Accountability, Social Responsibility and Sustainability

Accounting for Society and the Environment

Rob Gray
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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.

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of information flows and disclosure regimes. The best for the organisation will depend upon its circumstances (Otley, 1980; Thomas, 1986). It would be possible to suggest that social responsibility and social accounting may be *contingent variables* – i.e. variables which are dependent upon key environmental and organisational factors (see, for example, Adams, 2002). Indeed, there is a whole body of literature which explores the association between organisational factors and such matters as political exposure, industry affiliation, company size and so on, and this literature can be thought of as having a link to contingency theory (see, for example, Husted, 2000; and see also Gray *et al.,* 2001b).

Political/sociological

Legitimacy theory basically takes the second variant of stakeholder theory above and adds conflict and dissension to the picture (Guthrie and Parker, 1989; Patten, 1992; Lindblom, 1993; Deegan, 2002). At its simplest, the theory argues that organisations can only continue to exist if the society in which they are based perceives the organisation to be operating to a value system which is commensurate with the society's own value system (i.e. if they are perceived as legitimate by the 'relevant publics'). Organisations can face many threats to their legitimacy (e.g. a serious accident, a major pollution leak or a financial scandal) and, in consequence, may employ broad *legitimation strategies* to counter that threat. Lindblom (1993) identifies four such strategies: 'educate' its stakeholders; change the stakeholders' perceptions of the issue; distract (i.e. manipulate) attention away from the issue of concern; or seek to change external expectations about its performance.

Legitimacy theory, in this general form, offers important insights into social accounting practice. Many major social accounting initiatives can be traced back to one or more of Lindblom's suggested legitimation strategies. For example, the general tendency for social and/or environmental disclosure to emphasise the positive points of organisational behaviour, rather than the negative elements, may be explained as commensurate with a legitimation action on the part of the organisation (see Deegan, 2002, 2007; O'Donovan, 2002).

But legitimacy theory also has two principal variants. The first tends to be concerned with the legitimacy of individual organisations – for example, a company which is involved in a major oil spill or a charity caught up in a financial scandal may find its legitimacy threatened. The literature offers examples of where social accounting has been used to try and close 'legitimacy gaps' (O'Donovan, 2002). The second variant of legitimacy theory, however, takes a wider perspective (a lower level of resolution) and, principally informed by Marxian thinking, raises questions about the legitimacy of the *system* (e.g. capitalism) as a whole. Such a perspective might lead one to ask, for example, why shareholders have the dominant role in external information provision, or why companies are permitted to act in ways that most individuals would find unacceptable in their private lives.[51] Under this perspective, social accounting is more subtly employed. It might be used by a range of organisations[52] to (say) either 'explain' about changing organisation–employee relationships which may look, on the surface, like an attempt to educate stakeholders, but which might be interpreted as an attempt to cover moves towards the emasculation of trade unions. Similarly, we can see trends in (especially) sustainability disclosure which can be interpreted as attempts

[51]One illustration of this in the UK arises from the Church of England which, as a Christian Church, is committed to the principle of 'thou shalt not kill' and yet did, for many years, have a substantial number of financial investments with weapons manufacturers. The matter is clearly a complex one if weapons manufacturing is seen as a legitimate form of business to people who are sworn to uphold the sanctity of life.

[52]Or, more likely, supported and encouraged by and through an industry representative body, a pseudopolitical body or a 'front' organisation – sometimes referred to as Astroturf organisations.

to maintain public perception of the importance of a company, an industry and a system in the 'creation' of 'wealth' and 'jobs'. Such uses of social accounting can be interpreted as attempts to continue the legitimacy of the system rather than of individual organisations.[53] None of this, however, really tells us very much about why organisations might choose *not* to disclose at all or necessarily tell us why disclosure might be so selective.

Economic/rationalist

That stalwart of accounting theorisation – **decision-usefulness** – has also been used to help explain social accounting. This theory simply suggests that information (like social accounting) will be produced if appropriate decision-makers find it useful in their decisions. The theory is a useful heuristic, but it fails to expose which decision-makers concern us and why – and, consequently, the theory concerns itself with the powerful decision-makers like management and investors and thereby implicitly ignores most other decision-makers. However, the theory is also confused over the *normative* and the *positive*. As a descriptive theory, it does not help a great deal in the sense that almost anything can be useful. (A teaspoon is useful in digging a hole if that is all you have.) On the other hand, it does not tell us who *should* receive information (investors are assumed but not justified in the theory) and so it ducks the normative question (which is why accountability works so well in this vein). So we can study social accounting and discover that investors and financial participants in companies find social information 'quite useful' information (see, for example, Firth, 1978; Epstein and Freedman, 1994), but such information tends only to be central to a minority of 'ethical investors'. How social information would influence all the decisions of all corporate stakeholders if it were complete, direct and fairly stark is entirely another matter and remains largely untested (see, for example, Guthrie and Parker; 1989; Chan and Milne, 1999; Milne and Chan, 1999).

One interesting variant on decision usefulness is caught by the notion of signalling which suggests that management might produce social accounting as a signal to (primarily) their financial stakeholders that they are keeping an eye on (for example) social and environmental risks. Consequently, the investors can be persuaded that the organisation is both well-run and relatively free from unexpected social (de-legitimating) shocks. This would certainly go someway towards explaining why so many organisations would produce largely vacuous stand alone reports – they are not directed at informed members of civil society but are intended for management, investors and the media as a signal of the organisation's competence (Neu *et al.*, 1998).

Agency (or principal-agent) theory is both an exceptionally closely focused theory and an exceptionally popular one. It conceives of the world as comprising pairs of individuals – a principal and an agent – who contract together under assumptions of short-termism, utter selfishness and utility maximisation.[54] The principal (e.g. a manager or a shareholder) seeks to induce the agent (e.g. an employee or a director of the shareholder's firm) to do things that are in the best interest of the principal and thereby overcome the agent's own preferences (known as 'moral hazard') and any likelihood of the agent making the wrong choice ('adverse

[53]Such a view is commensurate with the work of, for example, Tregidga and Milne (2006) which examines how the language around sustainability is taken by corporations and their representative bodies and stripped of meanings (like zero or negative growth, equity and so on) that might be seen to challenge current business hegemony. That these authors use discourse theory as the key to unlocking this issue demonstrates the fluidity of theory and its categorisation.

[54]The basic language and structure of agency theory sound a lot like the theory of accountability: contract, principal and agent. This is as far as the similarity goes. In essence, if one stripped accountability theory of all its humanity, context and relationships and assumed narrow selfish motives then one might have ended up with agency theory.

selection'). The principal achieves this through monitoring the agent (typically via information) and offering financial inducements for correct behaviour. The theory can be most comfortably employed at the personal level but, following Jensen and Meckling's (1976) argument that the firm is no more than a 'nexus of contracts', it is now widely applied at the organisational level. The theory is used to model manager–employee behaviour and company management–stockholder/market relationships and used, for example, to explain incentives and control.[55] The direct use of agency theory in social accounting is relatively scarce (although see Ness and Mirza, 1991, for one exception) although its underlying assumptions and reasoning are widely used in the statistical analyses of social accounting disclosure which, typically, might be concerned with isolating and understanding investor-relevant financial effects. Broadly, investors seem relatively uninterested in social accounting information (see, for example, Chan and Milne, 1999). Agency theory is relatively unpopular in mainstream social accounting largely because something as individualistic and self-serving as agency theory sits uncomfortably with the more expansive, liberationist and even emancipatory ethical basis that most bring to social accounting.

Equally, social accounting has not yet fully embraced the potential of institutional economics, markets and hierarchies and, particularly, **transaction cost theory** (see, for example Williamson, 1979). This branch of theory begins from an explanation as to why organisations exist: mainly because it costs too much to transact each and every action in the market place and so these actions are more easily and efficiently undertaken *within* an organisational setting. In doing so, organisations (it is argued) are able to overcome problems of transaction terms between agents who must all have imperfect information. This, in turn, leads organisations to be able to more easily overcome difficulties in maintaining reliability and quality in goods and services. (The trend towards out-sourcing is a reverse of this process.) MNCs can then be seen as massive mechanisms for minimising transactions costs worldwide (see also, Korten, 1995; Agmon, 2003). The role that social accounting might play in such a conception is not immediately obvious, but we might see social accounting used internally in the organisation to maintain culture and ease internal transaction costs whilst the larger organisations can employ disclosure to influence their negotiations (and therefore their transactions) over cost, regulations and market advantages.

For completeness, we should note that although the social accounting literature has been slow to embrace 'the *Other*' at an organisational level, there has been an enthusiastic engagement with *new conceptions of organisational life* and an associated imagining of social accounting. Faced with the stresses of social and environmental un-sustainability we need to (re-) imagine what an organisation which embraced nature and/or sustainability might look like. Experiments with social enterprises, fair trade and 'values-based' corporations and cooperatives are the tip of this iceberg (Gladwin *et al.*, 1995b; Dauncey, 1996; Johnson and Bröms, 2000; Young and Tilley, 2006; Barter and Bebbington, 2010) and this, in turn, is stimulating new approaches to social accounting (see, for example, Gray *et al.*, 1997; Evans, 2000; Cooper *et al.*, 2005; Dey, 2007; and see **Chapters 12 and 13**).

One thing that unites most (if not all) of the theories considered in this section is that they are underspecified, they really do not explain 'why' organisations do what they do regarding CSR and social accounting in any consistently thorough or convincing way. They are, in fact, outside-looking-in theories – theories which observe organisations from the outside and speculate on what is happening. Much more penetration on the detail of what organisations are doing is acquired through the inside-looking-in theories – or theories which derive from field work research conducted inside the organisation itself.

[55]It is also a theory which attracts considerable criticism. See, for example, Christenson (1983); Arrington (1990); Armstrong (1991); Tinker and Okcabol (1991).

4.9 Social accounting inside the organisation (micro-theory II)

Although there has always been fieldwork-based enquiry[56] in social accounting, by the turn of the century it had not dominated research to the same extent as had the more arms-length enquiries such as the study of organisation's disclosure or even the use of postal questionnaires. Consequently, theorisation about social accounting within the organisation – how it comes about; why it happens; why it doesn't happen; why it takes the form that it does; and so on – had been relatively less well-developed. Given the considerable volume of management and management accounting theorisation based, primarily, upon fieldwork this is actually a bit of a surprise (see, for example, Emmanuel and Otley, 1985; Puxty, 1986; Knights and Willmott, 2007).

There is currently no dominant organisational theory of (or for) social accounting inside the organisation. There are, however, a number of themes that seem to stand out – regardless of the theory employed.[57] For example, research continues to show the diversity and complexity of both individual and organisational motivation for social accounting. Whilst there may well be times when social accounting might be undertaken for a simple, singular direct reason, it would be contestable to assume this was always the case.[58] Additionally, studies increasingly identify the importance of the role of key individuals in the developing of social accounting as well as the problems that an individual might experience in the conflict between personal and organisational values regarding social (non) disclosure (Antal, 1985; Jones, 1986; Gray *et al.*, 1997, 1998; Buhr, 1998, 2007; de Villiers, 1999; Gray and Bebbington, 2000; Adams, 2002; Miles *et al.*, 2002; Norris and O'Dwyer, 2004; Rahaman *et al.*, 2004; Dey, 2007; Spence and Gray, 2008).

Biological

One major area of theorising over social accounting within the organisation relates to models of *organisational* change. For example Gray *et al.* (1995) employed an adapted form of Laughlin's (1991) model of organisational change to provide a framework within which to study the emergence of social accounting in a number of institutions (see also Larrinaga-González *et al.*, 2001; Larrinaga-González and Bebbington, 2001). In a manner similar to the discussion of autopoiesis (which we briefly revisit below), the study found that whilst environmental accounting (in that case) was both a result of external pressures and a potential source of change itself, the range of influences that the organisation 'recognised' and responded to was limited to those that accorded with the design archetype of the organisation. The model was further extended to embrace Llewellyn's (1994) approach to organisational **'boundary management'**. That model suggests that issues (such as the natural environment, climate change or social responsibility) will, to a degree at least, be absorbed

[56]Fieldwork is a general term that refers to research in which the researcher leaves the office/university and studies the phenomena of interest in the context in which it arises – they 'go into the field'. This contrasts with other research methods which might involve study of data sets (e.g. share prices) or analysing documents (for example, annual reports or CSR reports) away from the setting where the data or the documents were created.

[57]There is a parallel here with a number of dominant observations in the more 'positivistic', arms-length research. For example, regardless of theoretical position, social disclosure is more likely to happen in bigger organisations in certain countries and in certain industries.

[58]The range of potential influences on the disclosure decision in organisations can verge on the bewildering. For example, unpublished PhD theses involving fieldwork from countries such as Bangladesh and Egypt have identified culture, the role of civil society, Islam, relationships with communities, the importance of overseas investors, the international financial community and the influence and attitude of other western companies all as active issues in the disclosure decision.

by the organisation and/or that the organisation will extend its boundaries to embrace 'outside' issues. That is, organisations can be said to 'manage' the boundaries of their entity and to determine what is, and what is not absorbed or recognised by it – in effect, what is or is not 'part' of the organisation and consequently part of the business of the organisation. Social and environmental issues and the management of and accounting for them is just such an issue and will be embraced, absorbed or rejected to the extent that it seems to be in accord with the organisation and its sense of itself.

Political/sociological

An influential illustration of how to approach the use of theory is offered by the intensive case study of Buhr (1998). Buhr employs a range of theoretical lenses through which to explore how issues (like pollution or social accounting) actually emerge as issues within organisations. The paper concludes that the dominance of engineers in the company leads to a predominantly technological approach to both solutions and explanations of the issues (in this case emissions) and their solution. The paper then concludes that, in this case at least, a social constructionist/legitimacy theory perspective offers the more powerful explanation of events.

By contrast, Buhr (2002) formally theorises her examination of two different organisations and *their* very different reactions to and involvement with environmental reporting through Giddens' **structuration theory**. At its simplest, structuration theory is an articulation of the way in which individuals influence and are in turn influenced by the structures around them. That is, the relationship between individuals (agency) and structure is *reflexive*. The theory argues that, on the one hand, what we know as social life cannot be understood as a simple sum of all individual/micro-level activity, but neither can all social activity be completely explained from a structural/macro perspective. The middle way between the extremes sees agents' repetition of acts both producing and re-producing structure – but, importantly, all social structures are understood to be neither inviolable nor permanent. Buhr uses this framework to study how pressures, issues and concerns were perceived, interpreted and then responded to by two separate organisations. The paper contains recognition of the roles played by key agents, the possibilities offered and the restrictions placed by structure and culture, the influence (or not) of stakeholders as a function of either agency and/or structure and the long-term process through which reporting practices change or revert to type.

The organisation theory literature (as we have already seen) is rich in theoretical perspectives, and many of these have the potential for greater insights into social accounting. One further illustration might suffice for now – that of discourse theory. Discourse theory (which you will recall we also met under meta-theories above) is concerned with how the ebb and flow of communication both reflects and creates both meaning and reality. The way we describe something reflects how we think of it and, depending upon our individuality and relative power, may have a major influence on how we and others come to think of the issue in question. For example, Livesey and Kearins (2002) and Tregidga and Milne (2006) explored how language is used in disclosure to 'construct' the sense of the relationship between 'sustainability', the organisation and its traditional pursuits (see also Buhr and Reiter, 2006).

Finally, we should just flag up the role of groups (and teams) and identity. The psychological and business management literatures are replete with explorations of the role that groups play in organisation, in the completion of tasks, the contribution of effort but also on the formation of an individual's identity and on acceptable norms of behaviour, thought and language. Consequently, shared beliefs (such as, for example, 'we are an ethical company') become reified and cannot be examined. An individual who might want to challenge such views is likely to find it very difficult indeed and so here (as with culture and a whole host of other factors – see below) may be another way in which (non) disclosure and (non) accountability decisions around social accounting can be explored (see, for example, Knights and Willmott, 2007, for an introduction).

Economic/rationalist

It seems to be relatively unusual for micro-studies, typically based upon fieldwork, to seek out and/or apply economic explanations for social accounting practice (but see Miles *et al.*, 2002). One exception is Spence and Gray (2008) which examines the language used when officers of organisations explain their organisation's (non) engagement with both CSR and social and environmental reporting.[59] The monograph infers that there appears to be a prevailing necessity for organisational participants to articulate most things through a version of *the business case* – there is little space for something which is not a business case and anything that is to be adopted within the organisation must be expressed as part of a business case (regardless of any economic or other 'reality'). Thus issues like sustainability and CSR, which are increasingly being pressed upon organisations, must be (and can only be) re-articulated into terms commensurate with a business case, otherwise, they cannot 'code' to the organisation. So CSR and sustainability end up trivialised (Shamir, 2004). Such reasoning resonates with autopoiesis as we saw it earlier – only at a higher level of resolution. It seems to be the case that any initiative concerning social, environmental or sustainability accounting and/or reporting must be stated in tune with (must 'code' to in the autopoietic sense) the overall (economic) mission of the organisation itself.

As should now be apparent, explanations of organisational behaviour (especially regarding social accounting) need to be complex if they are to catch the range of issues at work. One illustration of how theory construction might be taken forward is offered by Adams (2002). That paper (augmented by interviews conducted in the UK and Germany) drew from the extant literature a potentially bewildering array of factors that had a potential impact on the form and content of the social accounting. Adams categorises these influences as: characteristics of the corporation; issues internal to the organisation; and general contextual issues. The resultant model is shown in Figure 4.3.

4.10 Individual-level theories (micro-level III)

The individual-level (sometimes referred to as 'agency' as opposed to 'structure') theories that are relevant to our discussion here are primarily explanations of why individuals do things and, in particular, why they might initiate or resist the development of social accounting. There are, as you might expect, a myriad of theories about human motivation, agency and resistance, etc. (up to and including agency theory which we met above). Research has identified an enormous array of personal motivations and concerns behind agency in social accounting. Perhaps the most interesting thing to emerge from this has been the twin influence of the role of key individuals (sometimes called 'champions') and the way in which the social and environmental agendas have enabled such champions to merge their personal and their organisational values – something which is considered relatively rare in most profit-centred organisations (see, for example, Gray *et al.*, 1995, 1998; Adams, 2002; Buhr, 2002; Spence and Gray 2008). However, it remains largely unclear why individuals do (and do not) support and develop social accounting (and accountability); how salient issues are selected

[59]The two ideas were frequently seen as identical/interchangeable by respondents.