Accountability, Social Responsibility and Sustainability

Accounting for Society and the Environment

Rob Gray
Carol A. Adams
Dave Owen

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Accountability, Social Responsibility and Sustainability addresses the broad and complicated interactions between organisational life, civil society, markets, inequality and environmental degradation through the lenses of accounting, accountability, responsibility and sustainability. Placing the way in which organisations are controlled and the metrics by which they are run at the heart of the analysis, this text also explores how this system opposes the very concerns of societal well-being and environmental stewardship that form the basis of civilised society.

Gray, Adams and Owen offer an in-depth and nuanced guide to this theory, recognising the crucial role played by scholars and practitioners in approaching these central tensions. The theory is extensively supported by analysis of developments in practice and in a real-world context.

Aimed principally at undergraduate and postgraduate Accounting students, *Accountability, Social Responsibility and Sustainability* will prove invaluable to any student, teacher or practitioner with an interest in the central role accounting, finance, accountability, CSR and sustainability play in the future of society and the planet.

Rob Gray is Professor of Social and Environmental Accounting at the University of St Andrews. He was Director of the Centre for Social and Environmental Accounting Research (CSEAR) from its inception in 1991 until 2012.

Carol A. Adams is Professor at the Monash Sustainability Institute, Monash University and a member of the Global Reporting Initiative Stakeholder Council. She is founding editor of the Sustainability Accounting, Management and Policy Journal.

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Preface

Accountability, Social Responsibility and Sustainability has been a long time in preparation. The present text represents a complete rewrite and development from *Accounting and Accountability* which we published in 1996.[1] In *Accounting and Accountability* we (somewhat ambitiously) sought to articulate the whole field of social (and environmental and sustainability) accounting (and auditing and reporting) as we then understood it. We hoped that such a text might help teachers teach social accounting, that it might help students study social accounting and that it might provide a helpful platform for new researchers in this emerging field. To some degree at least we probably succeeded in these ambitions and it is with some (albeit qualified) pride that we note that the text became (as far we can tell) the most widely cited source in the field. In many regards, the text has stood up well to the test of time, but the last two decades have seen so many changes that even its fond parents have had to recognise that the book was becoming really rather long in the tooth. It is not just that there has been a range of theoretical and empirical developments in social accounting and related fields, nor that it has become increasingly obvious that there are important parts of the field that we either missed or skated over but, perhaps most importantly, the political, social and economic contours of the world look to have changed beyond recognition – taking the worlds of education and scholarship with them. Oh, how we wish that this really was the case!

On the face of it, the world has made enormous strides towards a recognition of the crucial interactions of social, environmental and sustainability concerns with the worlds of business, finance and accounting. Accountants, businesses, financial markets, politicians and universities all apparently embrace sustainability with zeal. Recycling is perhaps now a fact of life and climate change appears to be largely taken for granted. There is widespread recognition that economics and wealth are not the sole determinants of happiness or well-being and there have been truly startling advances in the efficiencies with which manufacturing and services employ environmental resources. Waste reduction is no longer thought of as contentious whilst global initiatives for matters as diverse as corporate reporting, the literacy of peoples, drought and biodiversity are everywhere. One might be forgiven for thinking that social and environmental accounting and management are now so much part of the mainstream that recognition of something identifiably 'social accounting' is rapidly becoming something of an anachronism.

It is a great deal more complex than that – and a great deal more complex than we formerly recognised when we wrote *Accounting and Accountability*. On the one hand, there are these astonishing strides forward that we need to recognise and integrate into our

[1]Which itself was a total rewrite and development of *Corporate Social Reporting* published in 1987. Many of the comments in this preface are made from the perspective of having worked in this field for 30+ years.

understandings of social, environmental and sustainability accounting. There is, genuinely, an enormous amount of good news concerning social and environmental initiatives that we can celebrate and study. This good news, to varying degrees, has either been enthusiastically embraced by conventional businesses and other organisations or has clear application to them.

But there is also a really extremely disturbing dark side to all of this. Alongside all this good news, the environmental state of the planet, the levels of inequality between peoples, the numbers of people in poverty or children dying through drought continue to get seriously worse. Despite the exceptional steps forward made by environmental management, environmental accounting and voluntary reporting, the accountability of organisations is no better and perhaps, under the veil of all the good news, is actually getting worse.

It is this recognition of the centrality of *conflict*: between good news and bad news; between the haves and have nots; between cleaner rivers and the loss of biodiversity; between cleaner technology and increased pollution; between increasing awareness of sustainability and declining life-support systems; that represents the core *motif* informing our comprehensive rewriting of the book.

And there is one further motivation which underlies a lot of what follows. Our principal audience has been, and remains, teachers, students and researchers. These are the people with the time and capacity to consider newer and more challenging ideas, to look at things in new and unconventional ways and to come up with new solutions to increasingly urgent problems. The growth in the teaching of corporate social responsibility (CSR), sustainability, environmental management and social accounting has been significant over the last 20 years. The growth in the research community committed to these issues globally has also been astonishing. But this apparently encouraging trend has occurred simultaneously with an increased commodification of both students and universities as well as a deeply pernicious constraining and narrowing of what it means to be an academic. So rather than an increasing cohort of informed intelligent and able people with a desire for change, we fear that society is encouraging the formation of an increasingly informed cohort of intelligent people who see little further than the next grade mark, the next job or the next journal article. This may be an overly pessimistic view and perhaps we mis-read the causes of (what we see as) the most educated members of society becoming less radicalised and less politically and socially active. However, if social and environmental accounting and sustainability require pretty drastic insights, ideas and initiatives (as we believe they do) our fear is that such initiatives look less and less likely to emerge through education and research. That is a very gloomy conclusion indeed – and we can only hope that it is incorrect. This text is written as part of our attempt to re-open the challenging, even scary, implications of considering the possibility of a fairer society with truly sustainable sensibilities: a society and a process that would be supported by an accounting, management and reporting system that is authentically sensitive to humanity and nature. Whether we succeed at all in this is quite another matter of course.

The text of *Accountability, Social Responsibility and Sustainability* differs from its predecessor in a number of observable ways. At a general level, we have made a number of changes of orientation in addition to the changed emphasis arising from our comments above. The text, whilst still predominantly an accounting-based text, has been written from a wider management and organisational perspective. This will be apparent in a range of places but especially where we try both to give a context to different issues we address and to recognise both managers' and society's views in our discussions. In addition, both CSR and sustainability are given more attention and (hopefully) are treated in more nuanced ways. The final broad change probably lies in the recognition that the field of social, environmental and sustainability accounting, reporting and management now possesses a quite enormous literature. We have done our best to digest much of this and to make wide reference to the literature for those wanting to follow issues further. Equally, though, where other easily accessible sources do the work for us, we have not sought to duplicate that effort. There are lots of wheels which no longer need inventing.

The structure of the text is very loosely similar to *Accounting and Accountability* in that we start with theoretical reflections, then move onto areas of practice before looking forward to possibilities for the future. The present text takes four chapters to lay down some of theoretical bases of social accounting and draws its palate very widely. There is less emphasis on history (which *Accounting and Accountability* covered in some depth) and somewhat more on reflection and analysis. The initial empirical chapters are organised, as might be expected, into chapters on community and society, employees and unions and environmental issues. And, as might be expected, there is a thorough exploration of the 'external social audits'. However, there are new chapters which explore: finance and financial markets; the whole controversy of the 'triple bottom line' and sustainability; the crucial emerging challenges of governance and attestation; and one chapter which tries to open up the sorely under-examined areas of social accounting for non-profit and other types of organisation. The final sections offer our own hostages to fortune and show how far innovative research and practice *have* managed to come by outlining how an organisation which *really* wanted to account for social, environmental and sustainability issues might go about it. Needless to say, no organisation anywhere in the world (as far as we know) comes close to this ideal.

We close this preface with a suggestion – actually probably more like a warning. This suggestion relates to how we understand the broad intellectual field of social accounting as one which is practicable but often ignored by practice; as one which is sufficiently theoretically coherent to offer a challenge to piecemeal pragmatism but is sufficiently practically orientated to draw telling (if abstract) critiques from the more penetrating theorists of academe. This sounds a bit obscure; what do we mean? The academic field of social accounting – or at least that field as we have represented it here – includes a wide diversity of issues and approaches from the explicitly practical (e.g. costing of energy) through the innovative and radical (accounting for the un-sustainability of large business and financial markets) through to some deeply challenging questioning of humankind's fundamental interaction with its own species, with other species and with the planet. Whilst there are important ways in which these differing approaches can be complementary there are also major – and *very important* – tensions and conflicts between these different strands. The considerable range of initiatives from business are, of course, of a predominantly practical nature but, *importantly,* are rarely (if ever) theoretically coherent or designed to challenge the status quo or develop real accountability. If sustainability requires major change, it is thus very unlikely that business-led initiatives (at least alone) will be effective. Equally, whilst the theoretical challenges of social accounting – whether they be from traditional critical theory or from the perspective of post-modernity – are often neither obviously practical nor practicable, this does not mean that such critiques are not justified nor that they do not deserve the very serious attention of anyone with a real concern for the future of people and the planet. For us, social accounting is constantly challenged by the need to navigate between these extremes: offering theoretically coherent solutions of a practicable nature and resisting the twin sirens of exquisite theory or immediate practicality. In a sense, this becomes some kind of a commitment to *pragmatism,* in which theory alone will not solve the problems but, equally, recognising that allowing current orthodoxy and business practice to determine what is 'practical' is a certain recipe for disaster. These tensions ensure that the study of and research into social accounting can never be a comfortable or straightforward endeavour.

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After 30+ years in this emerging and challenging field there are so many people to whom we owe a debt of one sort or another. We could not possibly mention them all, so to all our families, close friends and colleagues, to all our students and to all those who have supported, challenged and developed this 'social accounting project' may we simply say, thank you. Working with these issues is both harrowing and frustrating – it is the company of dedicated companions of good heart that make it all worthwhile.

Blurb + Short Bios

The late 20th and early 21st centuries can perhaps be typified by lurches from crisis to crisis – economic crises, social crises, environmental crisis and political crises. As the world becomes more populated and apparently more wealthy it is also becoming more unequal, possibly more unstable and certainly more destructive of its natural environment. Making any sense of this complexity and the life-threatening effects of un-sustainability is perhaps the single biggest challenge for all of society. But crucial to any such understanding is a realistic appreciation of the central role(s) played by organisations, businesses, managers, finance, financial markets and, inevitably, accounting and accountability in how humanity manages its relationships between its members and navigates its relationships with the planet and with other species. *Accountability, Social Responsibility and Sustainability* is one attempt to address the broad and complicated interactions between organisational life, civil society, markets, inequality and environmental degradation through the lens(es) of accounting, accountability, responsibility and sustainability. Placing the way in which organisations are controlled and the metrics by which they are run at the heart of the analysis, the text explores how current ways of managing organisations and measuring their success is antithetical to the very concerns of societal well-being and environmental stewardship that are the *sine qua non* of any civilised society. Alternative ways of measuring and managing are explored and the key motifs of conflict and accountability are offered as essential components of a more civilised economic realm.

The text starts from the point that it is increasingly urgent for all organisations to face – honestly – what environmental management, CSR and sustainability can do for (and to) organisations and, most importantly, what they cannot do. Simply talking about CSR and sustainability is not enough and only when the overwhelming waves of rhetoric that clutter up the whole CSR and environmental debates around business and finance are grounded in sensible and realistic systems of representation and accountability will humanity start to make any serious progress on any alternative to its current headlong flight towards gross un-sustainability.

Accountability, Social Responsibility and Sustainability is a very substantial revision and redevelopment of the earlier seminal texts *Corporate Social Reporting* (published in 1987) and *Accounting and Accountability* (published in 1996). This text offers a deeper and more nuanced guidance on theory and recognises the crucial role played by the very act of framing how we as scholars and practitioners approach the central tensions between the economic, the social and the environmental. The theory is extensively supported by review and analysis of developments in practice as well as a critical assessment of the extensive range of realistic and important possibilities to which politics and practice continues to be resistant.

Accountability, Social Responsibility and Sustainability is written for all scholars, students, teachers, practitioners, researchers and policy-makers who recognise the central role accounting, finance, accountability, CSR and sustainability play in the future of society and the planet.

Rob Gray is Professor of Social and Environmental Accounting at the University of St Andrews. He was Director of the Centre for Social and Environmental Accounting Research (CSEAR) from its inception in 1991 until 2012.

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Rob Gray is a qualified chartered and chartered certified accountant and is the author/co-author of over 300 articles, chapters, monographs and books – mainly on social and environmental accounting, sustainability, social responsibility and education. He founded CSEAR (The Centre for Social and Environmental Accounting Research) in 1991 and for 21 years was its Director. He serves on the editorial boards of 15 learned journals and travels extensively overseas in response to academic and professional invitations. He has worked with a wide range of international and local commercial and non-commercial organisations including collaborations with the United Nations from time to time. In 2001, he was elected the British Accounting Association Distinguished Academic Fellow and in 2004 became one of the 14 founding members of the British Accounting Association Hall of Fame. He was awarded an MBE in the Queen's 2009 Birthday Honours List and was elected to the Academy of Social Science in 2012.

Carol A. Adams is a Chartered Accountant (ICAS), Professor at the Monash Sustainability Institute, Monash University and Visiting Professor at the Adam Smith Business School, University of Glasgow. Her research in corporate financial and sustainability reporting and change management to integrate sustainability has been cited over 4,000 times. She has played an active role in global corporate reporting initiatives including the development of the AA1000 Standards and UN Global Compact guidelines for universities and is currently a member of the Stakeholder Council of the Global Reporting Initiative and a member of the Capitals Technical Collaboration Group for the International Integrated Reporting Council (IIRC). She provides advice to international organisations on mainstreaming sustainability, has led the development of international award winning sustainability reports, management and governance processes and writes on topical issues on www.drcaroladams.net. She is founding editor of the *Sustainability Accounting, Management and Policy Journal*.

Dave Owen retired as Professor of Social and Environmental Accounting at the International Centre for Corporate Social Responsibility (Nottingham University Business School) in September 2010. He is now an Emeritus Professor at the Centre and continues to pursue his research interests in the field of social and environmental accounting, auditing and reporting. Dave has published extensively in a wide range of professional and academic journals on topics such as social and environmental accounting education, social investment, corporate social audit and corporate social and environmental reporting and assurance practice. Prior to his retirement, Dave served on the editorial boards of *Accounting, Auditing and Accountability Journal*, *Accounting and Business Research*, *Accounting Forum*, *Accounting, Organizations and Society*, *British Accounting Review*, *European Accounting Review* and *Business Strategy and the Environment*.

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Figures

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CHAPTER 1

Introduction, issues and context

1.1 Introduction

Planet Earth in the 21st century is a bewildering, complex place. Human beings, or at least the more reflective members of that species, have long been bewildered by – and tried to make sense of – their world. Sense-making and dealing with such bewilderment comes in many forms. Ignoring the issues – whether by keeping such a narrow focus on the world that big issues are excluded from view or by hoping that they might just go away – is probably the most common strategy. However, sense-making of a more constructive kind seems to draw on combinations of religion, reason and mythology coupled with an appealing tendency to impose order where none actually exists. Despite this apparent theme in human history, it seems unlikely that bewilderment was ever so all-embracing. Whilst some of us live in a near-paradise[1] – and our place in paradise is rarely the direct result of our own efforts and achievements – at least 25%, by most estimates, of fellow members of the species live in hell.[2] For some countries of the world, shopping for branded luxuries is, quite bizarrely, considered to be the most sought after of pastimes, an activity representing the very height of personal achievement. In some countries, having enough water to drink is the epitome of paradise whilst in other countries, time spent with family or sharing a meal is the lynchpin of what it is to be alive. The material well-being of a planetary elite has probably never been so high; the inequality of access to material goods and material well-being across the globe has probably never been as great; the trading and business system has never promised, and indeed delivered, so much (not always of the same things); opposition to this nirvana has probably never been so widespread. It is difficult to know for sure, but it is probable that never have so many people died every hour from a lack of water and basic food and amenities. Oh, and by the way, as far as we can tell on the best available evidence, humanity is probably killing the planet and causing irreversible decline in its sustainability. This is almost certainly a 'first'.

This is all part of a seeming barrage of both 'good news' and 'bad news' about the conditions of human existence that we seem to receive from governments, newspapers,

[1]A personal statement here might be appropriate in order to recognise the immense good fortune many of us experience in having water to drink, fresh air to breathe, enough food and clothing, largely a freedom from personal violence and, for many of us, quite fabulously beautiful places to live, work, walk and meet friends and family. Life may well not be perfect – we are human after all – but compared to the millions of the less fortunate, it behoves us to recognise our largely undeserved privilege.

[2]Poverty, drought and violence are all experiences nobody would wish. Poverty is notoriously difficult to define but, whilst the number of people living on less that $1 per day has fallen drastically in recent decades and halved towards the end of the 20th century, there are still a quarter of people in this state and maybe as much as 40% still living on less than $2 per day. More detail can be found through discussions in and around the UN's Human Development Index and the UN's Millennium Development Goals.

researchers, businesses, films, etc. To make any sense of it all, it is likely that we must see the 'good news' and the 'bad news' as, to a degree at least, two sides of the same coin. Catastrophic oil spills, destruction of habitat, famine and abject poverty, involuntary unemployment, destruction of the ozone layer, industrial conflict, stock market collapse, major fraud and insider trading, stress-related illness, violence, acid rain and exploitation are all major negative shocks to individuals, communities, nations and whole species of life. But rather than being isolated and unrelated phenomena they are, to a large extent, closely connected. They are the increasingly high price that the world pays for its 'good news'. The medical breakthroughs and the level of health care, the rising material standards of living and the increased life expectancy of a proportion of mankind, rising gross national product (GNP) and profit levels, the technological advances, the increased travel opportunities, the rising quality of privilege and perhaps even freedom and stability experienced by many in the West are not unrelated or costless successes. Each economic or social 'advance' is won by an exceptionally successful business and economic system – but at a price. That 'price' is what economists refer to as the **externalities** – the consequences of economic activity which are not reflected in the costs borne by the individual or organisation enjoying the benefits of the activity.

And yet, it is perhaps surprising how rarely the 'good news' and the 'bad news' are actively connected up. The business press celebrates the growing profits measured by conventional accounting; financial markets celebrate increasing share prices and returns to investors; business advertising conjures visions of new and better worlds through increasing consumption; governments continue to listen to the blandishments of business about 'unnecessary' regulation (or red tape as it is typically pejoratively called); and, as we shall see in some detail, leading organisations – especially multi-national companies – go to tremendous lengths to show us the positive and almost exclusively benign impacts of their leading edge management and careful stewardship. At the same time, elements of the media, non-governmental organisations (NGOs) and civil society organisations parade catastrophes before us – the perfidy of big business; the desperation of Africa; the plight of the oppressed and the homeless; the ruthlessness of mineral extraction; the desecration of virgin wilderness and the collapse of eco-systems.

What we want to see is this all 'joined up'. What we believe that society needs to understand is the implacable connection between the good and the bad news: the extent to which this year's reported profit was bought at the cost of increased environmental footprint; the extent to which it was exploitation of child labour that allowed me to buy my trainers so cheaply; the extent to which my pension fund is dependent upon sales of weapons to oppressive regimes; the extent to which I contribute to climate change and pollution through my preferences for private car transport and air-conditioning . . . and so on.

Now, whilst it is far from immediately obvious why it should be something we are going to call 'social accounting' – or indeed anything connected with accounting at all – that will help us tease out, examine and perhaps ameliorate the negative aspects of modern day life, stay with us. As we start to demonstrate the links between successful business performance and sustainability, as we explore corporate social responsibility and as we try to show you the centrality of accountability to any future civilised society, the role of accounting and the potential of *social* accounting should become apparent. At its very best, *social accounting* can reveal the conflicts, difficulties, inextricable externalities and potential solutions that advanced 21st century international financial capitalism must face up to. It is these sorts of issues and connections that this book will try to justify, explain, examine and then demonstrate.

This chapter is principally concerned with providing the beginnings of the theoretical basis which sets the scene for the rest of the book. In the following sections, we first provide an examination of what is meant by '**social accounting**' (and its myriad synonyms) and then explain why the subject is of crucial importance. We then outline a (necessarily brief) introduction to some of the key elements: sustainability, the state of the world, the nature of the state and civil society and so on. The chapter concludes with an explanation of how this new text is structured.

1.2 What is social accounting?

Social accounting is simultaneously three things: (i) a fairly straightforward manifestation of corporate efforts to legitimate, explain and justify their activities; (ii) an ethically desirable component of any well-functioning democracy and, (iii) just possibly, one of the few available mechanisms to address sustainability that does not involve fascism and/or extinction of the species. This might seem like an unusual introduction to a subject. That is because the subject is unusual.

First of all, 'social accounting' gets called all sorts of names.[3] As it is not enshrined in law, the terminology remains fluid. One will see it labelled as: social accounting; social disclosure; social reporting; social and/or environmental and/or sustainability accounting; social responsibility disclosure; social, environmental and ethical reporting; and any number of combinations of these terms plus other synonyms. To a large extent we shall use the terms interchangeably throughout with 'social accounting' being the most generic term. However, there will be times when we specifically wish to talk about accounting (like management accounting) rather than reporting and when we want to discuss the natural 'environment' specifically. This should be obvious from the context.[4]

Regardless of what we call it, we are concerned with the production of 'accounts' (i.e. 'stories' if you prefer) concerning (typically) organisations' interactions with society and the natural environment.

Gray *et al.* (1987) defined corporate social reporting as:

> . . . the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders.
>
> (Gray *et al.*, 1987: ix)

Like all definitions, this needs more work. There are, for example, important aspects of social accounting which remain internal to organisations as they seek ways in which they might better understand the social, environmental and, indeed, sustainability impacts of their activities. However, the definition will serve as a starting point. For comparison a related, and slightly later definition might be:

> . . . the preparation and publication of an account about an organisation's social, environmental, employee, community, customer and other stakeholder interactions and

[3]Note that 'social accounting' is a term also used by economists to refer to national income accounting – i.e. the way in which gross domestic and gross national product are calculated. This sense of the term is quite different for the organisational accounting we are concerned with here.

[4]Elsewhere, you will also see reference to social audit and/or non-financial reporting. These are much more problematic terms and to be avoided unless they are referring respectively and explicitly to (what we shall call) 'external social audits' and all reporting other than traditional financial accounting.

> activities and, where, possible, the consequences of those interactions and activities. The social account may contain financial information but is more likely to be a combination of quantified non-financial information and descriptive, non-quantified information. The social account may serve a number of purposes but discharge of the organisation's accountability to its stakeholders must be the clearly dominant of those reasons and the basis upon which the social account is judged.
>
> (Gray, 2000: 250)

Social accounting can take a potentially infinite range of forms. It can be designed to fulfil any one or more of a wide range of objectives. It can cover a myriad of different subjects, and social accounts can be constructed around almost any type of information or with almost any sort of focus. Social accounting is not a systematic, regulated or well-established activity and so what is covered in the following chapters is limited (in description) only by practice and (in prescription) only by our imaginations. Many of the principal examples *from* practice and the better known suggestions *for* practice are reviewed in this book, although there are many sources through which you can gain familiarity with practice.[5]

Some idea of the relationship between conventional and social accounting and of the extent and potential limits of social accounting may be useful to begin with. This is principally because a great deal of social accounting thinking, research and practice derives from conventional accounting itself. Indeed, it is possible to say that social accounting might be thought of as concerned with:

- the social and environmental (including sustainability) impacts and effects arising from conventional accounting practice;
- ameliorating the social and environmental impacts arising from conventional accounting pratice (including seeking ways to reduce the negative impacts and looking for ways to encourage positive social and environmental effects);
- deriving and developing new methods of accounting that might be implicated in more benign social and environmental effects and which, typically, would advance the case of accountability.

At its most basic, there are four necessary, although not sufficient, characteristics which define conventional western accounting practice (see Bebbington *et al.,* 2001). These four characteristics delineate the world which accountants perceive and lead to conventional accounts being restricted to:

1. the financial description;
2. of specified (priced) economic events;
3. related to defined organisations or accounting entities;
4. to provide information for specified users of that information.

The conventional accounting system effectively creates and then reinforces this profoundly narrow image of all possible interactions between the 'world' and the organisation. In doing this, conventional accounting thus stands as a political and social process in that it makes choices about the world; emphasises certain things and privileges or ignores others, thereby creating, to all intents and purposes, its own social reality (Gambling, 1977; Cooper and Sherer, 1984; Hines, 1988, 1989, 1991).

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[5]Chapter 4 will, in fact, formally encourage you to actively garner and consult reports. Also, should you wish to look at reports, consider spending time on websites such as the Global Reporting Initiative (www.globalreporting.org/) or Corporate Register (www.corporateregister.com/). Consultation of the CSEAR website at www.st-andrews.ac.uk/~csearweb/ should also be helpful.

In broad terms, social accounting is, at a minimum, an *addendum* to the world created by conventional accounting or, more typically, it offers the prospect of a significantly different (and therefore challenging) view of the world. Social accounting research approaches this challenge by seeking to contest the propriety of the four characteristics of conventional accounting.[6] More specifically, social accounting is about some combination of:

- accounting for different things (i.e. not accounting only for economic events);
- accounting in different media (i.e. not only accounting in strictly financial terms);
- accounting to different individuals or groups (i.e. not only accounting to the providers of finance); and,
- accounting for different purposes (i.e. accounting for a range of purposes and not only to enable the making of decisions whose success would be judged in financial or even only cash flow terms).

Thus we might consider traditional financial accounting as a significantly and artificially constrained set of all accountings. Traditional (financial) accounting is only one particularly narrow form of the whole universe of 'accounting', only one possible version of a whole range of broader, richer 'social accounting'. In effect, social accounting is what you get when the artificial restrictions of conventional accounting are removed. However, whilst we might wish to encompass all possible 'accountings' (which would include everything from descriptions of one's time at university to novels, from journalism to advertising, from prayer to excuses), this might prove to be somewhat impracticable (but see, for example, Lehman, 2006). As a result, the primary focus of social accounting tends to be upon:

- '*Formal*' (as opposed to 'informal') accounts: The primary concern in social accounting tends to be with the larger organisations such as multi-national companies (MNCs, see, for example, Rahman, 1998; Unerman, 2003; Kolk and Levy, 2004)[7] and the focus tends to be upon the visible, external accounts rather than the potentially equally important, but much less visible, internally produced accounts. In MNCs, there is typically a considerable 'distance' (spatial, financial, cultural, etc.) between the reporting entity and those affecting and affected by it, i.e. its stakeholders. In small communities, accounts are given and received informally (between you and your parents, you and your friends, you and your teacher, etc.) because of what Rawls (1972) calls 'closeness'. The greater this absence of closeness, the greater the need for formality in giving and receiving accounts (see, for example, Gray *et al.*, 2006; Unerman and O'Dwyer, 2006).[8]
- Accounts typically prepared *by* organisations or which are (less commonly) prepared and disclosed by others (the 'external social audits'): Most of our attention will be upon the reports that organisations produce about themselves (in the same way as organisations produce their own financial statements) and which, just like financial accounting, are

[6]In general, the 'defined organisation' or 'accounting entity' characteristic has been retained in social accounting as this remains the focus of some process of accounting (i.e. one needs 'something' for which to account). There are problems with retaining the entity definition (see, for example, Tinker, 1985; Hines, 1988; and especially Cooper *et al.*, 2005), and attempts have been made to soften, if not remove, the characteristic.

[7]There is, however, a considerable and important interest in both NGOs and social enterprise accountability and associated social accounting. The social accounting in such organisations tends to raise somewhat different issues (see, for example, Ball and Osborne, 2011).

[8]There is a wider and more general point here that the giving and receiving of accounts is a ubiquitous human activity and one which seems to reflect a deep human need. Which needs the accounts satisfy and the form they take is a measure of the circumstances in which the accounts are given and received. For more detail, see Arrington and Puxty (1991) and Arrington and Francis (1993).

visible to us as people external to the organisation. However, it is essential to realise that only a small proportion of such activity is regulated. That is, most of the social, environmental and sustainability reporting we will examine is produced voluntarily – with all the benefits and problems that this brings with it. This topic is explored in more depth in Chapter 10 where we examine the phenomenon known as the 'external social audits' – the practice of external bodies, for example NGOs or researchers, independent of the accountable entity producing reports whether or not the entity wishes it.

- Reports are prepared *about* certain areas of activities: Whereas we tend to assume that we know what a financial report should be about, the contents of a social report can be less obvious. However, most commentators assume that a report will normally cover: the natural environment; employees; and wider 'ethical' issues which typically concentrate upon: consumers and products; and local and international communities.

  As we shall see, especially when considering the 'social audits', this can be a very narrow range of concerns. Other issues, such as ethical stances and action on race and gender issues are clearly also important elements of an organisation's social activity. An indication of the potential range of issues that social accounting might need to address is given in Figure 1.1, taken from the *Ethical Consumer* criteria for evaluation of products and companies. Social accounting generally tends to concentrate on the four principal areas we identified above. However, the reader is reminded that this is an artificial limitation of the issues. Some of the effects of this limitation will be re-examined as the book develops.

- Accounts, not just for shareholders and other owners and finance providers but primarily *for* 'stakeholders': What makes social accounting of interest to us is the potential for holding organisations to account – i.e. 'accountability' (see Chapter 3). For this to happen, 'stakeholders' must be informed. Stakeholders are normally understood as 'any group or individual who can affect or is affected by the achievement of the organization's objectives' (Freeman, 1984; see also Friedman and Miles, 2006). At its simplest, we tend to assume that stakeholders comprise the other internal and external participants in the organisation and these are normally assumed to include: members of local communities; employees and trade unions; consumers; suppliers; society-at-large. Of course, this is also a limiting and potentially dangerous assumption which we will examine below.

These then are the basic elements of the social accounting framework – the basic, but often implicit, assumptions that the social and environmental accounting (SEA) literature adopts. They are summarised in Figure 1.2 and are developed further in Chapter 4.

These basic characteristics are, however, *underspecified* in that they do not tell us, for example, why an organisation might self-report, or why it might, or should, report on

Figure 1.1 ***The ethical consumer* criteria for evaluation of products and companies (Ethiscore)**

Environment: Environmental Reporting, Nuclear Power, Climate Change, Pollution & Toxics, Habitats & Resources;

People: Human Rights, Workers' Rights, Supply Chain Policy, Irresponsible Marketing, Armaments;

Animals: Animal Testing, Factory Farming, Other Animal Rights;

Politics: Political Activity, Boycott Call, Genetic Engineering, Anti-Social Finance, Company Ethos;

Product Sustainability: Organic, Fairtrade, Positive Environmental Features, Other Sustainability.

Source: Taken from http://www.ethiscore.org/ June 2006.

Figure 1.2 The basic elements of the conventional corporate social accounting model

- a formal account;
- prepared and communicated by and/or about an 'organisation';
- about social and environmental aspects of the organisation's activities;
- communicated to the internal and external 'participants' of the organisation.

particular aspects and to particular groups of individuals. Clearly international companies do not, for example, communicate to everybody the detail of their environmental impacts, their impacts on communities in lesser-developed countries or their attempts to persuade governments not to pass legislation that might restrict their commercial activities. So why do organisations report at all and, more importantly, why do they *not* report and why *should* they report?

These are questions which raise ethical, social and political – as well as economic – issues. In fact all of business – and, as a result, all of social accounting – implicitly begs a whole range of fundamental questions about the structure of, and power in, society, the role of economic as opposed to social and political considerations, the proper ethical response to issues and so on. Sadly, these matters are rarely made explicit in business education and training and so, as a result, we tend to be ill-equipped to consider them. Therefore, the rest of this chapter will introduce some of these issues – albeit in a simple manner.[9]

1.3 Is social accounting important? Why?

We have already mentioned that social accounting can be undertaken for a wide range of reasons, and one can undertake its study for a similarly wide range of reasons. Social accounting might, for example, simply be interesting because it is new and different, it might attract our support because it talks about 'nice' things (as opposed to 'nasty' economic things) or is concerned, perhaps, with doing 'good things', whatever that means. More substantially, social accounting has the potential to offer alternative, 'other', accounts of the primary economic organs on the planet (typically MNCs, that is), it can allow alternative voices to be heard; and social accounting can potentially expose the conflict between the pursuit of economic objectives and the pursuit of social and environmental ambitions. Certainly, social accounting is important at some levels to companies and other organisations – a conclusion derived from the simple fact that they undertake this costly activity voluntarily. There are many explanations as to why organisations do this[10] but it is certainly seen by them as a means of legitimating activity, managing stakeholders, forestalling legislation, putting the organisation's side of the story and keeping up employee morale as well as keeping up with competitors, creating competitive advantage and signalling the successful management of risk.

So, there is a range of reasons for social accounting. We, however, are going to derive what we see as the crucial importance of social accounting from two critical principles: those of accountability and sustainability. The key principle underlying this text is that of **accountability**. At its simplest, *accountability is a duty to provide information to those who have a right to it*. It is linked closely with notions of (social) responsibility and is an essential

[9] See Chapters 2 and 3.

[10] See Chapter 4.

component in a democracy. The greater the power an individual, or an organisation, has over people, resources, communities, etc., the greater the responsibility to provide a full account of stewardship of those people, resources or communities. If our world is to be democratic, then those with the greatest power, large companies and governments, owe the greatest accountability. That accountability is discharged through social, environmental and sustainability accounts (see Chapter 3).

Now, accountability is a principle based on a really important notion – namely democracy. That would be impetus enough to make social accounting important, but there is a much more pressing reason to consider social accounting as a truly urgent matter, a matter of life and death, and that is the notion of **sustainability**. Our contention is that one of the major ways in which we need to be able to hold large organisations accountable is over their contribution to – or detraction from – individual societies' and, ultimately the planet's, capacity to maintain itself, its eco-systems and life itself. It is this capacity to maintain itself that we know as sustainability. We will need to briefly review the evidence (and this we do below in Section 1.5), but there is considerable and chilling evidence that many aspects of planetary sustainability are under the most serious threats.[11] Such threats are likely to arise from a combination of populations (about which social accounting at this level has little to say) and economic activity, organisation and performance (about which social accounting has much to say).[12] If, as we shall seek to show, corporate pursuit of profit, driven by increasingly demanding capital markets, is amongst the principal causes of this exponential growth in un-sustainable activities, then society as a whole has a serious need to know about it. Good, thorough, social accounting should be able to provide appropriate information.

That is, society can only infer the detailed effects that (large) organisations have on society and the planet, and our principal means of doing so is information intermittently provided by the organisations themselves on a voluntary basis. Only with the sort of complete and penetrating data that a good social account should provide are we likely to be able to encourage the urgent debate about the power and activities of financial markets, the power and activities of companies and the power and activities of governments. Thus social accounting, at its ultimate, is motivated by the relationships between international financial capitalism, corporate activity, the role of the state, civil society and planetary systems. Social accounting, therefore, has the potential to play a crucially important part of civilised intercourse on a planetary scale. It is difficult to think of anything much more 'important' than that!

1.4 Crisis? What crisis? Sustainability and the state of the world

The importance of social accounting – both as a study and as a practice – derives from a number of sources. The most important of these is the context within which social and economic intercourse is conducted – that is, the departure point for social accounting is not a set of legal requirements, as with conventional accounting, or a particularly ubiquitous or exemplary practice, as might be the case with say finance or marketing, but rather a series of compelling concerns that all is not well with our world. Whether those concerns are the imbalance between power and responsibility; a concern for a democratic deficit; appalling inequality;

[11]For a brief introduction and review of these issues and this evidence see Porritt (2005); Gray (2006a,b); Milne *et al.* (2006).

[12]More rigorously, it is generally considered that planetary threat can be modelled through the **IPAT** equation first formulated by Ehrlich and Holdren (1971) and Commoner (1972). IPAT is the suggestion that Impact = (Population) × (Affluence) × (Technology) and is sometimes shown as IPCT where the 'C' relates to consumption not affluence. For more detail, see Dresner (2002); Meadows *et al.* (2005).

Figure 1.3 Crisis? What crisis?

Inequality	Deforestation
Climate change	Third world debt
Species extinction	Waste disposal
Habitat destruction	Energy usage
Drought	Starvation
Poverty	Population
Desertification	Water depletion
Acid rain	Toxic chemicals
Soil erosion	Nuclear waste
Air pollution	Displacement of ethnic peoples
Water pollution	Child labour
Land pollution	Racism + genocide
Noise pollution	Excess consumption
Resource scarcity	Social alienation
Urban violence	Drug addiction

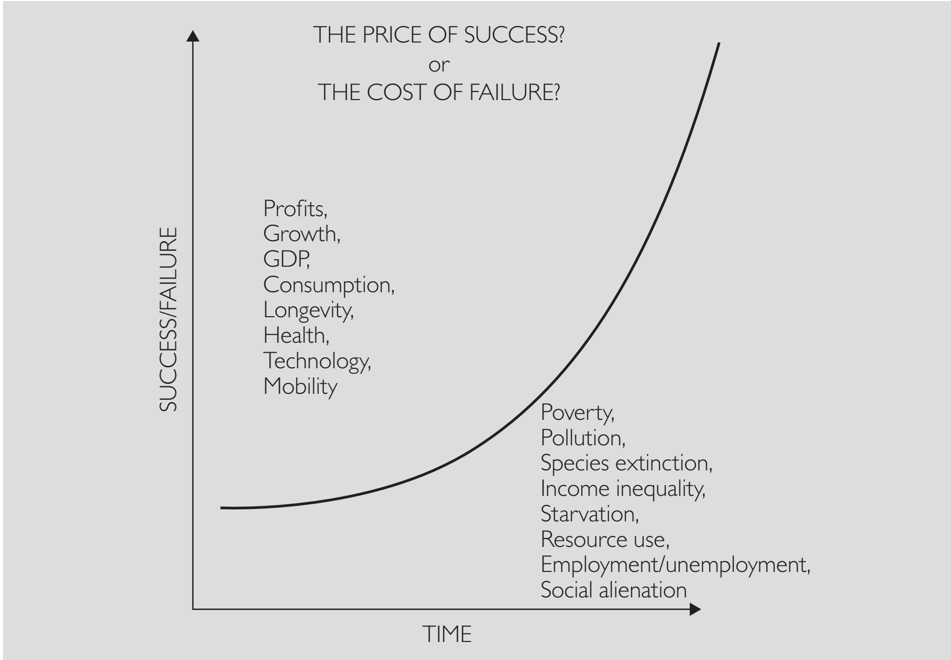
poverty and drought in the face of plenty; waste and excess; the inevitable exigencies of international financial capitalism; or planetary desecration; there are a range of issues that we, as privileged scholars, students and professionals owe a duty to address. Social accounting is one of the ways in which we might seek to address, redress and re-orientate our relationship with some of the less positive consequences of human existence (see Figure 1.3).

Let us start at the beginning. A significant majority of us in the West are profoundly fortunate – at least in certain material ways. Most of us (and stress this is only most of us) have never known hunger, drought, life-threatening poverty or been directly threatened by war. Such astonishing material well-being, however, comes at a price: whether that price be the exploitation of children, the repression of others, the destruction of the natural environment or whatever (see Figure 1.4). That is, as Milton Friedman is so frequently quoted as saying: 'there is no such thing as a free lunch'. Our well-being comes at a price and that price has, for many, long been morally unacceptable, and it is increasingly looking as though it may prove to be physically un-sustainable.

A range of reports produced by responsible, independent and presumably fairly reliable sources has provided a chilling picture of the planet's capacity to support our levels of extraction, usage, waste and pollution. The United Nations Millennium Ecosystem Assessment; the United Nations Global Environmental Outlook; Kofi Annan's Millennium Development Goals; WWF and the *Limits to Growth* project (e.g. Meadows *et al.*, 2005) all tell us, in fairly incontrovertible terms, that the current population with our current ways of economic organisation and activity are using more than the planet can produce – we are eating into planetary capital.[13] (For an excellent summary see Porritt, 2005.)

[13]United Nations Environment Programme (UNEP) (2008) *UNEP Year Book (formerly GEO): An Overview of Our Changing Environment*; United Nations Millennium Ecosystem Assessment (2005) *Living Beyond Our Means: Natural Assets and Human Well Being*; WWF (2008), *Living Planet Report 2008*; United Nations Millennium Development Goals: www.un.org/millenniumgoals/.

Figure 1.4



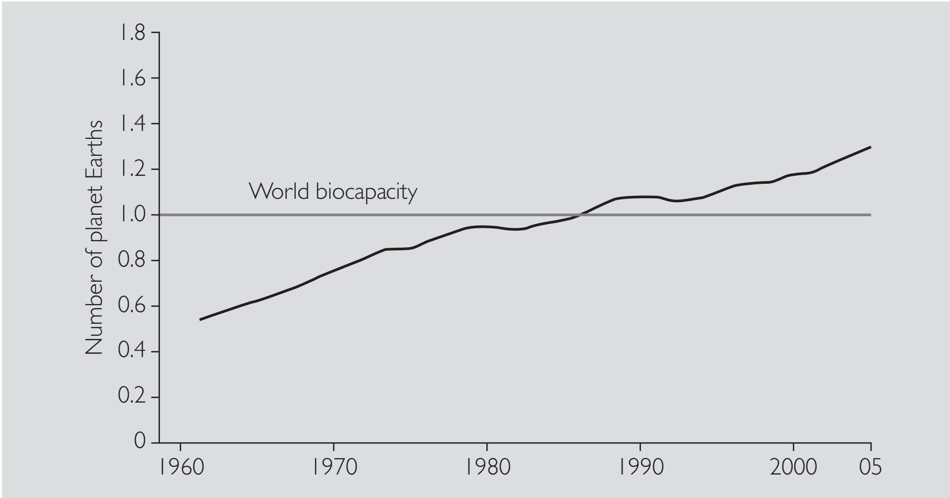
This is expressed graphically by reference to the notion of the *ecological footprint* (Wackernagel and Rees, 1996; Meadows *et al.*, 2005). Ecological footprint is an estimate of the amount of physical space a person, a society – or a species – is currently using to support its way of life. The footprint of the average individual in North America might be about 10 times greater than that for the average person living in Africa for example – regardless of how much space each actually has at their disposal. One representation of the footprint for the human species is shown in Figure 1.5.

Figure 1.5 (and see other estimations such as that from Meadows *et al.*, 2005) suggest that, within living memory, humanity has stopped living off 'planetary income' (as any prudent species would do) and has started to eat into 'planetary capital' – living beyond our means in effect. Such an activity is clearly un-sustainable. Furthermore, when the peoples of India and China for example start to have the sorts of levels of consumption that are associated with average European levels, we find that we need up to three planet Earths to support our ways of living.[14] Humanity's footprint will be three times the available planetary space. This is clearly absurd. It is quite clear that something must be done to change current levels, *inter alia,* of consumption, production, waste, pollution and habitat destruction, otherwise, no species, including humanity, will be able to survive.

As if this were not enough, evidence suggests that the rich, although getting richer, are getting no happier (Layard, 2005); the gap between the rich and the poor, although open to debate in places, would certainly appear not to be getting any smaller (see, for example, Sutcliffe, 2004) and, more disturbingly, in some regards, the situation of the very poorest is getting worse – some of the Millennium Development Goals, notably environmental sustainability, are actually in decline. Thus the undoubted increases in material prosperity: are not

[14]These calculations are made on the basis of very positive assumptions about technological change. Technology has made astonishing strides in the ability to make more from less, but there must always be eventual limits to this.

Figure 1.5 Humanity's ecological footprint, planetary carrying capacity and overshoot



Source: Taken from WWF, 2008: 12.

making the recipients of that prosperity happier; are not reaching peoples equally; are probably contributing to increasing inequality; and are occurring at a time when the un-sustainability of the planet appears to be approaching crisis (see Jackson, 2009).

A backdrop like this certainly gains our attention but – and it is a potentially significant 'but' – what does this have to do with social accounting? Well, it would seem extremely unlikely that there is no connection between the engine of material prosperity – i.e. capitalism – and the apparent consequences of that prosperity. Corporations are, to a very considerable degree, the engines of capitalism and the prosperity that it brings. So, corporations, and other large organisations and institutions, are one of the places to which we might turn our attention if we wish to seek some different balance between the positive and negative consequences of economic growth. Social accounting, with its organisational/institutional focus, seeks to address one, though fundamental, element of our modern world: what are organisations doing (purportedly) on our behalf and can we, if we wished to, control them?

These issues we examine briefly in the next section.

1.5 Economics, civil society, state and markets

If we are to make any systematic sense of these issues, we are going to need to try and avoid too simple or too refined an approach. On the one hand, we need to try and avoid the temptation of the easy answers ('it is all the fault of government'), the easy targets ('it is all the fault of capitalism') or the trite solution ('I recycle my paper, so it is all OK'). On the other hand, there is no obvious advantage in either despairing or producing such complex analyses of the issues that we all have little understanding of what is actually going on. That is, we believe that we need to try and be rigorous, even-handed and, probably, more than a little pragmatic in what follows. There are both heroes *and* villains. The problems are legion, but we must be able to try and do something. Our understanding will influence our choices of actions but, in doing so, will not exclude or close down alternative perspectives and solutions.

The difficulty is obvious. Each of us is bombarded with images of success, of desire, of need, of opportunity, and so on, on a minute by minute basis. The evidence of the success of the system in which we live is clear for all to see. Equally, it is not at all obvious that the people who work for business are any less decent, sensitive or intelligent than anybody else.[15] And yet the volume of corporate critique is startling. We have already seen the issues concerning environmental degradation (Porritt, 2005). Corporations are further accused of significantly and systematically subverting the state – even in developed nations like the UK, USA and Australia (Hertz, 2001; Monbiot, 2000). There is considerable disquiet over corporate standards and, especially, over the role of brands and the dominance of marketing (see, for example, Klein, 2001; and the Adbusters website and magazine). The debate over the impact of MNCs, especially on lesser developed countries (LDCs) and whether or not foreign direct investment (FDI) actually brings more benefit than disadvantage is a serious and complex one (Bailey *et al.,* 1994a,b, 2000; French, 1997; Rahman, 1998; Annisette and Neu, 2004). It seems clear that controlling large organisations – especially in an era of uncontrolled financial markets – is exceptionally difficult (Hatfield, 1998; Levy and Kolk, 2002) and that one simply cannot believe all that organisations say that they do or say that they do not do (Adams, 2002; Kolk and van Tulder, 2004; Leipziger, 2003).

So, even though there is much that is good which may be laid at the feet of corporations and other large organisations, there are some fairly fundamental problems as well. The situation, whatever else we may discover, is unlikely to ever be black and white. Beware of simple explanations.

There are a number of themes that will pervade what follows and amongst them three are worthy of mention at this stage. These are that: (a) there is something inherently problematic in the nature of the corporation itself (see, for example, Bakan, 2004); (b) there is something inherently problematic with international financial capitalism as we currently experience it (see, for example, Kovel, 2002; Porritt, 2005); and (c) there is something inherently problematic with the nature of economics and markets (Thielemann, 2000). In essence, as Thielemann argues, it is the nature of economics to seek to drive out anything which is not-economic: to drive out, what he calls, 'market-alien values'. To be efficient in economic terms means seeking out more and more economic opportunity and this is achieved at the expense of other areas of life which become colonised by the economic. The pupil–teacher relationship, the nurse–patient relationship, the husband–wife relationship and so on are all increasingly dominated by economic concerns, whereas they are more properly thought of as relationships whose essential nature is professional, social or human. The international financial markets are the extreme example of this in which all matter (nature becomes natural resources; poverty becomes relative advantage on costs and so on) and all relationships (between owners or organisations and the employees of that organisation, for example) are reduced to income and expenditure; dividends and costs. The current environmental disasters can relatively easily be seen as an inevitable manifestation of this development (Gray, 1990; Kovel, 2002; Porritt, 2005). Corporations, especially those subject to the strictures of international financial markets, must therefore, as Bakan argues, behave psychotically and any notion of humanity and responsibility must be expunged from them.

So, if such critique has any substance, then we are confronted by a really difficult set of choices. First amongst these is: 'can corporations deliver responsibility and sustainability?' The answer, increasingly (and, as we shall see in Chapter 3) is that they cannot deliver responsibility and sustainability if we continue to rely entirely upon voluntary initiative and the absence of regulation and full accountability for their delivery. Equally, however, it seems that 'consumers', whilst they cannot always be expected to act responsibly, *can* act

[15]We guess that most of you reading this book will, at some time, work for a large organisation – thus making this point for us. However, one should be aware of the impact that organisational rationality and structure can have on individual behaviour. See, for example, Jackall (1988), Estes (1996), Schwartz and Gibb (1999).

successfully on occasions (there are, for example, successful movements like fair trade and the periodic embargos). Similarly, the state – both the bureaucracy of state organs and the politicians themselves – whilst seeming generally incapable of serious sustained moral and social leadership, can occasionally be seen to take a stand on an important issue.

So where is the responsibility? And where will change come from? There is no simple – or even unequivocal – answer to either question. It seems likely that responsibility accords with power and, to the extent that we have power, we also have responsibility. This is the theme that is developed in Chapter 3 and which pervades the book. 'How will change occur?' is, however, something of a mystery. Change *does* occur, and sometimes even for the good. If change is to come about in a civilised manner, it seems to us that *all stakeholders* – investors, management, customers, employees, etc. and especially civil society – must be empowered and must find ways to act in line with their power. The development of social accounting must achieve this in one way or another (see, for example, Lehman, 2001) and that is the political *motif* of this text. We hope you find this stimulating and can embrace these notions.

1.6 Summary and structure of the book

This chapter has sought to introduce you to some of the basic elements of social accounting and accountability and to lift the lid on a range of more complex and confusing notions which provide the motivation and context for social accounting. We live in an unusually complex world and at an unusually complex time in human history. Social accounting offers both a means of trying to make sense of some of that complexity whilst, simultaneously, offering a potential means to develop a systematic response to the range of negative effects that are the price for the well-being we are currently enjoying. So, whilst social accounting is often a fairly pragmatic activity, it has within it a very strong thread of responsibility, idealism and morality: which threads of which responsibility, which idealism and which morality are questions which you, individually and collectively, will have to resolve for yourself.

This book tries to take these basic themes and develop them in some detail: both theoretically and practically. The text is broadly organised into three sections. The opening section comprises four chapters which seek to offer a theoretical and reflective framework for our study. Chapter 2 will introduce ways of seeing the world and offer systems thinking as a useful means for doing this. Chapter 3 develops this 'way of seeing' theme to explore, in quite some detail, what is meant by 'social responsibility'. This chapter offers accountability as a central theme for our studies as well as a means by which we might begin to resolve many of the tensions we are now experiencing. Chapter 4 rounds off this excursion by providing a brief history of social accounting before examining the range of theoretical interpretations that are offered in the subject.

The second section of the book comprises eight chapters and represents the core of the book. Chapters 5, 6, 7 and 8, respectively, address the four broad groups of stakeholders that tend to occupy social accounting: society and the community, employees and unions, the natural environment and the financial community. Chapter 9 looks at the emergence of the triple bottom line and (stressing that these are *not* the same thing at all) how accounts for sustainability are being and might be developed. Chapter 10 explores that most important area of accountability, the actions of organisations outside the organisation of interest – the so-called external social audits – before Chapter 11 critically examines issues of governance and assurance before we turn, in Chapter 12, to an exploration of a number of the principal issues for social accounting in (broadly) non-commercial organisations.

We round the book off with two chapters with which to conclude our study and try to peer into the future and offer a series of potential mechanisms through which a more positive future may be achievable. The possibilities of regulation are explored in Chapter 12 whilst Chapter 13 offers exemplars of leading practice, both actual and potential: this is how to do social accountability! The final chapter reviews our journey and offers a few suggestions and conclusions.

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