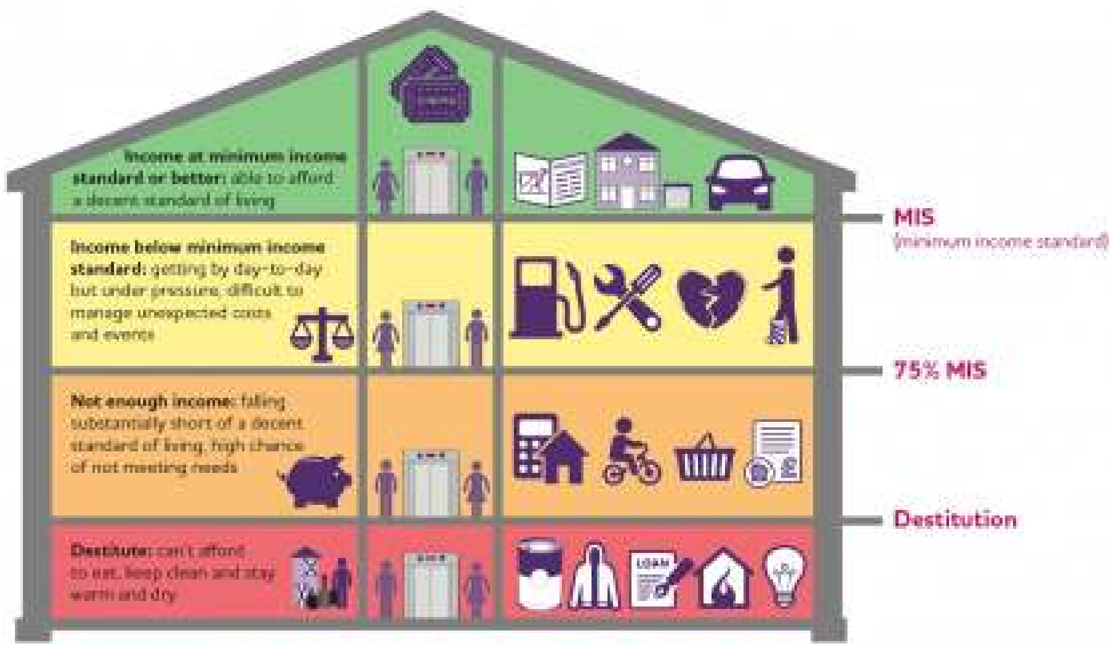

Diagram 6 - Three levels of poverty – from the Joseph Rowntree Foundation (jrf.org.uk).

Sustainability, as mentioned, is not just a development of social and environmental goals but goes beyond the mere linking together of these factors.

In exploring sustainability as being more than just the sum of the parts of social, environmental and economic issues, to start with more issues can be aligned to a sustainability model, as shown in the following diagram:

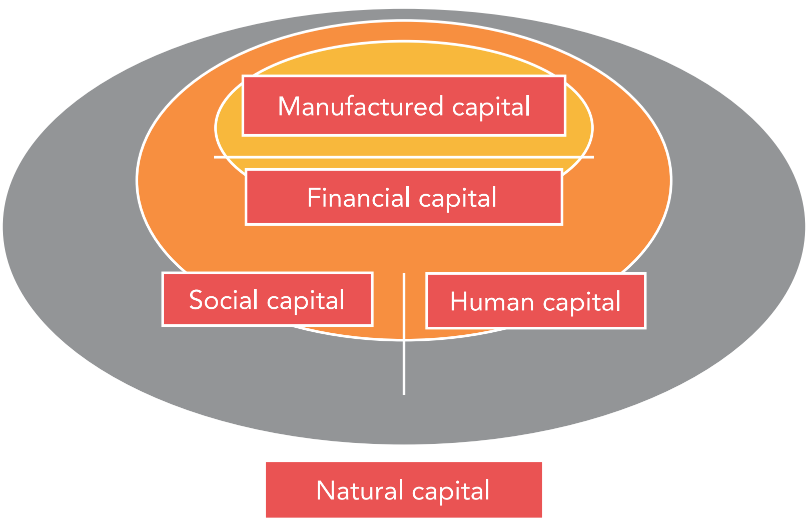

Diagram 7 - The five capitals – taken from Blowfield (2013) Figure 2.1, p. 29.

In following this model this creates a framework that a sustainable business is one that seeks to try to manage the five capital values within the business model. Some similarities can be drawn with the Integrated Reporting model (see section 4.4) that seeks to view the sustainable issues from a business measurement approach of capitals. In the accounting field the term capital has a well established track record.

2.3 SUSTAINABILITY AND BUSINESS

The discussion in this work starts from within the business and accounting community and is more inclusive and focused on issues from where the business community currently is, and the dominant social structures (such as business), rather than starting from a view of where the world would like to be. This can be described as a more positivistic view of the accounting world rather than a normative approach. Positivism starts with the current state of affairs and looks at how the accounting world is crafted from the current position – this is how most if not all of accounting practice has traditionally operated. An alternative perspective is a normative approach, looking at how you want the accounting community to operate and working from this position. The normative approach (what could the world look like if…) is more of an issue in many accounting environments where there is traditionally a heavy reliance on 'empirical data' which is considered an essential part of the information in making a decision. This is especially problematic when looking at new areas or issues of concern, such as social and environmental accounting, where there is not much empirical data. In this situation, it can be argued, that normative accounting research is more acceptable, as there is little prior data to build on – though this is changing all the time! In-fact in the situation of social and environmental accounting, the analysis of and development of issues in this area can often be developed further and used to challenge the more traditional accounting views and extant position. An example of this is in terms set out in the Companies Act 2006 that firms must report on their environmental emissions. The accounting procedure requiring firms to report and comment on greenhouse gas (GHG) emissions for which they are responsible. This starts to require the quantification of environmental issues, and the instant increase of the importance of these emissions within the business model. Whilst the detail of the reporting on GHG has led to much debate, the development of this as a business issue is clear. This 'accounting' change will and has led to the change in business operations in reporting on specific issues, and in having to take into account items such as GHG emission levels, to start to try and cut some of these emissions. So a change in reporting on GHG leading to a change in the behaviour of larger firms.

Barter and Bebbington (2010) showed the relationship between the three variables in the business community with three distinct models of the relationship between the three variables.

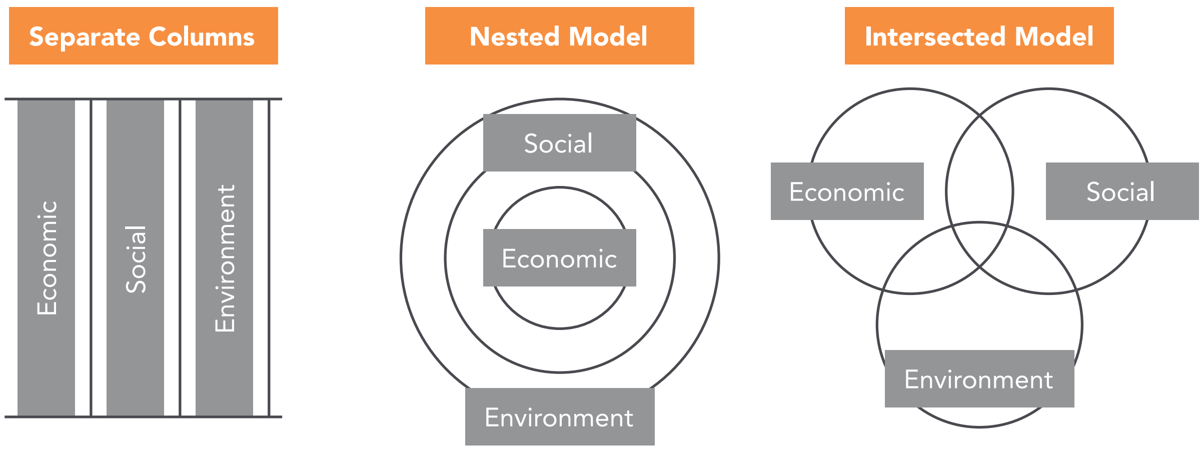

Diagram 8 - Barter and Bebbington (2010) Sustainability models.

The three separate diagrams show how the components of a sustainable business model can be viewed. Looking at each of the models separately:

Separate Columns – in this model the belief is that each of the strands is kept separate within the business. This could be viewed as a more traditional view of the different areas, where in particular the social and environmental issues are viewed independently of the economic focus. The ultra traditional view would be to keep the three separate and to view only the economic strand as important to the business (Friedman, 1970).

Nested Model – in this model each of the factors has been put into a hierarchy. In the diagram this is shown as on the outside the environmental concerns, these are closely connected with the social factors that then leads into the more micro social focus on economic aspects. The three areas connected but there is a layering process in terms of priorities. Again, this model could be inverted with the economic values on the outside of the model and 'most important' if this was viewed from a traditional business view.

Intersected Model – in the intersected model, the three components are shown separately but they are also linked together. It can be argued that where the three components are aligned together would be an important area for an organisation to work towards – showing a balanced interest in all three components. This perhaps is a more pragmatic and plausible model.

Barter and Bebbington's (2010) model is a useful explanatory framework showing how the core components of sustainability and accounting – economic, social and environmental – could be viewed as being inter-linked; either in a balanced or hierarchical perspective. It also shows the differing emphasis on each of the sectors, though it is assumed the very use of these models in relation to a firm does indicate an interest in the three connected components.

In respect of sustainability and the business community, Gladwin, Kennelly and Krause (1995) viewed organisations in terms of three kinds of paradigm: technocentric; sustaincentric; ecocentric.

Technocentrism – believed a business and the business community is able to develop technology to deal with environmental challenges; they believe that the economic model is a closed loop system not connected to the environment and that business and trade growth is good signal. This is a very human centric view and one that prioritizes the economy over the environment.

Sustaincentrism – this shows more of a balance between a healthy ecology and a prosperous economy. The important of not depleting finite resources and working with the ecology in economic growth. Accepting growth, but within ecological boundaries.

Ecocentrism – in this perspective the environment is placed centrally as the most important issue. The economy is seen as having to operate to the benefit of the environment; rather than growth sufficiency rules with a move towards more minimal use of natural resources and sufficient levels of sustainable production. The environment and environmental protection the key factors placed above the importance of the economy.

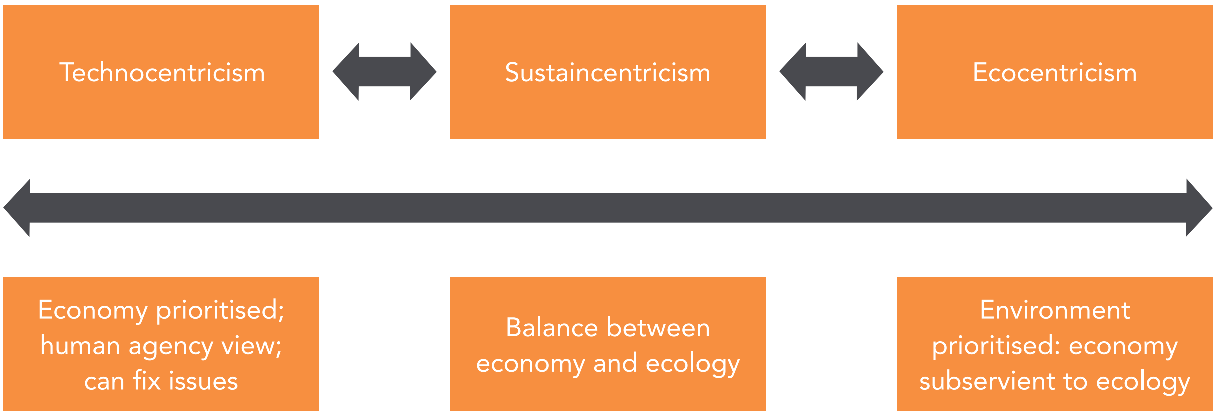

Diagram 9 - Sustainable conceptual paradigms.

This shows some clear different interpretation of belief and behaviour within the business community in relation to views on the economy, society and the environment. Whilst a more balanced sustaincentric model may be preferred, up until recently the technocentric model has seemed to dominate in the business community. Even in the face of facts, such as the impact of human activity on global warming, firms have fought back and used the 'technocentric' rationale that business will find a solution to the problems, but in the meantime do not stop business growth! Some of the environmental issues are so profound, even so business supporters do not view the risk factor needs to be reduced to a zero value.

The downside of planetary destruction is too great to be bargained off with trade-off in terms of business solutions. The consequences of global warming if the trend continues will result in: disruptive weather cycles; famine and poverty; increased health issues. Each of these has cost implication and can be disruptive to the business process. In the long run (and even when looked at on shorter time frames) this will not be good for business, as well though and more significantly this could be a catastrophe for society. The role of business in a debate on a sustainable business model will include and should encourage innovative new business ideas to tackle climate change and work with social changes. The business community needs to support the environment and social categories and changes. Society needs to review the supremacy of economic or business discourses in these debates. As was shown in terms of accounting and society, even the economic discourse is based on judgments and rules and protocols that will change over time. Whilst it is acceptable for this to work in terms of the economy, some areas such as the environment do need to be protected in the short run.

Whether in a game theory context business would pull back from total planetary destruction – the issues are multiple that may not result in this: talking of business as one generic system when in-fact it is an amalgam of many small firms and decisions.

An example such as the Tar Sands episode in Canada has caused considerable environmental concern with limited possibility to revert the environment back to the normal eco-balance (https://www.nytimes.com/2013/04/01/opinion/the-tar-sands-disaster.html, accessed 23 August 2018). In this a natural environment of Alberta, opencast mining operation dredging up highly polluted oil, this required a large amount of effort and causes considerable pollution to extract it. This has also led to Canada reneging on the Kyoto protocol it had agreed to. The Canadian government has also been involved in lobbying to get support behind abandoning climate change agreements. This therefore is not just a natural disaster in Canada, it also has more global implications going into the future.

Sustainability is an issue that is discussed by accountants, though this mainly concerns the larger firms. In exploring any of the Big Four firm's web-sites amongst the services offered both PwC and EY offer sustainability and climate change services. KPMG and Deloitte will provide risk and consulting services (these will be the same as PwC and EY) on these issues – but have used slightly different dialogues in relation to the issues.

As to the firm's own behaviour as distinct from services offered, each of the Big Four firms produces a sustainability report that shows the organisations in relation to sustainability issues. PwC for example state:

*"**Corporate sustainability** - Sustainability at PwC focuses on our positive influence in the world, and how our business decisions can contribute to greater trust, and to solving important problems." (https://www.pwc.co.uk/who-we-are/corporate-sustainability.html, accessed 23 August 2018).*

They not only advise others but also importantly report back on how they as organisations operate in relation to the sustainability debate. This needs to be defined from the sustainability services the firms offer.

2.4 UN SUSTAINABLE DEVELOPMENT GOALS (SDG)

The United Nations have been a considerable driving force in the sustainability debates in both country and organisation terms. Country and organisation movements towards sustainability are connected. If a country's government decide to sign up to sustainable development goals, one way of achieving this will be to pass this process on through the business community. In most cases this will be using both voluntary and mandatory approaches.

The United Nations latest national agreement is the UN Sustainable Development goals, on 1 January 2016 seventeen sustainability goals were agreed. These are to worked on over the next fifteen years (to 2030) and have been agreed by 193 countries – an historic agreement in terms of the number of countries signing up to the agreement. The goals cover a range of social and environmental concerns including: end poverty; end hunger; gender equality; ensure sustainable consumption and production; action on climate change.

The goals have targets underneath them and it is for the national governments to plan how to achieve the targets and monitor the performance.

The SDG are seen as developing from the Millennium Development Goals – there were originally eight of them:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

It has been stated that the MDGs were more for developing countries to work towards whilst the SDG are for all countries to work towards achieving the targets.

2.5 UN GLOBAL COMPACT

Filtering the concept of sustainability down to the business community is a vital aspect to a successful sustainable development strategy. The importance and impact of trade and the business community is an essential part of the sustainable development jigsaw. Engaging the business community in working on the sustainable challenges has two main drivers: first of all, it includes a group – the business community - that is the main economic entity within society, and has significant impacts on social and environmental issues; secondly - perhaps a technocentric view - is that the business community is one of the most effective bodies in developing solutions to problems. In this way the business community can be viewed as having a considerable impact on sustainable issues, but also the tools to help find solutions to these challenges.

The United Nations has developed a set of sustainability goals specifically for the business community, this is called the UN Global Compact.

There are 10 principles under four categories: human rights; labour; environment and anti-corruption. The 10 principles are as follows:

UN Global Compact – 10 principles:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

(Principles taken from: https://www.unglobalcompact.org/what-is-gc/mission/principles, accessed 18 August 2018)

The principles are specifically focussed on social issues – Human rights (principles 1-2) – wide general principles that can clearly be aligned to national SDGs, and labour principles (principles 3-6) which are a little more directed towards exploitation and gender equality in the business community. The environmental issues are covered by three principles (7-9) developing a more precautionary environmental note in the business community, with a final anti-corruption principle. So in essence, these principles are to be aligned to the economic goals of the organisation.

The anti-corruption principle is supported by groups including Transparency International who produce a Corruption Perceptions Index (CPI) in which they have created a ranking for different countries in terms of how corrupt they are in terms of the impact to carry out business in the country. Corruption can impact on all, but disproportionately on the poor. There are also extra costs as a result of corruption which as a minimum is additional costs to business and society. These costs are difficult to quantify, but the figures quoted such as an extra $500 billion charge to customers as a result of cartels (https://www.transparency.org.uk/corruption/corruption-statistics/corruption-the-cost-to-business/#.W36gLkxFxZc, accessed 23 August 2018). The figures can show quite significant values in relation to corruption and fraud. In the 2017 CPI, New Zealand followed by Denmark were considered the least corrupt places to do business. The UK joint 8th, the United States 16th and at the bottom of the 180 countries Somalia followed by South Sudan (http://transparency.org.au/tia/wp-content/uploads/2018/02/2017_CPI_web.pdf, accessed 23 August 2018).

The Global Compact principles do not separate out firms into different categories, both large and small firms can sign up to the principles. Signing upto the general principle of the UN Global Compact is as important as the specific measures/principles. It may be felt that the principles are directed more towards larger corruptions. Care needs to be taken not to exclude or alienate Small and Medium Sized Enterprises (SMEs) as the vast majority of businesses in most countries are SMEs. In the UK 99% of all businesses can be classified as SMEs. One measure of an SME is staff numbers, with at the top end to be categorised as an SME there should be less than 50 staff. Whilst clearly larger businesses, such as BP and McDonalds, may have the most social and environmental impacts per firm, the quantity of SMEs means that this group must be included in any SDG action.

Until recently the problem for many firms, especially SMEs, has been how to measure and incorporate the principles into the current reporting process. A list of principles is just that, a list. How can these be actioned in a myriad of different types and sizes of organisation? To help deal with these challenges, the UN and Global Reporting Initiative (GRI) have produced a Practical Guide to Embed the Sustainable Development Goals into Corporate Reporting (https://www.unglobalcompact.org/news/4396-08-01-2018, accessed 18 August 2018). If this does help firms to engage, measure and take action in relation to the principles then it will fundamentally have changed the UN Global Compact into a more active agent for change.

Further reading:

Barter, N. and Bebbington, J. (2010) Pursuing environmental sustainability, ACCA Research Report 116.

Gladwin, T., Kennelly, J. and Krause, T. (1995), Shifting paradigms for sustainable development: implications for management theory and research, *Academy of Management Review*, Vol. 20 No. 4, pp. 878-907.

United Nations Global Compact (2018) – web-site - https://www.unglobalcompact.org/.

United Nations Sustainable Development Goals (SDGs) (2018) – web-site - https://www.un.org/sustainabledevelopment/sustainable-development-goals/.

Chapter 2 Questions

Discussion questions

1. What is the Brundtland definition and what are the two key issues that should be added to the commonly quoted main definition?
2. Discuss the three sustainability models suggested by Barter and Bebbington (2010). Which model do you think is appropriate for most businesses today?
3. What are the key issues that separate out the three sustainability paradigms: technocentrism; sustaincentricism; ecocentricism.
4. What is the UN SDGs?
5. Into which four categories does the UN Global compact separate the 10 global principles for businesses?

Chapter 2

Discussion Question – Answers

1. The Brundtland (1987) definition of sustainable development is;
   "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."
   The two additional but crucial points are: that there should be resource limits – production cannot be totally unlimited; there needs to be a move towards equity.
2. The three models by Barter and Bebbington (2010) demonstrate different relationships between social, environmental and economic issues.
   The Separate Columns Model - the three issues are separately dealt with by firms, perhaps seen as a main way historically firms have operated.
   Nested Model – there is a prioritisation of the different issues, with the sustainability view that the economic is subservient to the social which then must fit into environmental issues. Note, firms could (almost certainly have) had a different 'prioritisation', with the economic being all important, this is then followed by social with scant regard paid to environmental issues.
   Intersected Model – here the model provides an integrated vision of the three issues related and overlapping with perhaps the view that the central portion of the diagram – where all of the issues overlap is the area where firms should aim to be.

3. In relation to Gladwin, Kennelly and Krause (1995) sustainability paradigm model the core issues that separate out the domains are: if business is seen as an enabler and able to provide solutions to environmental issues (technocentric); if it is important for all of the areas to be included in organisation decision making (sustaincentric); if business should be place as subservient to environmental concerns, and seen as just a means and current way for society to operate (ecocentric).
   The specific issues can therefore be viewed as: accountability – what should be accounted for; openness – more open (or less) to external factors impacting or being impacted on by the firm; transparency – being prepared to be open (or not) about the firms operations; human centred or environmental centred in the business analysis.
4. The United Nations Sustainable Development Goals (SDGs) are a list of (originally) eight targets that national governments were to sign upto trying to achieve (see section 2.4). These were wide 'macro' policies covering issues such as poverty; education; gender; mortality and health care; environmental concerns. Government agreement to these principles would lead to influence and pressure on firms to work towards these targets as well. In fact, the Integrated Reporting framework has recently been amended so that the 6 capital requirements are now aligned to the SDG (see IR Value Creation Diagram on section 4.4).
5. The United Nations Global Compact, which is related to firms operations in respect of social and environmental concerns has four categories: Human rights; labour; environment and anti-corruption. The four categories help to identify specific areas of concern in terms of business operations and society and the environment. By developing these four categories, a bridge between the over-riding aims of social and environmentally aware firms, and operational issues is easier to define.

3 CORPORATE SOCIAL RESPONSIBILITY

Learning Outcomes

- An understanding of Corporate Social Responsibility (CSR)

Secondary Learning Outcomes

- A clear understanding of CSR;
- How CSR relates to sustainable development and social environmental accounting;
- What are the underpinning social and environmental themes;
- What are professional ethics;
- An understanding of the development of Corporate Governance;

- How responsibility can be viewed in terms of different levels (based on Carroll's 1979 typology)
- The development of the role of assurance in SEA.

Review Questions Chapter 3 – at the end of the chapter.

3.1 INTRODUCTION

Firms have recognised that they need to engage more with external groups within society. This is only partly due to changes in the belief and operation of the organisation's management. It is also vital as it enables the business to maintain the social standing of the firm, this is also today more of an issue in a business sense. The social contract for firms is the approval of society and customers in particular of the firm. It can lead to the retention and or increase in customer numbers. Social approval of firms has been granted to firms such as alcoholic drinks makers such as Diageo, tobacco and cigarette manufacturers like British American Tobacco, gambling firms such as BET365 to operate. Beyond these more extreme types of enterprise, in terms of the sensitive nature of the business operations, all firms require acceptance and approval by society for them to operate.

As with many of these issues, the journey from the strategy to the operational changes is often unclear and firms may struggle to show how they have changed significantly in line with social mores and or standards. It is difficult to measure the changes and this has been shown that they may in-consistently create measures that are different from period to period and also selectively picked.

A force behind some of the increased engagement with external groups to the traditional investors has been the advent of social media. With the ability to 'rate' businesses, and name and shame poor service and products, and even to set up campaigns against firms for perceived failings and or behaviour. For all of these reasons, firms have been forced to engage more with customers, potential customers and society at large. This has also been an important driver in business change as predominantly this has been developed and used by generation Y, a younger group of potential customers. A group that the business community are very keen not to alienate.

To help with the process of CSR, externally changes have been implemented including: professional ethics (see section 3.3) – professions from within the business community – law and accountancy are the two central professions in supporting the business community. The accounting and legal profession have developed ethical codes for the professions. In addition, mainly in relation to the accounting profession, the role of assurance has become more important. As well as continuing to assure the financial statements (economic data), in assuring 'non-statutory' reports and information the accounting community has had to become more involved in environmental and social measures.

External umbrella groups helping business to engage more with social and environmental concerns. Groups such as Business in The Community (BiTC – see page 67) have developed pragmatically engaging with businesses to help them engage more with society beyond the business main economic operation.

Case study 3 - Social contracts for firms in gambling, alcohol and tobacco industries – Bet365

In 2000 Denise Coates sold her father's gambling business based in Stoke on Trent (UK) and invested in a new on-line gambling business, Bet 365. The firm was originally based in a portakabin but has grown quickly. In 2018 Denise Coates as a director in the business received benefits amounting to £265 million, up from £217 million the year before (BBC, 2018b).

The firm offers on-line gambling in terms of: sports betting; casino games including poker and on-line bingo. Revenues grew by 25% in the last 12 months (BBC, 2018b).

There have been criticisms of the gambling industry including: increased child gambling; the addictive and destructive nature of individuals including the increase in the levels of gambling debt. One recent campaign was around Fixed Odds Betting Terminals (FOBTs), play and pull gambling machines, which the government are slowly legislating to reduce to a maximum level of £2 per play rather than the current £100 a go. Gambling firms had already found a way around limits that were set of 4 machines per shop, by opening more shops, often in deprived areas (Davies, 2018). Gambling firms have a notional responsibility to their customers to try and ensure they only gamble within limits of what they can afford to be lost, but this is impossible to govern and the responsibility for the destruction of peoples lives through gambling addiction is the same as a drug or alcohol addiction. One government minister, Tracey Crouch, resigned as the governments 6 month delay in the bill leading to the capping of the FOBTs to £2 per play will in the meantime result in more tragic cases of suicide and family grief (Davies, 2018).

In the gambling industry, as with the alcohol and tobacco industries, there is a fine line in terms of the social contracts, the agreements to allow firms to operate in society. If the harm a firm is doing seems to outweigh the good then the business will be shut down – as happened recently with shops that were selling 'legalised highs' – synthetic drugs were banned in the UK in 2016. Not all of these actions are workable in reality, as famously shown by the 'white experiment', mainly known as Prohibition. This was the prohibition of alcohol production, sale and consumption in the 1920's in America. This led not only to the production of unsafe home-made liquor, but also the growth of organised crime. It was also very difficult and costly to try and enforce.

The responsibilities of the firms in industries like alcohol, tobacco and gambling must be weighed against the large profits and bonuses that can be made, and government legislation. This balancing act in allowing social contracts and the firms to operate demonstrates there is no one answer to managing through the business community these issues. A common view from western governments though seems to be it is often more manageable to use the business community to try and manage this than to put in place blanket prohibitions.

3.2 CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) (and Corporate Responsibility) has as one self-imposed aim for firms to be more accountable to their stakeholders. There are a number of aspects to this self-acclamation: the first being that there is no clear definition of CSR; the measures and process to show CSR values are voluntary and so can be based on inconsistent and selective data use. It has been said that corporate responsibility starts where the law ends, and therefore it is about what companies can do to make a positive contribution to society and not what the law dictates (Blowfield and Murray, 2011).

The concept of CSR can be see within the umbrella term of sustainability and business. CSR can be seen as distinct as it is very much driven from within the firm and developing clear specific and measureable targets in relation to social and environmental concerns. A key aspiration is the acknowledgement that CSR is of value to the firm, and there would therefore be certain expectations around the firm's operations: good communication from the firm with external stakeholders; an open and honest policy within the firm; top down concerns and interest in social and environmental issues; a record of action in relation to the firm's social and environmental impact. All of these would form the framework for a firm's CSR policy.

The following diagram helps explore the related but distinct relationship between the different terminologies that have been developed in business relating to social and environmental concerns. It is important that the underlying concepts and intentions are set out clearly whatever terms are used. There have been concerns that the use of the different terminologies was part of a managerial capture process – whereby managers could hide behind control of the terms and the discussion (Gray and Tinker, 2003).

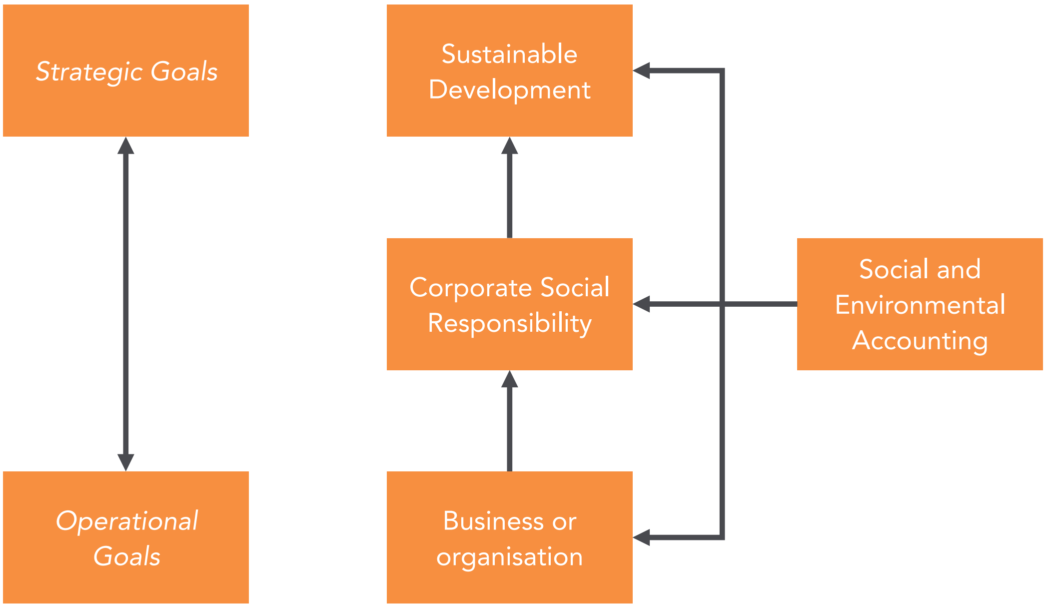

Diagram 10 - Model showing the relationship between Sustainable Development, CSR and SEA.

The movement towards accountability and transparency is generally one that is positively viewed, but wrapped in the CSR banner the achievements are less clear cut. A more self-critical and reflective business community on balance has a number of gains: receptive to new approaches and innovation; engagement with the stakeholders of the firm; more open to stakeholders – a wider range of interested parties than the traditional investor focus; setting a set of self-imposed challenges. One of the challenges is the fact these are self-created values – and so can be manipulated.

Despite the challenges of CSR it is a step in the direction of at least firms acknowledging the need to change and become more engaged and accountable to the external world and 'stakeholders'. This is starting a dialogue in the area of social and environmental concerns, putting up some values and important issues. It must foster some discourse process, the report is just a starting point

CSR strategies that firms develop are commonly reliant on reporting systems such as the Global Reporting Initiative (GRI – see section 4.3) and Integrated Reporting systems (see section 4.4). These are two well known reporting approaches that provide firms with a framework to report on economic, social and environmental issues.

Firms seem to use the term CSR as an umbrella notion incorporating social and environmental issues, and how the firm operates as well as how the business is going to change its behaviour in relation to these challenges.

In addition to the social and environmental terms there are some common themes that underpin the different frames of reference. These are highlighted in the following diagram 11, and should be evident in the previous discussion.

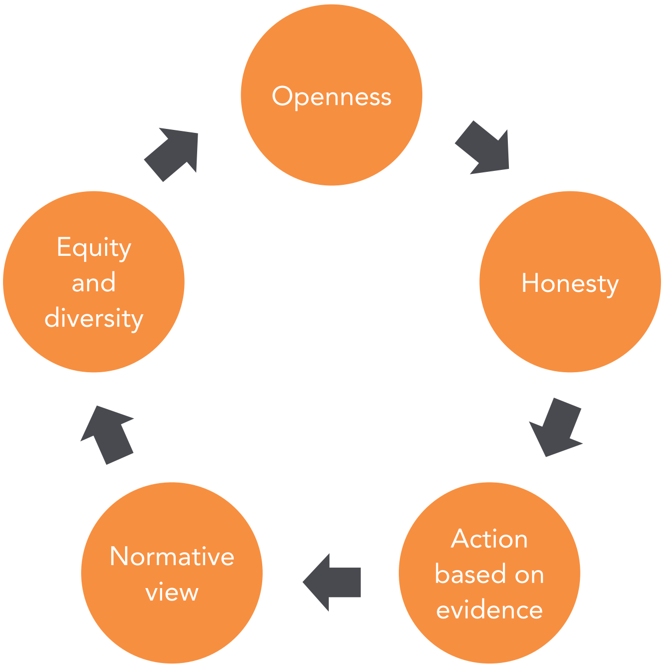

Diagram 11 - Underpinning social and environmental themes.

Whether the firm is described as following a CSR policy, social and environmental accounting or sustainability in business – the terms do have different specific aspects. There are common themes in terms of firms having a desire to operate in a more social and environmentally responsible way, these could include:

Openness – with some minor limits in terms of competitive advantage data, firms should try to be as open as possible in terms of the operations and aims of the firm with their external stakeholders.

Honesty – at all times there is an assumption that firms will not try and portray the best image, but the most accurate and as close to actual performance as possible. This would definitely preclude material misstatement of data producing a distorted picture of reality.

Action based on evidence – all decisions should be able to be retraced back to the evidence that helped define the decision and action of the firm. This should limit operationally biased and subjective decision making within firms.

Normative view – not just looking at how things happened in the past, but looking at what would be the best way to carry out the services in the future. Taking into account changes in demand, demographics and technology.

Equity and diversity – to ensure that all are included in the discourse and that it is representative and reflective of the community that the firm operates within.

The themes are not set out in any order of priority, but should form a framework underpinning the stated aim of CSR or SEA or sustainable business development.

3.3 PROFESSIONAL ETHICS

This is directed towards the accountancy and legal professions that dominate the business community as independent experts and as professionals working in organisations. The professions are central to the development of firms and the continuation and measurement of the organisations performance. Primarily the legal profession helps set up the organisations and if there is any contractual work and agreements. The accounting profession works in the business community to ensure the financial reporting and assurance process runs as smoothly as possible. Each of the professional bodies has a number of regulations that the professional members are required to follow. This cannot account for every situation and so there is an over-riding requirement for professional integrity – to behave in the best interests of the business, whilst at the same time maintaining openness and accountability. As the business world is constantly changing, these general requirements are important to ensure that standards of 'good practice' are maintained throughout the whole of the professional members engagement with the organisation. In many ways the accountant or lawyer is an agent of the firm: employed by the members to report back on the managers performance.

In the business community the development of firms normally moves along the stages of: sole trader; limited firm; public limited firm. As the corporation develops into a national or international presence the importance of the corporate structure develops – most firms moving in the direction of limited liability corporations. The assurors of this process, and bodies confirming the financial performance of the firms though are in almost all instances partnerships – or Limited Liability Partnerships (LLP). In actual fact, limited corporations in the accounting community have been held to operate at a disadvantage. A lesson in this comes in the form of RSM Tenon which was part of the RSM Tenon Group plc. In 2011 this was the 7th biggest (by turnover) accounting firm in the UK and was voted National Firm of the Year. In 2013 it was put into voluntary liquidation. A dramatic fall of the last big limited accountancy firm. The partnership structure operates more effectively for accounting (and legal) firms in the UK. The benefits of a partnership structure over a PLC in accounting would include: less restriction and controls by regulators (to protect the shareholders); less interference of investors in the running of the firm; returns required controlled by a smaller group of partners; less disclosure to a wider group of owners that can limit the operation of the firm.

The restriction on partnerships is therefore arguably to operate more under professional ethical procedures. The partnerships are generally affiliated to a PAB – for firms in practice this would be in the UK: ICAEW; ACCA; ICAS or ICAI. The growth of professional ethical standards is setting these self-regulated ethical standards that the PAB ultimately regulate.

The accounting professional ethical standards have been developed recently and more importance has been placed on them in the qualification process. All new accountants have to complete a separate stand-alone professional ethics module. It is clear, partly from behaviour in previous financial scandals, no matter how many accounting standards there are, there must always be an aspect of individual interpretation. It is where this has gone from a reasonable interpretation of a standard to a way of evading the standard that the professional ethical standards come in. No matter what alternative approaches may be created, accountants are expected to behave in an open and honest way that does not materially misstate the financial statements. This can be see as where professional ethics come into the equation. Accepting that standards will continue to evolve and change in the future, professional ethics are to try and bridge the point at which the standards are being interpreted and implemented. It is a way to try and ensure that the spirit is maintained and that not just a ‘tick box’ mentality, that may allow the essence of the standard to be evaded.

The professional ethics module covers issues that include: public service commitment; how to view ethical dilemmas and come to a conclusion; issues that are non-standard, how to deal with these, especially if there are competing options.

Professional ethics are different from personal ethics that involve moral issues, although the two will over-lap. Professional ethics is focussed on ensuring the professional body is not brought into disrepute by the members behaviour. That the highest standards are maintained and that the best interests of the client are paramount at all times.

It is believed that the professional ethical standards have some parallel to morale standards – such as kindness, respect, equality. In this way following the standards should be connected to morale standards. The main issues may be that morale standards cover a wider concern and do not just relate neatly to specific business entities.

It is interesting to note that there has never been more accounting standards and regulations, and yet the development of professional ethics has never been pushed and promoted as much as now. It can be seen that this may be just as all areas are currently being scrutinised more. It could be as a reaction to the increased standardisation (juridification) of the accounting process that more rules on how accountants should behave to avoid the misuse and or abuse of the standards.

Case study 4 – Corporate governance - Carlos Ghosn Chairman and Chief Executive – Renault, Mitsubishi and Nissan

Car manufacturing is a capital intensive business and so there are many examples of mergers and alliances between firms in the car industry e.g. Fiat Chrysler Automobiles (FCA) 8th biggest car manufacturer in 2016 (4.86 million cars); Hyundai-Kia (Hyundai owns 33% of Kia) 4th biggest car manufacturer in 2016 (8.17 million cars); Renault-Nissan alliance 3rd biggest car manufacturer in 2016 (8.51 million cars) (Paul, 2017). This enables the large investments required in research and development, including developing new car designs, to be shared. It also allows synergies in areas such as: supply chains and supplier deals; shared use of components e.g. engines, gearboxes; shared functional areas such as marketing and accounting.

The third biggest car manufacturer in 2016 is the alliance between Renault (French based car manufacturer), and Nissan (Japanese based car manufacturers) and latterly Mitsubishi was included in the alliance. Here three underperforming and relatively small, in terms of the global car market, firms could share resources and gain synergies from working together. This seemed a sensible plan and from 1999 when the turn-around started this has seemed to work, with in 2016 the group being the third biggest car manufacturer. Slightly unusual was the alliance agreement, where Renault (the smaller firm in terms of annual production of cars at around 3 million), had ownership and control of Nissan (annual car sales of 6 million). A complex agreement allowed Renault to own 43% of the shares but having voting rights had control of Nissan. Nissan itself owned 15% of Renault, but these shares had no voting rights and so there was no bi-lateral control (Lea, 2018). This arrangement was led and overseen by Carlos Ghosn, who became Chairman and Chief executive of the alliance. Carlos Ghosn also held the same roles, Chairman and Chief Executive, in the Renault and Nissan firms within the group. Ghosn originally worked for the French tyre maker Michelin, before joining Renault in 1996 and it was his performance in turning around a loss making division in the Renault group that led to his appointment to oversee the alliance in 1999 with Nissan and then Mitsubishi as part of the group. His reputation was built on successful cost cutting measures (Hotten, 2018). From the outside, the system seemed to work in terms of the financial performances of the firms improved. There has been further 'broad' alliances with Daimler in 2010, and Daimler and Ford in 2013 to develop a hydrogen fuel cell (BBC News, 2013). Clearly though there was disquiet inside the alliance. Ghosn seemed to be in total control, but on arriving in Tokyo in November 2018 he was arrested on suspicion of fraud. The allegations are that he has misled the board and the shareholders and investors as to his real earnings from his role/s in the alliance. It is further claimed he misused company funds to pay for a lavish lifestyle. This issue is exacerbated by the separate positions and respective fees paid to him for the different roles he carried out within the group. The amounts involved so far amount to £21million (Lea, 2018). This is a significant value for an individual, for the firms these are not significant enough to destabilise the firms on its own. It is more the implication of this in terms of the controls within the firm, and the trust issue. This was one of the main causes of disquiet, the control and lack of accountability of Ghosn. In this case the furore does seem to have been whipped up by a different faction fighting for control of the firm from within. The specific issue for the Renault-Nissan group can be widened, as this arrangement is not in-line with the corporate governance codes, which for internal check reasons have been in place since at least the Cadbury Report in 1992. This was one of the first corporate governance reports and highlighted the importance of corporate governance of the board; the separate role of the Chairman and CEO; the importance of non-executive directors. All of these controls seem to have failed in the case of the alliance. Ghosn seems to have had almost total control of the individual firms within the group and the alliance as a whole – holding the role of chairman and chief executive three times over in the group. This limits accountability, has also led to a lack of transparency in decision making process and ultimately the claims of misappropriation of the firms funds.

3.4 CORPORATE GOVERNANCE

Companies have been left to self-manage with minimal government interference in most western economies. Most businesses are expected to self-regulate, this light touch approach has developed over time, one of the drivers in the change has been following problems with business behaviour over the years. The following are a selection of corporate scandals that have resulted in corporate governance developments. These examples are all 'timely' in terms of they occurred at a time to drive forward the significant reporting and development of corporate governance guidelines at the start of the millennium and following decade. Some of the important scandals that helped motivate the development of corporate governance frameworks in the UK and elsewhere include:

Barings bank – 1987 – a trader for Barings bank (Nick Lesson) was able to generate over £800million worth of losses without any apparent controls in place in the firm. This resulted in the collapse of a bank that had been running for over a hundred years;

Maxwell Scandal – 1990 – Robert Maxwell ran a business empire using bullying tactics and lawyers to avoid scrutiny. Only on his death was it found out he had misappropriated £400 million from the pension company to support the business empire;

Enron 2001 – used dubious accounting practices to hide debts and distort the true earnings and value of the firm. The auditors Arthur Andersens were complicit in this fraud and this led to the disappearance of the 5th largest accounting firm;

Worldcom 2002 – the second biggest US telecom firms used accounting adjustments to distort the true value and profitability of the firm;

Parmalot – 2003 – was a firm involved in the pasteurisation of milk and UHT long-life milk. The firms had used some accounting practices to overvalue assets and ended up collapsing with a £13bn black hole in its accounts.

Case study 4, Carlos Ghosn and the Renault-Nissan alliance, this may not lead to any further corporate governance changes but illustrates that corporate scandals still abound.

As an approach to give some direction to firms without becoming too controlling the interest, importance and regulation around corporate governance has grown.

A definition of corporate governance is provided in the Cadbury Report (1992, note 2.5): "Corporate governance is the system by which companies are directed and controlled."

The report goes onto to say that corporate governance is the responsibility of the Board of Directors, the board being appointed by the shareholders. They should be the final arbiters of direction and control within the organisation. The findings of the report were used to develop guidance for firms listed on the stock market in the UK.

In 1998 the Greenbury Report added to the corporate governance reporting requirements including the requirement for directors remuneration details (Gray and Manson, 2011, p. 638).

A Combined Code on corporate governance was issued in 2003 that incorporated further guidance on audit committees and also non-executive directors (Gray and Manson, 2011, p. 638).

The latest standards and direction on corporate governance in the UK are given in the Combined Code (2008), EC directives and the Companies Act 2006 that provides guidance on a corporate governance statement. In-line with the Director's report, the directors must declare how the code has been applied and compliance with (and if not what are the particular differences) the principles of the Combined Code (Gray and Mason, 2011, p. 639).

The main principles set out in the Combined Code (2008) include: director's confirmed responsibilities in terms of the accounts; statement on efficacy of internal control systems; audit committee structure and function and aims including independence (Gray and Manson, 2011, pp. 640-1).

Whilst the standards on corporate governance have developed over time, this still affirms the overall view for businesses to operate in a semi-autonomous way with governments and regulatory bodies working to provide fair and transparent frameworks for firms to operate in accordance with these standards. This ultimately though does leave the responsibility with directors who generally have the authority within firms.

3.5 RESPONSIBILITY

There are a number of different social responsibilities, this was most clearly developed by Carroll (1979, cited Blowfield and Murray, 2011).

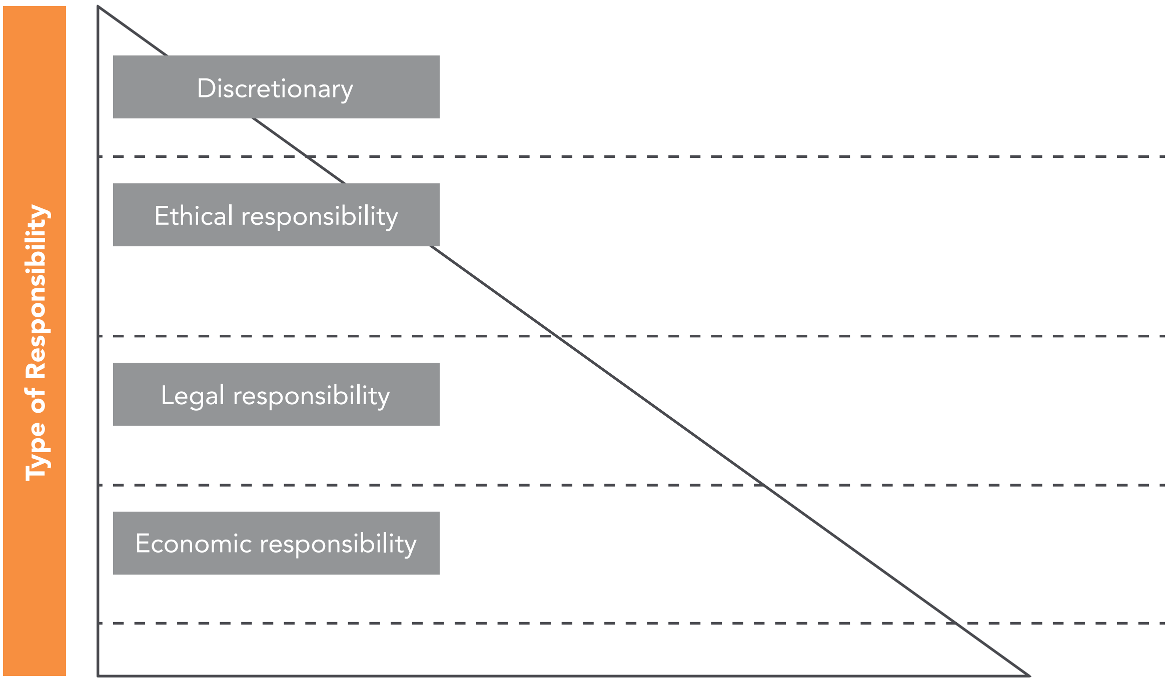

Diagram 12 - After Carroll's Typology of corporate responsibilities (based on Figure 1.2, p. 17 in Blowfield and Murray, 2011).

To further develop the responsibility discussion, in relation to Carroll's typology in the diagram above:

Economic responsibility – this is the basic requirement of firms to make some economic benefit, not just in terms of the firm making a profit. It also means in wider terms such as the economic benefits of employing people, and money invested into local communities. This one could argue is the basic state of affairs all firms start off on, providing some economic benefits. (This was what Friedman (1970) identified as the only social responsibility of a firm).

Legal responsibility – this must be viewed separately from the economic business aims of the firm. It is around the requirement for firms and operatives to operate within the legal frameworks that govern society. There are plenty of legal frameworks that firms must operate in, including basic Companies Acts stating how the firm must account for operations. The legal rules go far wider though and include environmental regulations and social rules such as minimum wage regulations and gender employment legislation. One particular development in this area that provides some guidance on these issues is that around corporate manslaughter laws that were developed and passed into law in the UK in 2007 which allows firms and senior employees to be held responsible for events the firm had a causal link with that led to death (Ministry of Justice, 2007).

Ethical responsibility – this is beyond the legal responsibilities and would encompass taking account of more environmental concerns and social issues. This may start-off looking at social and environmental issues but then moves beyond just social and environmental concerns and includes issues around: accountability; transparency; equity; poverty

Discretionary - this goes beyond the ethical responsibility and would be viewed more in terms of a philanthropic approach which is beyond the normal operations of the firm. This is more of a desire to behave in a way which benefits society, and links a little with the creation and development of social enterprises – firms specifically set up with the aim of doing some social good.

3.6 ASSURANCE

As has already been mentioned, assurance of the social and environmental reporting systems is vital for them to gain credibility. As the reporting systems, such as GRI and Integrated Reporting, are both voluntary and also the measures included in them is to an extent subjective. For these reasons, having an 'independent' assurance of the statements provides a useful measure of the information and also importantly adds a stamp of credibility to the statement and information provided. In the same way that the audit and assurance process for the financial statements of larger firms assures the investors and public at large of the accuracy and reliability of the financial statements.

The assurance of sustainability statements has a number of extra challenges. So far, it is at an early stage and therefore guiding standards are limited. The two main statements that are followed are: ISAE 3000 – issued by IFAC (http://www.isae3000.com/) following this standard the assuror must be a qualified accountant. The other major standard followed is AA1000AP – developed by Accountability (https://www.accountability.org/standards/).

Many of the statements and information are subjective and so a different approach must be taken to the financial assurance process, where it is just the accuracy and representativeness of the financial information that is being assured. The assurance of social and environmental statements is more along the lines of affirming the process.

Another challenge is that the accounting profession have tried to develop this as an extension of the accounting process, but other consultants have become involved in this process. Whilst the accounting profession, and Big Four in particular (PwC; KPMG; EY and Deloitte), have a very good reputation this does not ring-fence the assurance of sustainability statements. Consultants including environmental consultants have carried out assurance work on the sustainability reports. The accounting profession has a strength in co-ordinating the role and work of accountants and over time the role of assuror of the sustainability statements has moved to being seen as more part of the remit of the accounting firms.

Another point to note is that the traditional financial reports have four clear audit report sign offs: unqualified; qualified; adverse; disclaimer (Henderson, 2018). This is not the same as the assurance statement in the sustainability reports. As mentioned, as the reports are more subjective and interpretative, a definitive audit opinion is not expressed in the same way as for the financial statements (GRI external assurance, 2013).

The ICAEW have developed a section called AuditFutures whose aim is to look into the future and try and gauge how might the process of assurance change in the short and long term future. They explore not only future views of the current system, but have a wide remit that allows them to fundamentally challenge the way accounting currently operates in looking into the future. This therefore includes the development of social and environmental accounting and assurance.

Discussion point - Business in The Community (BiTC)

Business in The Community (BiTC) was set up to encourage responsible business. By signing up to BiTC firms publicly state an intention to operate in a more socially and environmentally aware way. This is beyond just changing the business operations and can move firms and staff to carry out activities outside of the normal operational realm of the firm. An example is that of the UK based firm Greggs – a national chain of over 1 700 sandwich and snack stores. They started and continue to provide breakfast to 6 000 children at primary schools, in deprived areas of the UK. This was clearly outside of their normal operations and involved volunteering as well as providing the food.

BiTC have a range of campaigns that it promotes under four categories: environment and sustainability; employment and diversity; education and communities. Under each category are a number of specific campaigns. So for example under the environment and sustainability is the Smarter Growth campaign that has three clear priorities: maximise resource use; nurture the health of ecosystems; net zero carbon use (https://www.bitc.org.uk/campaigns-programmes/environment-sustainability, accessed 19 August 2018).

BiTC have encouraged and motivated organisations to get involved in community work with awards ceremonies and presentations.

Further reading:

Blowfield, M. and Murray, A. (2014) Introducing corporate responsibility, Chapter 1 in *Corporate Responsibility 3rd ed.*, Oxford University Press: Oxford.

Gray, I. and Manson, S. (2011) The Auditors Report, Chapter 16 in *The Audit Process – Principles, Practice and Cases 5th ed.*, pp. 638-46, Cengage Learning EMEA: Hampshire, UK.

Gray, R. and Tinker, T. (2003) Beyond a critique of pure reason: from policy to politics to praxis in environmental and social research, *Accounting, Auditing and Accountability Journal*, 16 (5), pp. 727-61.

Chapter 3

Discussion questions

1. Summarise the concept Corporate Social Responsibility (CSR) into two sentences.
2. What are the key challenges that underpin CSR
3. Do you think it makes any difference if the term Corporate Responsibility (CR) is used in place of CSR?
4. Why are Professional Ethical standards so important for the accountancy profession?
5. What is corporate governance and why is important in the business community?
6. Discuss the different levels of responsibility, from: economic; to legal; then ethical and finally discretionary.
7. What are the challenges for the assurance process in terms of social and environmental reporting?
8. What are the benefits of a body such as Business in The Community (BiTC)?

Chapter 3

Discussion Question – Answers

1. CSR - what companies voluntarily do to benefit society as a whole. This encapsulates two key points: it is beyond mere legal and mandatory requirements for the firm; it must be for the advantage and or benefit of society – this would normally be assumed to be beyond just an economic benefit.
2. The key challenges for CSR: historically firms have been set to maximise shareholders wealth/returns – many CSR action can be seen as, if not actually counter this aim but not developing it; issues around promoting or not CSR activity – this can be seen as publicity and or to the extreme 'greenwashing'; lack of consistency in terms of CSR policies from year to year; the accuracy of the reporting of CSR action which as it may not be quantifiable is then open to interpretation.
3. Omitting Social from the title may seem inconsequential but this minor change could be seen as a realignment of CSR. Whilst this realignment may be seen as opening up the debate to cover a wider range of issues, it has also can be seen that this enables the focus on specific social issues to be downplayed. This might result in the firm being less accountable for their CR.
4. Accounting as a profession needs to set rules and guidelines for members to follow. These cannot be expected to cover all situations, so members are expected to operate in a professionally ethical way. So beyond legal constraints, members would be expected to operate in a way which is: open; honest; evidence based; best practice and not just sticking to procedures but helping develop this; equitable (See diagram 11 - underpinning social and environmental themes - section 3.2).
5. Corporate governance is about the way firms are managed and directed. Responsibility lies with the board of directors to carry this out. Firms are self-managed and governed, providing corporate governance frameworks provide minimum standards as well as best practice guidelines on issues including: signing off key responsibilities; the internal control system within the firm; the structure and role of the audit committee. Without this guidance a more prescriptive and controlled business environment would develop, which would constrain the role of the boards and perhaps limit innovation and the current risk management process within the business community.
6. Building on Carroll's (1979) typology of corporate responsibility each of the responsibility bands builds onto the previous one.
   Economic responsibility is the base level – firms must produce some economic benefit to society; then legal responsibility – firms must operate within the law,

and should not do anything illegal; firms have an ethical responsibility – behaving in a positive way which may not be encapsulated by the law but leads to no harm/detriment of society and the environment; finally a discretionary responsibility to go beyond the core aims of the firm and do something of benefit to society – perhaps in addition to the core aims of the firm.

7. Assurance and the audit process is challenged in terms of moving into new domains as: the expertise of the profession may be stretched and there may be alternative ; the assurance process may be an evolving one – especially the case if this is not a mandatory process; the actual data in the social and environmental reporting will be more discursive and less quantifiable so it may be a little more difficult to confirm in terms of accuracy and so other levels of acceptance of the data and information will be required.
8. Benefits of Business in The Community – allows firms to share good practice in terms of the relationship with society; makes firms think about the discretionary aspect of responsibility and try and carry out work in relation to society beyond the normal business parameters. It prioritises and promotes issues around business working co-operatively with society for mutual gains.

4 SOCIAL AND ENVIRONMENTAL REPORTING

Main Learning Outcome

- The development of social and environmental accounting reporting and its importance in the accounting field

Subsidiary Learning Outcomes

- What is the background to SEA reporting;
- Exploring the Global Reporting Initiative (GRI) reporting framework
- Understanding the Integrated Reporting framework
- Integrated Reporting and value creation – links to SDGs
- Some greenhouse gas and carbon reporting approaches

Review Questions Chapter 4 – at the end of chapter.

4.1 INTRODUCTION

One of the most commonly used ways to demonstrate social and environmental credentials is to report on them. Similar to the development of financial statements that have become a highly regulated and controlled environment, a number of reporting systems have come to the forefront of social and environmental reporting. Two particularly important reporting systems are the Global Reporting Initiative and Integrated Reporting.

It is important to remember that the reporting process should be providing evidence in line with the firm's actions – whether this is viewed in a positive or negative way. Negative reporting can (should!) be seen as an opportunity to develop and improve in these areas of expressed concern.

The other vital point to note is that reporting should not be the end process. It is just a recording and directing process. The *actions* of the organisation are important as these are what have the impact on society.

For many reporting also needs to be carefully monitored – and part of the assurance process. This is to avoid the claims of 'greenwash' that has been levelled against firms. That firms have used the reporting process as a promotional activity, to hide the true social and environmental performance of the firm.

One final point is that the reporting process requires the development of resources: staff time; resources and money to print and send out. All of this makes this a less appealing process for SMEs. The reporting process is therefore primarily for larger firms; though ways should be found for SMEs to engage with this process. In this way, simple cut down reporting frameworks specifically for SMEs is one way forward.

4.2 BACKGROUND TO SUSTAINABILITY REPORTING

Sustainability reporting and or social and environmental reporting is a new phenomenon, isn't it? The current reporting frameworks that are to be discussed in this section – GRI was started in 1997 and IR started in 2013 – these are newly developed reporting frameworks. The reporting on social and environmental issues though can be argued to go back as far, and undoubtedly further, than the financial reporting system. A number of longitudinal studies on firms, Tinker (1985) and Guthrie and Parker (1989) illustrate how firms such as BHP reported on a wider array of issues than just the financial statements including employee and social issues. The reporting was primarily focussed on employee issues (Buhr, 2007) but this can be clearly seen within the realms beyond merely a focus on the financial performance of the firm. What has happened over time is the prominence of the financial information in the reporting process has effectively removed any other kind of information the firm produced. The financial reporting procedures have developed over the last 150 years, following pressures such as agency theory, reporting to the owners on managers impact on the performance of the firm. This has led to more in-depth and detailed financial statements, as well as the development of Annual Reports. Captured within the annual reports are statements from the executive directors of the firm, and information on areas such as operational issues. Within this text though there are discussions on issues beyond the financial information that incorporate what could be termed as social and environmental issues. Buhr (2007, pp. 59-62) does briefly discuss the specific reporting systems as: employee reporting; social reporting; environmental reporting; triple bottom line reporting; sustainability reporting. A number of themes emerge including: the fluctuating nature of the reporting systems – linked often to wider political shifts (Buhr, 2007, p. 60). This can be seen in terms of an evolving reporting process, developed through 'best practice' and changing from: a focus on employee issues; to more social awareness; later the social concern with environmental problems; the TBL linkage between the social, environmental and economic and finally the sustainability reporting process. Two things to comment on about this view: first is the perception of the evolving reporting process – as if it has developed from reporting on basic employee issues to more detailed and inter-linked concepts; the second is the view that the reporting process has evolved over time due to mimetic pressures – this is still a voluntary reporting process and so can be seen as being led by following best practice and or thought leaders.

Buhr (2007, pp. 64-64, Table 3.1) develops a table titled: Rationales for sustainability reporting. Buhr (2007) starts by setting out some of the conceptual themes, and then later in the table sets out specific rationales. These specific motivations for SEA we can try to align to the wider concepts as follows:

- accountability – moral and ethical duty;
- legitimacy – helping develop voluntary standards, peer and industry pressure, image management, social pressures, existing regulation;
- political economy – competitive advantage;
- stakeholder theory – corporate performance, financial benefits investors.

This provides a starting point and framework to explore some of the significant pressures that are impacting on the voluntary SEA reporting process. The reality, as usual, is that separating out these issues helps us to understand and explain the changes, but in reality they are likely to be inter-linked and combinations of the pressures (if not all of them!) that impact on a firm's development of a SEA reporting system.

4.3 GLOBAL REPORTING INITIATIVE

In addition to the financial information included in the annual reports produced by the multi-national firms, they also contain large amounts of additional data and narrative statements including the Chairman and Chief Executive statements. In the annual reports there is also comment on operational performance and strategic targets and movements in-line with these longer term goals. When appropriate, environmental and even social concerns may be commented on. Many of the largest firms voluntarily produce environmental reports. A widely used and accepted format for environmental and social reporting is the Global Reporting Initiative (GRI) which is a corporate reporting framework that has been going for over 20 years and has developed widely accepted standards over time – there have been at least four versions and they are now on GRI Standard version 4. A new 'modular' approach has been created, that allows the data to be more easily developed in chunks but is also useful as should any area need changing and or updating then the module can be amended rather than the whole reporting process.

The GRI is also aligned to the UN Sustainability Development Goals and the EU non-financial and diversity reporting directive (EU Directive, 2014, 2014/95/EU). These require more disclosure by larger firms of social and environmental impacts with policies and procedures to deal with the impacts. Aligning the GRI to these standards widens the appeal of this sustainability reporting process, and increases its credibility in building alongside other external measures.

The standards build on three universal standards, covering: GR101 – reporting principles, following the prescribed way of reporting and covering issues such as material impacts; GR102 – general disclosures that sets out some of the context within which the firm operates; GR103 – management approach adding management specific information.

Following on from these universal standards, and linked to them, there are three specific standards covering social, environmental and economic information. This is an attempt to highlight the specific context in which firms operate and to make the reporting specific for each different firm.

The GRI is an umbrella organisation and also has communities that are reporting back on 'best practice' reporting to help develop the reporting process in the future. They have developed a GRI Gold Community where firms join together to problem solve and share best practice ideas in dealing with some of the social, environmental and economic issues that emerge when they go through the reporting process.

Whilst commenting on the take up by larger firms of the GRI reporting system and sustainability reporting, Gray and Milne (2010) estimated there are around 6000 firms globally produced sustainability reports (about 10% of larger firms). This is a small percentage of the multi-national firms in operation.

One particular problem has been the lack of engagement of SMEs with the reporting process. The GRI have worked with the International Organisation of Employers (IOE) to produce guidelines to try and encourage SME in terms of reporting. From their own database, GRI shows that over 90% of the reports are from large multi-national firms with only 10% from SMEs (despite 99% of firms in countries like the UK being identified as SMEs) (GRI, 2016).

There are clear reasons for the lack of take up of reporting on social and environmental issues in the SME community: resource limitations; preoccupation with operational rather than strategic goals; lack of knowledge and understanding of reporting systems; reporting systems that are not aligned to the specific needs of SMEs.

This needs to be taken into account in encouraging SMEs in the reporting process, and so just cut down versions of the reports for large multi-national firms will not be appropriate. By creating a modular and more flexible reporting process GRI are trying to deal with the issue of specific firm identity and the need for a tailored reporting system, as against the need for a consistent and useful reporting process.

4.4 INTEGRATED REPORTING

Integrated Reporting (IR) is a newer initiative in which HRH the Price of Wales has been supportive of and involved in the developmental phase of the process. This reporting process has been described as directed towards more social and environmental information for investors. The basis of the IR process is the creation and values placed on 6 capital values: financial capital; manufactured capital; intellectual capital; human capital; social and relationship capital; natural capital.

A brief summary of issues captured by the 6 capital values is in table 2 below.

Capital	Issues
Financial capital	Funds available in the firm – internally or externally generated
Manufactured capital	Items for use in production e.g. machinery and or actual goods produced
Intellectual capital	Knowledge values including patents and also tacit knowledge
Human capital	Individuals motivation, capacity and experience
Social and relationship capital	Network and relationship values including brand value.
Natural capital	Environmental resources including: air, water, land and minerals

Table 2 - The Integrated Reporting 6 Capitals and related issues (see the IIRC International IR Framework, 2013).

The capital values can be seen like in the accounting 'capital accounts' as being accounts of value that can stay the same, increase and or decrease in value. In fact, a change and increase in one capital can be followed by a decrease in another capital value. Note: this is not double entry that one adjustment must be matched by a counter adjustment. It is merely showing how the capital values can be linked and should not be viewed as just separate silos of value. This approach could mean that it is easier to follow the values from period to period and the changes that occur in the capital values. A common criticism of sustainability reporting in attempting to create consistent data.

So the 6 capital values builds on similar business terminology to the 'financial reports' in using the capital term. Unsurprisingly, the accounting bodies and Big Four firms were heavily involved in the development of IR and still are involved in the board. This in many ways is easier to assimilate for accountants in using familiar terms, such as capital, new concepts related to social and environmental issues are easier to explain. When they are placed in a familiar context – of capital items, assets and liabilities as well – this is a very familiar use of terms that are used in the statement of financial position. The professions have been keen to try and move the sustainability debate into areas that accountants feel more comfortable in.

The following Value Creation diagram helps explain how the different capital values work in terms of adding value within the firm.

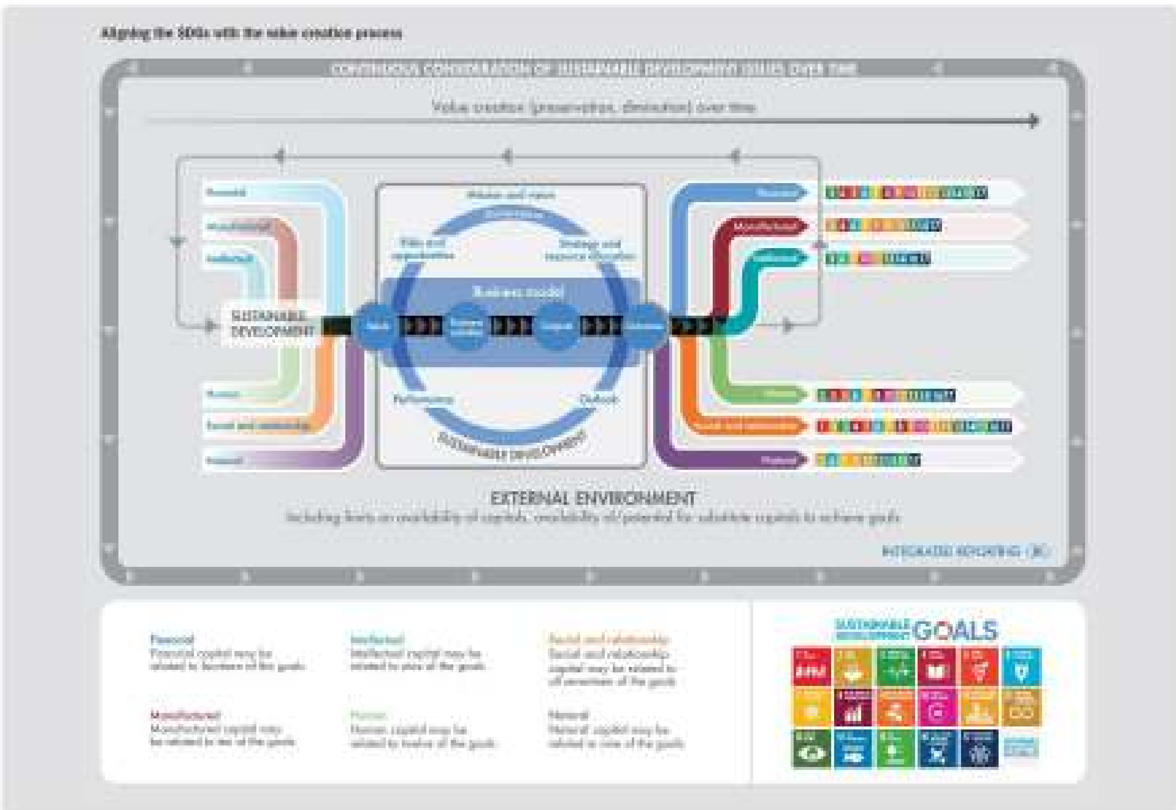

Diagram 13 - IR Value Creation Diagram
(Taken from www.bing).

In this diagram the UN Sustainability Development Goals (SDG) mentioned earlier are aligned to the IR capital outcome values which is a useful process as it allows the firms performances using IR to be related to the UN SDG.

In looking at diagram 13, the suggestions are that each firm will be different and so the capital values will be developed as more appropriate values for the firm, as well as not all six may be appropriate for each organisation. As a minimum, the values of some categories may be insignificant. In this way, the reporting flexibility allows the creation of a specific report in relation to the firm. Again, the importance of a consistent approach from period to period to review performance over a period of time cannot be overstated.

This is not a system allowing accurate comparisons from one firm to the next. It is more an internal challenge to the firm; to report on these issues under the headings and show how the firm's performance has changed over time and how the firm can be evaluated in comparison with these self-defined measures under the six capital values. It could even lead to easier relationship between the financial performance of the firm and these new social and environmental values – under the six capital values. In another approach to exploring the 6 capital values, the economic, social and environmental values can be aligned to the six capitals as follows:

Economic Values – Financial capital; Manufactured capital; Intellectual Capital

Social Values – Human capital; Social and relationship capital

Environmental Values – Natural capital.

This is one way of showing the capital values, as there will almost certainly be cross overs between different categories. So the manufactured capital could include values for goods produced which would also be a factor in economic value if these were sold and profits made, as well as potentially environmental issues if resources are used up in manufacturing the products.

4.5 GREENHOUSE GAS (GHG) AND CARBON REPORTING

Included in the sustainability reports will be measures of greenhouse gas and in particular carbon reporting. As carbon reporting has been reduced to fuel and energy use many firms can create their own carbon footprint of how much carbon they have used in their activities. There are on-line calculators that if you have for example the annual fuel and energy figures then the 'carbon footprint' can be worked out (https://www.carbonfootprint.com/calculator.aspx).

Greenhouse gas calculations is a little more difficult and not as easy to measure. Since 1 October 2013 all UK listed PLCs have been required to report on their GHG output. For smaller firms this is still primarily based on energy and fuel use (in transportation) as well as water usage (Department for Environment Food and Rural Affairs (Defra), 2018).

For larger firms the classification is broken down into six categories (Defra, 2013):

- Greenhouse gases
- Water
- Waste
- Materials and resource efficiency
- Biodiversity/ecosystem services
- Emissions to air, land and water

Again, it may be felt that some of the categories are not appropriate to specific firms. This list is more detailed and requires firms to set boundaries on where the firm operates and try and establish the impact in these different areas. It also has been noted that due to business structures, many firms operate as groups and so this would need to be taken into account. As well as upstream and downstream implications – upstream suppliers actions may be something that the organisation has to take into account and report on and be responsible for – even through they may not be part of legal structure of the main group. Even downstream customer behaviour may need taking into account.

A good example is with Unilever plc in terms of manufacturing a washing machine detergent, such as the brand Persil. A lot of energy is consumed by the millions of customers running washing machines using Unilever products. Unilever even promote Persil on the basis of working at lower washing machine temperatures of 30%, this can save the consumer 40% in energy usage (Unilever, 2018). When Unilever develop a new product that is able to clean clothes at lower washing temperatures, the impact in the lower energy requirements to wash the clothes multiplied by the millions of users, this will outweigh any possible internal process changes to save energy that Unilever could make.

Another driver in the move towards reporting more has been the agenda to develop a trading system for firms in terms of emissions and in this way by giving a business a permit for certain output levels, to restrict the output of gases and encourage firms to operate in more environmental ways. This is effectively a 'Cap and Trade' system.

An alternative approach is a 'carbon offset' programme. An example of this was when airline firms tried to offset the carbon values for flying by planting a large number of trees. This is defined in some detail under the IATA (2008) Aviation Carbon Offsetting Programme.

As an example, the values used for a tonne of carbon under the CRC scheme run by the UK government were just under £20 per tonne (**Carbon Trust, 2019**).

(Note: This scheme was piloted and then withdrawn by the UK government in 2016 being phased out in 2018/19).

Once values have been given, and allowances of how much carbon firms were allowed then firms with excess carbon could trade this back into the market. Less efficient environmental firms would then have to buy the carbon permits. This is clearly quite a sensitive area, it would only concern larger firms and would require agreed values and permit levels. The aim is to encourage firms from a starting point to over time reduce their output levels.

Further reading:

Buhr, N. (2007) Histories of and rationales for sustainability reporting, Chapter 3 in Unerman, J., Bebbington, J. and O'Dwyer, B. eds., *Sustainability Accounting and Accountability*, Routledge: London.

Global Reporting Initiative (2018) – web-site – https://www.globalreporting.org/Pages/default.aspx

Integrated Reporting (2018) – web-site - http://integratedreporting.org/

Chapter 4 Questions

Discussion Questions

1. What have been some of the key changes to sustainability reporting over recent years?
2. Why is sustainability reporting mainly something that large multi-national firms do and what are the implications for SMEs?
3. What is the GRI?
4. How is GRI different than Integrated Reporting?
5. Accountants close involvement in the IR process may have led to the use of common terminology, what are the benefits of this in developing the reporting process?
6. How does GHG and Carbon Reporting work?

Chapter 4 Questions

Discussion Questions – Answers

1. Sustainability reporting has developed over time. With the increased requirements for Annual Reports and narrative reporting (by CEO and Chairmen) the development of non-financial interpretations of firms has continued to grow. Initially the focus was on environmental reporting – in fact the ACCA starting an environmental reporting awards event in 1991. This has more recently developed into more sustainability reporting. The key differences would be this incorporating more social and environmental issues and also a more holistic view of the firm that could be described as the culture or ethical standing of the firm.
2. Large multi national firms are required to produce publicly available financial information and annual reports. They have in place resources to help create reporting information. Corporate reports can be seen as a marketing exercise for the firm. With the resources including expertise of staff in these areas multi-national firms are capable and willing to produce SEA reports.

Having said this, Milne and Gray (2010) estimate that only about 10% of the multi national firms do produce them.

The lack of reporting of SMEs has a number of issues for smaller firms: this can be seen as a lack of interest in the area; it does not showcase SEA work that SMEs are involved with; the focus of SEA is on the needs and outcomes from multi national firms. All of this has a distorting effect on the future development of the reporting process for all firms.

3. The Global Reporting Initiative is a sustainability reporting process that has been in operation since 1997. The version in operation currently is version 4.

   The reporting requires firms to follow a number of core contents but within these the firms can report on a number of different issues. The flexibility also is applied to SMEs that can produce reduced versions of the GRI statement.

4. The GRI statement covers the following areas: Universal standards cover: reporting principles, general disclosures and management approach; specific standards cover: social, environmental and economic issues.

   Integrated Reports has six capitals that firms must report on, these are: Financial Capital; Manufactured Capital; Intellectual Capital; Human Capital; Social and relationship Capital; and finally Natural Capital.

5. It may be useful from an accountant's perspective to use common terms such as capital in IR which as this is a commonly used term by accountants may help them assimilate the information easier. There is a problem in that the use of the terms is slightly different and therefore this could result in some confusion.
6. Greenhouse Gas (GHG) and Carbon Reporting are specific reporting systems that can provide values as to the emissions levels of GHG and Carbon the firms have produced. This information can be worked out in larger firms with relevant staff expertise, or in smaller firms specialists consultants may have to calculate some values. The proxy values for carbon disclosures can be created by smaller firms in terms of common factors such as: transportation costs and energy usage that can be converted into carbon emission values.
   The value of GHG and carbon emissions can be useful if a cap and trade carbon system was in operation. In the UK most of the multi-national firms have been required to report on their emissions levels for a number of years under the CRC Energy Efficiency Scheme but from April 2019 all large publicly listed firms will have to disclose more simplified 'environmental' information: energy use, carbon dioxide emitted and efficiency plans (Chestney, 2018). The definition of large firms can be seen as: with more than 250 employees or turnover £36m and balance sheet total greater £18m.

5 THE FUTURE FOR SOCIAL AND ENVIRONMENTAL ACCOUNTING

Main Learning Outcome

Exploring some of the possible future SEA developments

Subsidiary Learning Outcomes

What is managerial capture and greenwashing

The impact of research centres on future developments in SEA

The influence of the internet and social media on SEA

Understanding the role of shadow accounting

Artificial Intelligence and its impact on SEA

Future challenges for accounting in relation to SEA

Review Questions Chapter 5 – at end of chapter.

5.1 INTRODUCTION

One of the lessons in social and environmental accounting is the changing nature of accounting and society. It is therefore valuable to look at what the current situation is and issues that are being addressed, as well though to look into the immediate and more long term future for social and environmental accounting.

This final section deals with a number of emergent and or developing issues:

If the business community is fundamentally changing or if it is merely a 'greenwashing' exercise and the implications of this;

The research centres in social and environmental accounting and the role and benefits of these bodies;

The rise in importance and use within the business community of the internet and social media and the implications for social and environmental accounting;

Shadow accounting – how alternative accounting approaches could work;

Artificial Intelligence and the impact on the accounting profession going forward and finally some brief comments on the future for accounting in respect of the growing social and environmental concerns.

5.2 MANAGERIAL CAPTURE AND GREENWASHING

Managerial capture has been discussed as a possible problem in the debates around social and environmental concerns in the business community. Gray and Tinker (2003) discuss the problem in particular in relation to sustainability. The view is that management and business are very good at taking and developing terms. This may on the surface seem a limited issue, but if it is felt that management can manipulate the terms they could reduce the effectiveness in implementing policy in respect of the terms and aims. There have been issues around the development of different terminology that is frequently used, often interchangeably, in this area: sustainability; social and environmental accounting; corporate social responsibility. From any position, these terms are contested and do not have just one interpretation. As well as looking at the terms in isolation, the terms can be used in-line with and or in contrast with each, supporting and or differentiating the discussions and policies the firms develop. The working use of the phrases needs to be clearly defined so that any misunderstanding and or ambiguity can be minimised.

Managerial capture is beyond just ambiguity and differences of view. This is a deliberate policy to try and reinvent terms. The reason for doing this is to minimise the possible impact of any changes on the firm; to evade making significant changes to business operations; as a public relations exercise to appear to be working more socially and environmentally without any actual significant changes. The approach of managerial capture allows the firms to do this by 'watering down' or reducing the value of the terms.

A clear example of this has occurred with the use of sustainability, this is commonly viewed in business along the Brundtland (1987, p. 41) model (discussed in chapter 2). In the business community the two extra criteria added were limiting resource use and to develop equity are commonly dropped:

"the concept of 'needs', in particular the essential needs of the world's poor, to which overriding priority should be given;

and the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs." (UN, WCED, 1987, p. 41).

So whilst the common statement of sustainability is used, specific criteria that would require some fundamental changes to most businesses – to limit production and ensure there is more equity in profit sharing are removed.

In following the levels of business engagement diagram below, most businesses are not actively fighting against the sustainability agenda. If managers are sceptical of the debates, they are more likely to sit in the greenwashing and managerial capture areas. In this way, they can still maintain an identity of corporate responsibility as they are actively opposing a sustainability agenda.

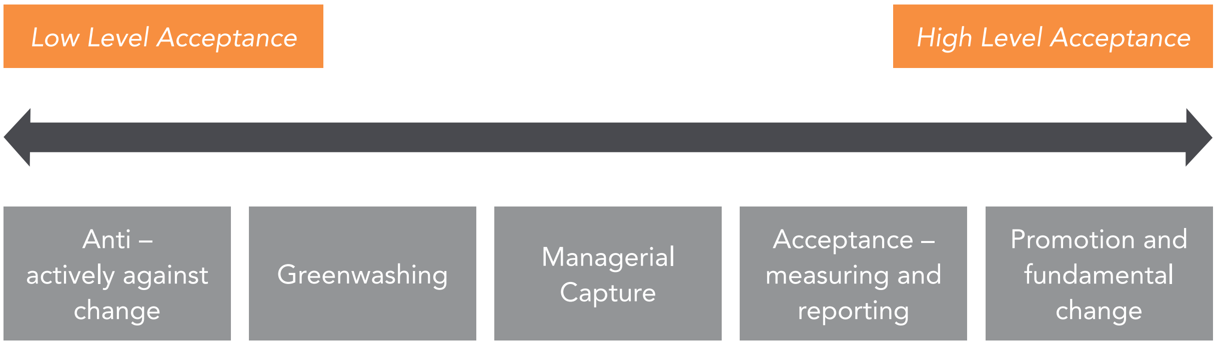

Diagram 14 - Levels of business engagement with the sustainability agenda.

As is noted in the diagram, greenwashing is placed further along the line towards non-acceptance of sustainability than managerial capture. Greenwashing is a more deceitful process than adjusting the terminology used in the discourse. This is the use of the data to construct a picture of the firm being more socially and environmentally engaged and active than is the reality. There is a deliberate aim to demonstrate 'green' credentials, whilst at the same time actually changing little or doing nothing to improve the environment. The primary motives for a greenwashing exercise include: improved reputation with customers for social and environmental work; avoidance of having to deal with 'real' social and environmental issues; this can also be tied into a bonus and performance management target.

What has changed with greenwashing is the implicit and clear intention of materially misleading investors and the general public through the use of selective data and constructed reports. It could be argued that when the Volkswagen group (see Case study 5) started promoting their cars on the basis of environmental performance, the subsequent fall out from the fact they had manipulated the data reading was a deliberate attempt to mislead consumers as to their environmental performance and so is an example of greenwashing. Using a misleading environmental record to encourage customers (see for example "VW Pleads guilty to US emissions charges", BBC 2017).

Case study 5 – Managerial capture and 'greenwashing' - Volkswagen and the car emissions scandal.

Global carbon emissions by humans is related to two main activities: energy and heat use, and production and transportation in the form of the fuel used. In recent years, there has been increased interest in trying to minimise the carbon output in these two areas. In relation to consumer car purchases, electric and hybrid vehicles that do not use carbon fuels to power them have gained a market share. The normal petrol/diesel engines have become more efficient, and this has become a big selling factor. The biggest car manufacturer in 2016 was the Volkswagen Group, and they promoted their product range on market leading fuel efficiency levels. It transpired that Volkswagen had been using 'cheat' software in the US to detect when diesel vehicles were being tested and changed the engine management to a more efficient level than normal (Hotten, 2015). So, not only were the Volkswagen diesel cars promoted on the high levels of energy efficiency, the firm (individuals in it at least) had cheated the results to gain this market leading position. This creates the clear impression of a firm that couldn't care less about the true environmental impact of their product, and were only interested in selling and 'duping' the public into buying their cars. A clear case of 'greenwash' – using fake environmental credentials and concerns to develop a business model.

The fall-out from this has been large for Volkswagen, with suggested recall costs of nearly $7billion (to remove the software) and fines on top.

The Volkswagen group have had a very good reputation for quality and reliability, they have demonstrated this more in response to the scandal, where they have admitted responsibility, come up with an action plan to deal with the problem. This pro-active response from the Volkswagen group in relation to the scandal means that this will not result in the firm's demise, and it does not seem to have significantly affected the firm's position in the market. It does however illustrate how even the most respected of firms can use strategies that can create environmental harm even though at the same time they are promoting this in a positive environmental way.

5.3 RESEARCH CENTRES

The following discussion highlights an illustrative couple of important research centres in relation to social and environmental accounting. It is clear that there are many centres involved with business and society throughout the world. It could be argued that most business schools of universities will now have some interest and expertise related to sustainability. The following discussion highlights the impact of such centres on the discourse and also even changing the current operations of business.

There are several centres of research into social and environmental accounting. The most developed is the Centre for Social Environmental Accounting Research (CSEAR) based at St Andrews University Scotland. The centre hosts an annual congress, 2018 is the 30th annual congress. The UK based annual congress has branched out with regional centres holding their own annual meetings, including: Spain; North America; Australasia.

The aim is for people with interests in this area to meet, share practice and research in this area. There is also an affiliated journal: Social Environmental and Accountability Journal. The areas of interest are wide ranging covering both social and environmental issues in relation to the accounting environment. There has been a move towards attempting to engage more with practitioners and also for quantitative research in the area.

International Centre for Corporate Social Responsibility (ICCSR) based at the University of Nottingham. The centre specifically deals with corporate social and environmental issues and is very much a repository for research carried out by members of the University of Nottingham. They self-define as a not for profit global training centre.

Professional body groups – the professional accounting bodies take an active interest in social and environmental issues. They have been involved in the Integrated Reporting process, and have themselves created sections that have tackled social and environmental issues.

The ACCA for example organised and managed a social and environmental reporting awards from 1991 until the early 2010s.

Looking at the ICAEW they have recently had a Re-thinking capitals project which looked at how economic system could be revaluated taking into account in particular social and environmental issues.

5.4 THE RISE OF THE INTERNET, SOCIAL MEDIA AND COMMUNICATION

The operation of business has changed considerably over the last decade. As an example, high street retailers until recently required a town presence on the high street. Measures of success such as locations and footfalls (numbers of customers passing through the stores) were key signs and indicators of success.

There has been a significant retrenchment of in town centre stores. Firms that have tried to retain the in town presence have found themselves at a considerable disadvantage and some large stores have failed as a result, including: BHS; Maplins; Toys R Us; House of Fraser. Other national store chains have only been able to continue trading following significant store closure programmes and redundancies including: Homebase; Carpetright.

Now many stores operate on-line and the store is more virtual than physical. The success of firms such as Amazon underlines the importance of the use of on-line trading. As well as saving the cost of running high-street stores, consumers have changed their interaction with retailers and readily engage the internet for shopping and many business activities. These business activities include: searching for suppliers and the best supplier deals; information on other firms individuals; to date market information.

Market research is an important aspect of a business – knowing about the market and customers you wish to supply. The on-line information is of general help, and provides good market information – economic figures such as GDP growth rates. Some firms such as national retailers like Sainsburys plc and Marks and Spencer plc have developed loyalty cards that customers can gain points and benefits in store. The benefit to the firm is in the large amount of data they can collect which is very specific data on an individual, and allows the firms to target promotions to that individual customer.

Customers now spend much of their time online on forums such as Facebook and Instagram. These are social media sites where contact can be maintained with friends and family through messages, pictures, videos and live streaming. The advent of a connected on-line social space allows comments and views by one individual to spread quickly, to develop into viral posts on which millions of people may have viewed and commented. This can happen in the case of comments around the service and or products of firms. So firms have had to become more aware of customer feedback on forums such as Facebook. Any complaints are treated more carefully as the possible spread of the complaint may be significant. It also does put some power into the hands of customers who previously may have felt like any complaint was isolated, but now with the advent of social media campaign groups can be developed to complain about issues. Campaign organisation such as Greenpeace have used social media campaigns effectively. This was used for example in a campaign over artic drilling for oil by Shell and also against firms like Lego (Still, 2014).

Firms themselves though have used social media in ways to promote themselves and their products. Heineken #Openyourworld moved beyond just promoting the product to try and link and then build on peoples values (Sunley, 2017). The aim was to bring people together with opposite views who could discuss their differences – whilst hopefully sharing a Heineken! This can be seen as a clever marketing tool that tries to focus not on the product but on shared social time.

This represents a significant social change in which businesses operate. One where global campaigns such as Meat Free Monday can be started and developed. Many successful businesses have latched onto this changing social dynamic and incorporate this as something that can give them the edge of competition. The firm can seem more to be listening and working with consumers to develop products. So as an example, Mondelez the owner and maker of the Toblerone bar had initially changed the distinctive triangle chunky bar to one with more gaps and less triangles (smaller in weight) and therefore they argued they could keep the cost the same. On-line complaints made them review the change and they eventually reverted to the same as the current format bar, even heavier than now but at a higher price. The consumers had shown their view, they would prefer for the bar to retain it's current shape. This hasn't all worked out at the moment though as there are complaints this was just an exercise in increasing the price of the chocolate bar (Butler, 2018).

5.5 SHADOW ACCOUNTING

The current dominant measurement process in terms of an organisation are the financial statements. These are produced through the accounting process on an annual basis, with larger firms financial statements assured by accountants. The EU has set audit threshold limits (firms must be within two from three limits): turnover less than £10.2m; assets less than £5.1m; employees less than 50 (ICAEW, 2019, Audit exemption eligibility). For large publicly owned (Public Limited Companies – PLC – in the UK) there is an agency aspect, managers running the firm and acting as agents of the owners (shareholders) the annual accounts are presented at the Annual General Meeting having been signed off and approved by the Directors. The accounts are used to demonstrate the performance of the firm, the profits made, the funding position and cash flow. The financial statements are heavily relied on by investors, as well as showing the financial performance to shareholders.

SME firms below the threshold are still required to produce financial statements, but they do not have to be published and they can follow the IFRS for SMEs. Importantly the financial statements of SMEs are also not mandatorily assured – many voluntarily have auditors and the statements assured.

This is a very controlled environment, created by the accounting profession. The financial statements are created and follow accounting standards and in-line with statute (the Companies Act). The predominant standards are the International Financial Reporting Standards (IFRS), there are currently 17 IFRSs in force, with also in addition an initial Conceptual Framework for Financial Reporting statement. These provide guidance on specific areas of debate and judgment such as: business combinations – IFRS 3; consolidated financial statements – IFRS 10; fair value measurement – IFRS13 (IFRS, 2017, List of standards). The Companies Acts and standards are evolving and developing over time, and this process will continue. The fair value measurement process is a good example. Before this standard was brought (effective from 1 January 2013) in nearly all situations capitalised tangible assets were valued at the historic costs. There had been discussions in the accounting community in the 1970's about alternative valuation approaches, but due to difficulties such as the accuracy and consistency of the values the historic cost approach had been used. The justification for using the historic cost valuation approach was the certainty of the values which could easily be confirmed, and from a prudence perspective asset values would not be overvalued. This though has led to situations where asset values, most commonly property, have borne little relationship to the resale values of the assets. This is a particular problem in the UK with the rapidly rising property values. Movements in these values could quickly make obsolete the book values.

This provides an example of a specific issue with the current state of financial accounting. Shadow accounts are a second set of accounts. One version of shadow accounts are those accounts that are held locally to provide a check in terms of the main accounts. This can for example be a process that works in a large global organisation, where local regional sections hold 'shadow' accounts. This would enable them to keep a check on the performance of the specific section or entity. This can be useful to allow the 'local/regional' firm to develop their own control and management skills locally. This is an approach that needs to be carefully handled, as running a firm with two sets of accounts can create problems including: confusion; extra use of resources to maintain two sets of books; arguments if the books appear to show different results. This may also be of use in a Transfer Pricing process – where the internal value of a good or service transferred within the business may be more easily created if it is to be based on a cost value approach.

In this section we are looking at another view of shadow accounts, again, as a second set of accounts. This time though held and produced by an independent group. In this sense, shadow accounts can be used to help illustrate contradictions between the purported goals of the organisation and its action. (Dey, Russell and Thomson, 2011). In theory shadow accounts could build from the pre-existing accounts or be a totally new construction. The intention is to use the approach and discourse of the dominant group – accounting, and set up a challenge to the carefully managed published financial accounts. It is important that the shadow accounts are produced independently of the business, as this will add rigour and independence to the produced accounts. This is a problem though in terms of establishing groups to produce this information. In one sense this may be seen as a development of the professional analysis process that follows many of the largest corporate firms. There are a range of 'financial service' firms that will have a particular interest in analysing the financial performance of firms: banks; investment trusts; pension companies; insurance firms. Each will, using individually and sometimes collectively generated data, analyse the financial accounts. This is all well and good, but starts from the premise of accepting the current financial information. This is the core difference with the shadow accounts – they are produced to go beyond the traditional financial accounting information. This is where there are issues, as again the financial accounts are accepted and have a framework of rigour behind them that adds to the credibility of the information. Shadow accounts are challenging the financial statements, restating and adding to them to produce a new set of accounts which may have a different emphasis.

Independent shadow accounting is an interesting and potentially effective tool for change for a number of reasons: the starting point of shadow accounting is to highlight the subjective nature of the accounting process, the data is not an objective fact; certain aspects of the firms performance are highlighted in comparison with others – profit maximisation is the underlying agenda; specific groups – namely investors/owners/managers – dominant in terms of the discourse.

For all of these reasons it is valuable to have an alternative view of the performance of the firm, and one that: explores alternative ways to present data; does not just focus on short term profit maximisation; tries to include more groups in the discourse – in the firms example including: suppliers/employees/customers.

The problem becomes though how to go about it and retain some credibility whilst still able to challenge the current financial accounting process. Ultimately for shadow accounting to work more effectively the groups that have interests in producing them may need to work together to establish some principles that help support and drive forward a separate and independent shadow accounting process. Whilst doing this, one main concern is to ensure that the shadow accounts don't just become another set of quasi-financial-statements; a kind of accounts 'mark II'. Ultimately the independent production of the accounts should add flexibility, so that the shadow accounts are produced in relation to the specific firm and the firms issues, and not just following a set of standards.

5.6 ARTIFICIAL INTELLIGENCE (AI)

Society appears more reliant on technology to operate and the speed of technological development is quickening. Mobile telephones provide a clear example, with the speed of new developments in this industry and replacement of handsets taking place at ever faster pace and over shorter periods of time. This is in a rapidly expanding market with an increase between 2012-17 of over 2.2 billion mobile connections (Kemp, 2017). The business model of the industry dictating this continuous product development over shortening time frames. It has become apparent that for technology to develop more effectively in terms of technological advances and ability then technology itself must play a part in this development. Whereas in the past all of the software and hardware in technology was designed by a human, machines specifically through the development of artificial intelligence is likely to play a bigger role in this development.

Artificial Intelligence has been defined as: "the capability of a machine to imitate intelligent human behaviour." (Merriam-Webster on-line dictionary).

AI was initially coined and used in the computer sciences industry, the use of computer models in accounting is now fundamental with specialist accounting software firms such as Sage plc multi-national business entities. In this sense, accounting will be one of the sectors most affected by the advances in computer intelligence or artificial intelligence. This means the fundamental role of accounting is set to change. This is likely to lead to reduced basic accounting work, which will be carried out by AI. This does mean that they will have to develop 'higher skills' such as an ability to evaluate and analyse. Already the accounting community are advising on this. Being able to frame the question and spot AI that has bias in the output from issues with the input data will be important skills for accountants (Webb, 2017).

Wider than just the sole focus on the impact of AI on the accounting process is the fundamental shift this will make to the business community and society as a whole. Advanced trials are taking place on automated 'driverless' vehicles – cars and lorries, that use AI to access risk and enable vehicles to be driven safely on the roads and where the public is, in fast changing environments with lots of data to analyse. In peoples personal lives the advent of electronic help through devices such as Alexa using electronic software programmes to analyse data and help people make informed decisions is a development that has seamlessly entered the social space (Wilk, 2016).

These are just the start of the use of AI, and could be seen as a first stage form of AI, where the intelligence in the programme is still input by humans at the start of the process, in the software packages. Stage 2 in terms of AI will be where the systems self-learn and improve the AIs own performance. AI perhaps launched itself most publicly with the creation of Deep Blue, the chess playing computer system which was the first to beat a current chess grand master, Garry Kasparov in a tournament in 1996-7 (Greenemeier, 2017). The evolution of the Deep Blue computer programme was one lead by computer algorithms able to process between 100 and 200 million combinations of data per second (Greenemeier, 2017). It was this data analysis that enabled the computer to beat Kasparov's highly developed 'pattern recognising', intuitive approach to playing chess - the computer approach outperformed the human approach. It is suggested though that the best approach for problem solving is to combine the AI approach and the more human approach (Greenemeier, 2017). This is arguably where accountants can come in, adding to the base accounting work that AI will do in the future.

5.7 THE FUTURE FOR ACCOUNTING AND SUSTAINABILITY

> *"Accountants are technical greyhounds and social ignoramuses."*
>
> – (Tinker, 1985)

If this quote is correct, then there would be problems for the accounting profession going forwards. Probably more accurately it is not that accountants are social ignoramuses, more that they have not communicated and promoted themselves and or the work they do, with the exception of the big four firms. This is partly to do with the fact accounting work has been seen as a compliance service, a requirement that didn't need promoting as businesses have to pay for these services! The changing nature of the business community and society now means the basic compliance work in accounting has limited potential for growth in the future. Accounting firms will need to look at developing the 'added value' services they offer. Combined with the advent of social media and the internet, this will result in change. What is termed as 'networking' is becoming an essential requirement for a successful accounting business, especially one working with SMEs. An essential skill for accountants now and into the future will be to generate services from networking, almost as important as the technical skills and knowledge that the accountant has.

The development within society of an interest in the environmental impact of business creates fundamental challenges for accountants. There is a view that the basis of accounting, the focus on the profit, cashflow and asset values has been part of the cause of environmental degradation by firms. With a focus on these values other less measureable issues, environmental and social impact that has been difficult to place values on, and so often these issues and values have been ignored. Can accountants and the services accounting provides be trusted to help develop a more sustainable business model in the future? Accounting research has started to portray the accountant of the future as a 'trusted business adviser' (Schizas, Jarvis and Daskalakis, 2012). In this sense if the accounting community is to portray itself as trusted business advisers, without using this as a greenwashing exercise, then accountants and accounting needs to move its core purpose and services to ensure it is still relevant to the changing society. What is clear though is that over the last 150 years of the modern accounting service, accountants have always been quick to change and offer new and relevant services. This will be the way forwards, to help society achieve a more equitable and environmentally aware society.

The professional accounting bodies are engaged in the future-proofing of the profession. Two illustrations show how this works:

AuditFutures – developed by the ICAEW. This is a group imagining a new accounting, so not just exploring current practice but challenging the profession and status quo to look at how this can and will change in the future.

Recent projects have included: with IFAC exploring challenges and opportunities for accountants from a non-accounting expert view; how accounting can be an agent of change, examples including empowering women and supporting education for all children; a future audit outside of the normal boundaries and parameters of thinking; working with the Royal Society of Arts to develop accounting in support of a better society (ICAEW – AuditFutures).

Accounting for the Future – the ACCA run an on-line bi-annual conference on issues around the future of accounting. This latest conference (2018) covered issues including: technological developments in business – e.g. Artifical Intelligence and Blockchain; social skills – emotional intelligence in the digital world; business developments – business models of the future; enhanced growth of SMEs.

What both of these professional accounting body engagements highlights is that the accounting community is trying to control and manage the development of the profession into the future, rather than just having changes thrust upon them. In this way, accountants should be well placed and skilled to develop the opportunities rather than facing future threats.

Further Reading:

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Chapter 5 Questions

Discussion Questions

1. What is managerial capture and Greenwashing and what are the implications for the development of sustainable businesses?
2. Why might research centres in accounting and social and environmental issues be of use?

3. Discuss how social media might benefit the development of sustainability and business.
4. How might Artificial Intelligence impact on SEA?
5. What do you think the future holds for SEA and the accounting profession?
6. What are the benefits of Shadow Accounting?
7. How might AI impact on the accounting profession in the future?

Chapter 5

Discussion Questions – Answers

1. Managerial capture is the use of terminology by managers to try and control discourse on a subject, in this case social and environmental accounting. It means for example that SEA can be used to describe a process or agenda which is not in line with that which may have been the original intention. Firms such as BP and Shell have been at the forefront of the sustainability reporting and full cost accounting ideas have been accused of managerial capture. Controlling the information to portray the firm in the best light, whilst ultimately having an agenda of resource exploitation that is far from environmentally neutral. Greenwashing is taking this further, and is when a firm deliberately distorts the information, the way it is presented or interpreted, to create a positive image that isn't in line with common views of this information. This is a claim that can be labelled against the car manufacturing group Volkswagen who were found to have deliberately distorted emission readings in cars, so that they actually appeared emission efficient and therefore environmentally friendly when they were not
2. Research centres are foremost independent groups who are in the lead in terms of research and investigation of issues and causal factors and policy suggestions. Having a centre dedicated to exploring a particular topic such as SEA means that the focus of all researchers can be targeted on issues within this area, and importantly collaboration and also exploration by groups of a specific issue can take place. This is also an area where research can be disseminated to a wider audience and future research directions developed.
3. Social media benefits the business environment as it enables ideas to be shared between much larger numbers of people quickly. The recent discussion on for example plastic waste in the sea as a result of the dumping of plastic bottles and material has led to widespread public discussion on social media and has spread this as an issue that can be helped by a change in social attitude.

4. Artificial Intelligence (AI) will primarily change the nature of work, which will have a direct impact on society. Social changes will include a change in the types of jobs people do – to being more analytical. In accounting for example there will be less need for accounts production and more need for staff with skills to interpret the financial data.
   In addition AI will provide another voice in looking into social and environmental concerns. So of itself, data such as climate change information and the causality of human action will be more clearly identified from all of the data created. AI may help with this information creation. Though at the start the main change will be on social issues and the job market.
5. SEA is rapidly changing and has within the last decade at last become a more accepted and mainstream topic within the accounting domain. It is presumed that in time this relationship will strengthen and the importance of SEA will be reinforced.
   In terms of specific changes that are coming in the future these will include: the importance of water efficiency and the value placed on water; the clearer development of carbon costs, and measurement of other GHG outputs from the business community; the social changes in the workforce – changing roles/hours/AI emergence; how accounting can help develop a more equitable transparent and open environment; the review of the 'accounting process' itself to take into account and prioritise wider issues such as limited resource use and the social benefits of the good/services – in effect a changing social contract.
6. Shadow Accounting will benefit a firm as this will provide an independent view of the firm that therefore gains credibility in this independence. This will also provide an alternative view of the firm's performance. This can run alongside the traditional financial reports and should provide an additional view of the firm's performance. This is not aimed at replacing the current financial reporting system, but ask questions of the current system and provide a contrasting view.
7. Artificial Intelligence (AI) is increasing in importance in accounting with the creation of basic financial information produced by computer systems without the requirement for an accountant. AI is machine learning from a vast database of past results computer programmes able to create basic financial statements. The accountants expertise and skills will be required more in terms of analysing the data produced, looking for information that will support business decision making in driving the firm forward.

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