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**ATTEMPTING TO RELATE UNDERLYING PHILOSOPHIES/MOTIVATIONS AND
SOCIAL AND ENVIRONMENTAL DISCLOSURES**

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ATTEMPTING TO RELATE UNDERLYING PHILOSOPHIES/MOTIVATIONS AND SOCIAL AND ENVIRONMENTAL DISCLOSURES

ABSTRACT

This exploratory paper examines motivators underlying research studies on additional disclosures of non-traditional (social and environmental) materials in corporate reports, and a number of proposals or models that have been made to organise and promote such information.

Motivators vary from critical theorists, through the social contract of business and society and organisational legitimacy to the 'business case' at the other end of a possible spectrum. The models or operating systems loosely associated with these motivators included idealistic exhortation, mega-accounting theory, various forms of Triple Bottom Line reports based on GRI2002, AA1000, and SA8000, and environmental management accounting influenced by EMAS and ISO14000. Although a direct relationship cannot be proven, there does appear to be an association between the underlying philosophies that researchers hold and the solutions that they propose to any given problems

INTRODUCTION

Social and environmental accounting, and more recently accounting for sustainability have attracted comments and proposals from a wide spectrum of opinion. The spectrum ranges from the critical theorists, who are concerned about managerial capture and the perpetuation of what they regard as dysfunctional social and commercial structures, to the proponents of the 'business case', who argue that business will respond to these challenges only where there is an opportunity to increase returns on capital. It is argued in the business case scenario, that the way forward is to convince business to make changes to procedures and processes because it is profitable to reduce waste, and beneficial in terms of organisational legitimacy, and not because it is right to do so. Other motivations or underlying philosophies, which are not attached to either of these extremes, but fit along the spectrum, include the social contract of business with society and organisational legitimacy.

Historically, corporate performance was measured by means of limited financial disclosures aimed at a restricted readership. Over time the readership has widened, the disclosures have become more structured and both wider and deeper, through the implementation of both legislative and professional requirements. More recently, social and environmental reporting has been advocated, and the future is likely to include more detailed reporting, to a broader range of stakeholders (Mathews, 1997a) including a discussion, perhaps somewhat misdirected, of reporting for sustainability.

The structure of this paper is as follows. After the introduction, some possible motivations or underlying philosophies leading to further disclosures are discussed, including critical theory, the social contract of business with society, organisational legitimacy, and the 'business case'. This is followed by an examination of a number of exemplars of responses ranging from exhortation (the 4P's of ethical business) and forms of triple bottom line reporting, to reporting structures such as EMAS 2003, ISO 14000, GRI2002, SA8000, and AA1000. The apparent difficulties of these approaches are considered, including problems of dealing with concepts like sustainable development. In section four some evidence from the field is outlined. The paper finishes with some concluding comments.

2.0 MOTIVATORS OR UNDERLYING PHILOSOPHIES

In this section the four motivators/underlying philosophies stated in Figure 1 are considered.

Insert Figure 1 about here

2.1 CRITICAL THEORY

The critical theorists have not made major contributions to the model building aspects of the social and environmental accounting literature with the possible exception of Gray et al. (1996). Although a major motivator and powerful underlying philosophy (usually informed by Marxism, Foucauldian thought and other sociological theories) which leads to strong rhetoric, critical theory does not normally lead to the development of models or programmes of incremental improvement. Mathews (1993, pp.51-52) and Mathews and Perera (1996, p.374) suggest reasons for this condition.

Everett and Neu (2000) offered a radical critique of the development of environmental accounting (EA) and the varied responses to what they term 'ecological modernization'. The direction of any causality could be either way; either media attention encouraging additional

disclosure or additional disclosure leading to added attention by the media. Their critique extends from those who clearly advocate elements of the 'Business Case' (for example Rubenstein, 1992; Herremans et al., 1993) to those who might themselves be considered towards the radical end of the spectrum (Gray et al., 1996; Owen et al., 1997).

Everett and Neu (2000) also carried an important message about the dangers inherent in the capture of environmental accountants. It may be argued that all parties to the debate about the evolutionary nature of accounting in general are in danger of capture by preparers, regulators, auditors, or government agencies. Everett and Neu (2000, p.955) were concerned about the capture of the EA agenda by first-world corporations, and the exclusion of weaker parties including indigenous peoples.

2.2 THE SOCIAL CONTRACT OF BUSINESS WITH SOCIETY

Mathews (1993) argued that social accounting (which incorporated environmental issues until about 1990) could be justified by various arguments including those related to market performance, the social contract and organisational legitimacy. The social contract originated in political philosophy and describes the process by which members of a society accept an overriding influence over their individual freedoms in order to achieve collective goals. As a legal fiction, the existence of the corporation ultimately depends upon the acceptance of constraints placed by society upon the actions and performance of that organisation. There must be a purpose or set of purposes to justify the existence of the corporation, which are seldom revisited but nevertheless exist. For example, Donaldson (1982) has argued that corporations do not have an unchallenged right to exist, and Shocker and Sethi (1974, p.67) expressed the notion of the social contract. Corporations have been described as moral agents (but not moral persons) if they conform to a process of moral decision-making as outlined by Donaldson (1982, p.30).

The social contract argument may be seen as rather deep and esoteric by many, partly because we are surrounded by apparently long lasting legal fictions with great power, influencing us by their advertising and public relations expenditures, and which provide products and services that we can not easily do without. Nevertheless, at least in theory, these corporations exist at the will of legislative systems, which can choose to regulate them more closely, or less closely as has been the case over the last decade or so. One justification for giving attention to a more complete reporting, including social and environmental information, is because of the existence of the social contract. It seems more likely that most Chief Executive Officers (CEO's) will have increased the coverage of social and environmental reporting in the annual report in response to arguments about organisational legitimacy.

2.3 ORGANISATIONAL LEGITIMACY

Organisational legitimacy as a motivation/underlying philosophy for, or explanation of, social and environmental disclosure has been debated for some time. As noted by Mathews (1999, p.69); "For an organisation such as a corporation to have the quality of legitimacy, it must demonstrate a value system which is generally that shared by the wider community".

Dowling and Pfeffer (1975) have been widely cited with the following definition/description of organisational legitimacy:

Organizations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system of which they are a part. Insofar as these two value systems are congruent we can

speak of organizational legitimacy. When an actual or potential disparity exists between the two value systems, there will exist a threat to organizational legitimacy (Dowling and Pfeffer, 1975, p.122).

It may be argued that organisational legitimacy is likely to be a powerful motivator encouraging management to voluntarily disclose non-traditional, social and environmental information in annual reports and other media in order to develop, maintain or increase the perceived legitimacy of the organisation. There are many organisations where management has increased the flow of social and environmental information, although perhaps with a view to presenting a focused (self-serving) rather than a general (accountability) view. A number of significant empirical studies have been published since 1992; many have focused on the relationship of disclosures, and the motivation to disclose, within the legitimacy theory and organisational legitimacy contexts. In particular Patten (1992) and Blacconiere and Patten (1994) discussed the markets reaction to the Exxon Valdez and Bhopal disasters.

Deegan and Gordon (1996) analysed the environmental disclosure practices of Australian corporate entities, finding a positive correlation between environmental sensitivity and the level of disclosure, and in some sensitive industries, between environmental disclosure levels and firm size. Deegan and Rankin (1996), using legitimacy theory as their theoretical basis, analysed the environmental disclosures made by firms successfully prosecuted by the Australian Environmental Protection Authority (EPA). The authors concluded (p.62) “in the absence of disclosure regulations pertaining to environmental issues, that Australian companies will only provide environmental information, which is favourable to their corporate image”. The key phrase is probably “in the absence of disclosure regulations” which raises once again the subject of standards and environmental audits and of the means of providing them with authoritative backing.

Brown and Deegan (1998) examined the public disclosure of environmental performance information using media agency setting theory and legitimacy theory. Nine industries were reviewed across the period 1981-1994. In the majority of industries studied, higher levels of media attention were significantly associated with higher levels of environmental disclosures in the annual report.

Neu et al. (1998) studied Canadian public company annual reports in the mineral extraction, forestry, oil and gas and chemical industries between 1982 and 1991. The research focused on three concerns; the influence of external pressure on environmental disclosures in annual reports, including the amount and strategies used in disclosure; the characteristics of environmental disclosures compared to other disclosures; and the association between environmental disclosures and actual performance. The authors suggested that organisations would use “a combination of acquiescence, compromise and defiance strategies within their environmental disclosures to respond to the concerns of relevant publics; further, the strategy adopted is influenced by the relative power of these publics” (p.279).

Deegan and Rankin (1999) explored the issue of a potential information supply/demand imbalance as a resulting from differing ‘perceptions’ between report users and report preparers about the relative importance to users of various disclosures about environmental performance. The authors concluded that an expectations gap existed. The authors concluded that in order to close the gap, initiatives have to include raising the awareness of members of professional accounting bodies, and the development of reporting standards relating to environmental and social performance.

Deegan et al. (2000) examined the manner in which a number of large Australian corporations reacted to five major social incidents through disclosures in their annual reports. The results of the study indicated that after four of the five incidents, the sample firms provided more social information in their annual reports than they did before the incidents. The authors argued that the results of the study “are consistent with legitimacy theory and show that companies do appear to change their disclosure policies around the time of major company and industry related social events” (p.127).

The importance of these, and other, studies lies in the finding that some corporate disclosures may be no more intended to satisfy wider stakeholder groups now than they were in previous periods. There appears to be an acceptance of the need to publish information about environmental impacts in annual reports by major corporations, directed towards a limited number of publics which are perceived to be influential (sometimes called the confirming publics) and usually prompted by specific events or issues. This is a long way from the ideal of universally available information, the disclosure of which is intended for all parties and motivated by the acceptance of the social contract of business with society, or the need to conform to regulations and strategies favouring wider stakeholder groups.

2.4 THE BUSINESS CASE

This is the term used to describe an approach to social and environmental accounting characterised by a drive to enhance profitability and not necessarily to satisfy the information needs of wider stakeholder groups or because management accepts some moral imperative to change the way in which business operates.

The business case appears to be a limited response to social and environmental issues, which attempts to keep all initiatives in the hands of management. Accountants, professional accounting bodies, and regulatory agencies are excluded so far as it is possible to do so, with the management exercising control over any additional external disclosures and internal reports. The business case is supported by environmental management accountants, and the use of environmental management systems (see for example Epstein, 1996; Schaltegger et al., 1996; Schaltegger and Burritt, 2000; EMAS, 1995; and ISO 14000, 1996). The business case is at the opposite end of the motivator scale from critical theory and gives rise to some of the concerns about managerial capture expressed by Everett and Neu (2000).

The general concerns of the business case may be exemplified by the publication of the Group of 100 (described as ‘An association of Australia’s senior Finance Executives from the nation’s business enterprises’) entitled Sustainability: A Guide to Triple Bottom Line Reporting. Under the heading background and context it is stated that:

The concept of TBL does not mean that companies are required to maximise returns across three dimensions of performance – in terms of corporate performance, it is recognized that financial performance is the primary consideration in assessing its business success (Group 100, 2003, p.12).

Other passages exemplifying the views underlying the business case include:

It is impossible for a company to accommodate the often-competing interests of all stakeholder groups in its public reporting. Essentially the company will seek to prioritise among these stakeholder groups and target its reporting to those stakeholder groups and on the issues most critical to the company’s success.

and

As TBL reporting develops, increased attention will be given to its role as part of an integrated communications strategy seeking to meet the requirements of *key* stakeholder groups – the delivery of such ‘stakeholder appropriate’ reporting is seen to provide greater value to the reporting company and better communicate information to the respective stakeholders to whom the reporting is directed (Group 100, 2003, pp.14).

It is doubtful if this agrees with the original intention of TBL as proposed by Elkington (1997).

3.0 MODELS AND OPERATING SYSTEMS TO FOSTER DISCLOSURES

This section describes a number of models and operating systems, which have been proposed by advocates of a broader system of disclosures. An attempt is made to associate the motivators or underlying philosophies with the models or operating systems as shown in Figure 1.

3.1 CRITICAL THEORY

The first model or operating system put forward here is one that may be influenced by critical theory, and certainly owes a great deal to the notion of the social contract. Despite the strong differences of opinion between Owen et al. (1997) and Everett and Neu (2000), there are strong radical positions adopted by the authors of Gray et al. (1996) [which has two authors in common with Owen et al.]. In this present discussion the model advocated by Gray et al. (1996) appears to be motivated by a philosophy quite close to that of the critical theorists. The last chapter of this book refers to an emerging ‘new paradigm’ of sustainability. The authors proceed to explain what this would mean to society as a whole, including a series of recommendations, which would “move organisations onto a more accountable and transparent path towards a less unsustainable future” (Gray et al., 1996, p.298). The model involved is reproduced as Figure 2.

Insert Figure 2 about here

3.2 THE SOCIAL CONTRACT OF BUSINESS WITH SOCIETY

In an example of ‘exhortatory action’ Spiller (1999) introduced the concept of the ‘Four P’s of ethical business’ (EB); purpose, principles, practices and performance measurement. He stated:

The principles that guide the EB include fairness, caring, honesty and courage. EB practices address stakeholder concerns – such stakeholders including the community, the environment, employees, customers, suppliers, and shareholders. EB performance measurement involves accounting for environmental and social as well as financial performance. This involves qualitative as well as quantitative measures and utilising both stakeholder perceptions and company data to determine performance in terms of the triple bottom line (Spiller, 1999, pp.78-79).

The *purpose* of the EB is to ‘create environmental and social’ as well as financial wealth. Spiller (1999) argued that profit maximisation fails to recognise other goals such as assisting other people and the planet. The *principles* Spiller (1999) argued include honesty, fairness,

caring and courage. The free enterprise model with individual choice and liberty, informed choice and a functioning market requires honesty and a willingness to enter into arms-length binding agreements. *Practices* reflect the application of purpose and principles. Practical examples taken from the annual reports of major NZ corporations include innovative community giving, recycling, employee benefits, customer benefits, interactions with suppliers and corporate governance issues. The last of the four p's is *performance measurement*. Spiller did not pay much attention to the conventional role of accounting in his section on performance measurement for ethical business. Spiller also referred to an ethical scorecard, analogous to the concept of the balanced scorecard in management accounting. The ethical scorecard extends beyond issues of concern to shareholders and customers to include employees, suppliers, community and environment; all stakeholders.

An alternatively model proposed by Mathews (1997b) could fit under either the social contract or a broad version of organisational legitimacy. The essential parameters of the model are given in Figure 3.

Insert Figure 3 about here

Mathews (1997b) argued that progress on social and environmental reporting would always lag behind the financial dimension unless progress is also made in developing conceptual frameworks, standards and an audit process for social and environmental accounting.

A third model that appears to be motivated by the social contract approach is the SA8000 Social Accountability Standard (SA8000). The social accountability standard published in 1998 differs from the other models because the focus is on social rather than environmental issues, and is concerned exclusively with labour related matters. It is divided into purpose and scope, normative elements and their interpretation, definitions, and social accountability requirements.

3.3 TRIPLE BOTTOM LINE REPORTING (TBL)

Until about 1970 the corporate annual report was a vehicle for the presentation of limited financial information. Over the past 30 years, the annual report has been extended to include not only additional mandatory and voluntary financial information, but also some (mostly voluntary) social and environmental information (Mathews, 1997a). This combination of financial (economic), social, and environmental disclosures, is frequently referred to as the Triple Bottom Line (TBL). The term has been used by several authors, and is normally attributed to Elkington

(1997). Thus, the term 'Triple Bottom Line' is not definitive excepting insofar as it refers to conjoint reporting of financial, social and environmental information. There does not appear to be any agreement about the purpose of this approach to reporting, or the content of the three components. The main driver of the TBL approach is probably the Global Reporting Initiative (GRI) discussed in detail below. However, the GRI does not involve accounting-type standards as proposed by Mathews (1997b) or include all of the disclosure data advocated by Gray et al. (1996).

The Global Reporting Initiative Sustainability Reporting Guidelines (hereafter GRI, 2002) is a major structured programme aimed at 'standardised' disclosures of economic, environmental and social information in annual reports and the media. The GRI was established in late 1997 by the Coalition for Environmentally Responsible Economies (CERES), with a mission to

design globally applicable guidelines for preparing sustainability reports, in contrast to environmental reports. A draft of the guidelines was released in March 1999, and the final sustainability reporting guidelines in June 2000. GRI (2000) has been replaced by GRI (2002), which also consists of an introduction and four parts.

Part A 'Using the GRI Guidelines' set out what the GRI is attempting to achieve, the background to the development of the GRI, and the relationship of the GRI to other initiatives. Part B 'Reporting Principles' outlined the principles and practices underlying the GRI including qualitative characteristics, classification of performance reporting elements, ratio indicators and the disclosure of reporting practices. Part C 'Report Content' detailed the content of the GRI report including a CEO statement, profile of the reporting organisations, an executive summary and key indicators, vision and strategy, policies organisation and management systems and performance. Part D 'Glossary and Annexes' consisted of four annexes.

There are three sets of indicators in the GRI framework; economic or direct impacts, environmental covering environmental impacts, and social, which are divided between labour practices and decent work, human rights, society and product responsibility. Further division is by 'aspect' as follows:

- Economic: customers, suppliers, employees, providers of capital, and the public sector.
- Environmental: materials, energy, water, biodiversity, emissions, effluent and waste, suppliers, products and services, compliance, transport, and overall.
- Social; labour practices and decent work: employment, labour/management relations, health and safety, training and education, diversity and opportunity.
- Social; human rights: strategy and management, non-discrimination, freedom of association and collective bargaining, child labour, forced and compulsory labour, disciplinary practices, security practices, indigenous rights.
- Social; society: community, bribery and corruption, political contributions, competition and pricing.
- Social; product responsibility: customer health and safety, products and services, advertising, respect for privacy. (GRI, 2002, p.36).

Overall the GRI 2002 Guidelines were an advance upon the 2000 version but suffered from two main defects. Firstly, it is presented as a set of guidelines when, if the recent history of financial accounting is taken as a model, what is needed is a set of legally backed rigorous standards, with the resulting disclosures appropriately audited (Mathews, 1997b). The GRI provides a conceptual framework, but does not provide the standards, the legal backing or perhaps the auditing requirements. Of greater conceptual difficulty is the description 'sustainability' applied to the guidelines. Successful organisations may increase their efficiency and profitability; they do not easily become sustainable in a global sense, because of the economic imperative to produce and sell more and to persuade consumers to consume more. It can be argued that sustainable development is an oxymoron. Perhaps we can discern different forms of sustainability? Perhaps the description should be changed to some other type of guidelines (or preferably standards).

Yuthas, et al. (2002) related Habermas' norms of communicative action to results of a rhetorical analysis of management discussion and analysis portion of the annual report for firms with earnings surprises (high and low) and found that companies use these stakeholder reports to communicate about management veracity.

The first standard for building corporate accountability and trust was issued in November 1999 by the Institute of Social and Ethical Accountability (ISEA). The ISEA stated that the AA 1000 standard "... provides both a framework that organisations can use to understand and improve their ethical performance and a means to judge the validity of ethical claims made." The AA 1000 standard is described as 'best practice' as agreed by world-wide experts and would give both internal and external stakeholders greater assurance that the disclosures were not merely public relations 'puff'.

3.4 THE BUSINESS CASE

Environmental management accounting and environmental management systems are the operational basis for much of the business case, together with attempts to influence or capture the process of increased disclosure. Two models of environmental management systems are EMAS and ISO 14000 (The International Organization for Standardization).

The Eco-Management and Audit Scheme (EMAS), dating from 1996, was a European Community initiative whereby industrial companies were invited to participate voluntarily in an environmental management scheme. A review of the scheme, started in 1997, has led to the adoption of regulations for EMAS II, which is intended to promote the use of an Environmental Management System (EMS) as a 'problem identification and problem solving tool' (EMAS, 2003). The EMAS should contain several core elements including environmental policy, an environmental programme or action plan, structure and documentation.

EMAS I was for industrial organisations, however, the new EMAS II encourages participation by public authorities and institutions, small and medium sized organisations and those in the service and financial sectors. The organisers claim participation by representatives from all sectors ranging from industrial to primary production, the service sector, the public sector, and non-governmental organisations (NGOs) (EMAS, 2003). EMAS II and ISO 14001 have greater similarities, however, EMAS II has legal status within Member States and can be more

prescriptive than ISO14001, which is voluntary. In addition to the difference over legal status, it is argued that under EMAS II organisations are required to have continual improvement of environmental performance, a need to demonstrate an open dialogue with stakeholders, and employee involvement in the process of continued improvement in environmental performance.

ISO14001 gives the following definition of an environmental management system;

that part of the overall management system which includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy (ISO 14001, 1996).

It should be noted that ISO 14001 specifies a particular type of management system and is not a scheme for product certification, or for evaluating company environmental performance. This is a comprehensive EMS model and allows for the participation of any organisation, and begins at any level. This may also be considered a major drawback to the ISO 14001 standard. An additional criticism is that each organisation sets its own targets and objectives. Thus, an organisation with less than desirable environmental performance can in fact be ISO registered. Rather than meeting an externally designated minimum requirement, each organisation can

start where they currently are, identify their environmental aspects, and then set their programme for continual improvement.

4.0 EVIDENCE FROM THE FIELD

The call for corporate social and environmental reporting has been active since Shocker and Sethi (1974) wrote their widely quoted article and continues with the emergence of an influential group of companies, which have adopted the Global Reporting Initiative (2002) guidelines. At this point it is possible to examine the four areas discussed in this paper and determine whether there is evidence of a response.

4.1 CRITICAL THEORY

Critical theory as an underlying philosophy by definition leads to rhetoric and analytic argument. Current researchers may examine the influence exercised by the critical theorists' arguments for corporate social and environmental reporting, by investigating changes over time in the body of literature in this field. However, the contributions by critical theorists are not easily separable from those of writers advocating change through the use of organisational legitimacy or TBL arguments. Therefore, the data provided in Table 4 does not enable the authors to determine the relative importance of several of the alternative motivators/philosophies in the field. However, it may be argued that the proportion of the publications shown in Table 2, which have an underlying critical theorist approach is not high, based upon previous attempts to survey the field (Mathews, 1997).

4.2 THE SOCIAL CONTRACT OF BUSINESS WITH SOCIETY

Although Shocker and Sethi (1974) made an eloquent statement about the social contract, both confirming and disconfirming evidence can be found. Using the techniques noted in the previous discussion a search of the literature for social contract articles found in ABI Inform (2003) was made and the results are reported in Table 1 below. A steady increase was found, with the seven articles in the period of 1974 increasing to 51 additional articles at the end of 2003. Although

there is therefore a documented increase in researchers and theorists discussion of corporate social contract there is conflicting evidence on whether a corporate social contract influences corporate decision making.

Insert Table 2 about here

Kelly (2001) launched a persuasive documentation of corporate loss of attention to social responsibility or lack of any acknowledgment of a social contract in *The Divine Right of Capital: Dethroning the Corporate Aristocracy*. This book documents a shift from the concept of the corporation as a public entity, which would in some manner serve the public good or retire from the public arena, through to modern times where the perceived purpose of the corporation is to enhance shareholder value. This definition is widely repeated without regard to the interests of other stakeholders, such as labour, government or the community within which the corporation is embedded. The SA8000 proposal, which specifically focused on human resource issues, has not been widely adopted although some companies, which chose to use the GRI 2002 guidelines, included similar information as part of their report. (This is further discussed below in section 4.4.)

Freeman's (1984) discussion of stakeholder theory noted that firms have an implicit contract with their wider constituency. Stakeholder theory states that; "firms must meet the needs and

interests of other stakeholder groups such as customer, employees, and community to accrue financial benefits for stockholders” and Meade-Christie & Ruf (2003, p.3) found evidence that firms with higher measures of corporate social performance produced high returns to shareholders. A recent survey of 500 US businesses showed that “74% believe that the public has the right to expect companies to act as good citizens” (Quoted in Business and the Environment, p.4, September 2003).

The Copenhagen Charter (House of Mandag Morgen, 1999), with its emphasis on stakeholder dialogue, may be held to be evidence of an acknowledgement of a social contract. This Charter was sponsored by the international accounting firms of Ernst & Young, KPMG, PricewaterhouseCoopers, and the House of Mandag Morgen, all with a professional interest in external reporting. Although specifically structured around the reporting process the Charter emphasised an iterative dialogue with stakeholders and a monitoring of key performance indicators. Implicit in this process is a response to the expressed needs of stakeholders. The iteration allows for reporting on the response to these expressed concerns. It is also noteworthy that the government in The Netherlands issued a monograph entitled Corporate Social Responsibility: a Dutch Approach, (2001) during this same time period. The conclusion reached was that, “Corporate social responsibility is a phenomenon that has become established in society. It is the private sector’s answer to structural changes in society and the international community” (p.1130).

4.3 ORGANISATIONAL LEGITIMACY

Using a data base index such ABI Inform it is possible to assess some of the changes in this body of literature. Although this is not a comprehensive review of all possible articles in the field it is a frequently used database that can serve to give an indication of change in writings in this field.

For the purposes of this examination the results of searches for the areas listed below were considered:

- environmental reporting,
- environmental accounting,
- corporate social responsibility
- corporate social responsibility accounting, and
- corporate social responsibility reporting.

This analysis will not include the many new journals dealing specifically with environmental impacts and remediation from a technological perspective. Furthermore, as explained above it is not possible to easily, differentiate between motivators/philosophies underlying any particular contributions.

The search showed a number of interesting changes. The overall trend was a remarkable increase as shown in Table 2. The one exception noted is that following an initial interest in corporate social responsibility accounting and reporting during the decade of the Shocker and Sethi benchmark article there was an actual decline until the interest increased again from 1994 to the present time. From 1974 to the end of 2003, there was an increase of 122 % in articles in all categories combined. This overall growth in relevant related articles is evidence of the ongoing theoretical discussion.

Insert Table 2 about here

Legitimacy theory appears to be an underlying motivator in the adoption of voluntary reporting models such as TBL, AA1000, and GRI2002. KPMG (2002) reported in their three-year survey that the Global Fortune 250 had increased their CSR reporting from 13% in 1993 to 44% in 2002. It is further noted that if the financial sector is not included the increase is actually 53%. There is a similar increase in GRI reporting. The twenty-one companies that first reported as a pilot project in 1997 has increased to 336 major international companies issuing reports. The Global Fortune 250 (2003) report showed that 69 companies or 28% issued GRI reports. Other investigations of corporate reporting look at legitimating reporting from a different perspective. The extent of verification of disclosures lags behind the rate of innovation in disclosures themselves as indicated in Table 3.

Insert Table 3 about here

The academic community has devoted considerable attention to legitimacy theory as indicated in section 3.3 above. A number of organisations are issuing social responsibility reports, which include environmental and social information. Companies may include this information as part of the annual report or may choose to issue a separate report, either as a hardcover report or posted on a website, or both. Some countries are beginning to require the disclosure of some of the information previously included in voluntary corporate social responsibility reports. Japan has issued an environmental accounting standard to take effect for the 2003 reports. Australia is attempting a trial run Sustainability Reporter database by asking the 300 largest companies on the

Australian Stock Exchange to post social and environmental information on the web. The data is then freely available at www.sirisdata.com/. France issued a standard in February 2003 requiring that the largest publicly listed companies provide information on social and environmental impacts in their annual reports. This legislation requires information on energy, water and raw materials use and waste generation. The Environment Minister stated that the requirement is in response to demands from various groups for increased information when faced with the growing role of multinationals, furthermore "Accountability is a prerequisite for moving toward sustainable development" (BATE, 2002, p.6).

4.4 THE BUSINESS CASE

The business case for social and environmental accounting can be evaluated from several perspectives. Firstly, groups such as CERES and Natural Step are comprised of business leaders attempting to formulate models of action for the modern corporation. It is noted in the discussion above that part of this is held to be an effort to establish, or maintain corporate legitimacy. However, business leaders themselves hold it to be important for their strategic planning and as a means of directly reducing risk. Furthermore, there are identifiable bottom line increases that can be shown. The US Chamber of Commerce (2003) conducted a survey of American companies of all sizes and results showed that 80% of the respondents believe that good corporate citizenship helps the bottom line (BATE 2003). PricewaterhouseCoopers (2003) noted in a recent survey of global US companies that although 72% of respondents stated that sustainability is important or very important to their business, they are not including considerations of sustainability in business decisions. Eighty-nine % of the respondents expect sustainability to have more emphasis in five years (www.pwcglobal.com/eas). Examples can also be shown of large corporations supporting responsible standards in areas of conservation. Shell has recently announced the adoption of a biodiversity standard and Boise Cascade has adopted a comprehensive environmental

statement that commits the company to not harvesting old growth timber in the US, and extending an environmental policy to its wood and paper products suppliers.

Secondly, the employment of EMAS and ISO14001 may be considered under this heading. The European Community (EU) asked manufacturing companies to voluntarily adopt EMAS as an environmental management standard in 1996. The majority of companies reporting using EMAS are from Germany where it received more regulatory emphasis. It can be argued that the structure of the ISO 14000 series locates it under the business case rubric. Internationally there were 49,462 ISO 14001 certificates issued at the end of 2003 (BATE, September 2003). Agencies such as the EPA (US) encourage ISO 14001 certification and local governments consequently may give purchasing preference to companies with the certification. A compelling argument for the business case for ISO 14001 certification arises from the requirement that under the identification of environmental aspects an entity has a responsibility to also consider the environmental aspects of its suppliers. This has led some leading manufacturers to require that their parts suppliers also become certified. This would then give the suppliers a competitive advantage over non-certified competitors.

Thirdly, internationally there is a movement for socially responsible investing. A number of large fund managers such as TIAA-CREF offer a social choice investment fund. Evidence is also found in the growth of the Dow Jones Sustainability Index. The Dow Jones Sustainability Index

(DJSI) was started in 1999 and at the end of 2003 licensees managed more than 2.3 billion EUR based on the DJSI.

4.5 PHILOSOPHIES/MOTIVATORS AND EVIDENCE OF ACTION

Figure 1 relates underlying philosophies or motivators, suggested actions to improve disclosures, and accountability (in some cases) or self-interest. Figure 4 adds the dimension of published evidence in the field. Unfortunately it has not been possible at this stage to separate the academic evidence of publication between critical theorists and various types of organisational legitimacy/triple bottom line advocacy, although it has been possible to separate out entries relating to social contract arguments.

Insert Figure 4 about here

5.0 CONCLUDING COMMENTS

This paper has considered in outline two bodies of literature. The first is a discussion about motivators or philosophies, that may underlie the proposals put forward by reformers and the actions by organisational management, which may lead to an increase in non-traditional disclosures. The second is the response developed over the past few years ranging from exhortation to detailed programmes of action. Although no attempt has been made to determine any empirical link between the two, there are certainly signs that an understanding of the motivation or underlying philosophy assists in understanding proposals for action and models for change in this branch of accounting research and practice. Some evidence of the connection between thought and action may be found in the increases in publication recorded in the last section of the paper.

The large volume of literature relating to social and environmental accounting makes any means of comprehending or classifying the literature potentially useful. The approach taken

here of attempting to locate an underlying philosophy or motivating factor assists in this understanding. Furthermore, when applied to the specific examples of proposals for additional disclosures we can see the association, which assists in making a judgement about the proposal itself. The publication data shows the approximate extent of publication output in the various categories.

The significance of the findings will depend upon the perspective of the observer. For example, an observer whose personal philosophical position is allied to the business case might be enthused by the volume of recent literature by corporations and allied bodies espousing a limited view of sustainability and the proposals from environmental management accountants concerned with internal processes. Those favouring the development of conceptual frameworks, standards and audit processes for triple bottom line disclosures would be concerned by the extent of managerial capture demonstrated by the business case, but relieved to some extent by the publication of GRI2002 and other models.

Future developments in social and environmental accounting, in the opinion of the authors, must lie in the development of conceptual frameworks, standards and audit frameworks, and the generation of proposals for implementation. These processes may involve parties motivated by a number of philosophical bases ranging from social contract to the business case, and an understanding of the various agendas will assist in the inevitable negotiation over acceptable outcomes. The authors perceive the process as analogous to that employed in the development of financial accounting standards (Zeff, 2004).

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Figure 1: Relating Motivation or Underlying Philosophy to Extensions to Social and Environmental Accounting

Motivation/ Underlying Philosophy	Critical Theorists	Social Contract	Organisational Legitimacy	Wide-----Narrow	Business Case
Normative-----					Positive
Direction of Action	Little or none, not supporting the status quo	Idealist, Exhortation	All Stakeholders	Limited Stakeholders	Limited to action where profitable
Models/ Systems	Gray et al., 1996 Chapter 10	Mathews 1997 Mega-Accounting Spiller 2000, SA8000	Forms of Triple-Bottom-Line Elkington 1997, GRI 2002	SA1000 EMAS	Environ. Mgt. Accounting I
	SO14000				

Figure 2

Summary of recommendations for developing a mandatory CSR

(Source Gray et al., 1996, p.298)

- Disclosure of detailed eco-balance and social balance statements;
- Disclosure of a detailed policy statement itemising the laws, codes and additional issues which govern the organisation;
- Disclosure of a detailed Compliance-with-Standard report;
- Additional descriptive analysis of remaining accountability issues;
- Detailed eco-justice statement;
- Detailed sustainable cost calculation;
- Restatement of the financial statements to highlight social, political and environmental costs;

And, as a first step

- Bring together all currently disclosed social, environmental and employee information into a single social and environmental report within the existing conventional annual report.

Figure 3 The Basic Underlying Principles of the Model

1. Information is made available to all stakeholders in recognition of the SOCIAL CONTRACT OF BUSINESS WITH SOCIETY. This implies a willingness to supply information to stakeholders who do not have a direct financial relationship with the preparer.
2. The annual report is a COMPREHENSIVE INFORMATION SYSTEM, which includes separately reported economic, social and environmental position statements.
3. STAKEHOLDERS are defined as potentially all members of society who have RIGHTS TO INFORMATION (Corporate Report, 1975) about those entities that are deemed to be significant and liable to publicly report on their performance and condition.
4. A CONCEPTUAL FRAMEWORK would be required for each area (until integration is possible).
5. LEGALLY BACKED STANDARDS would be mandated for each area (until integration is possible).
6. The three statements would have equal status in terms of AUDIT requirements.
7. THREE SEPARATE POSITION STATEMENTS together make up the ANNUAL REPORT of the entity to account to the other parts of the social and economic system in which the organisation is situated.
8. Each report would contain appropriate financial data, and non-financial data would be used in the social and environmental position statements. Furthermore, raw data could be available as advocated by Wallman (1997, p.108) under the rubric of “access accounting”, thus avoiding the problems of too great a degree of aggregation.
9. Any transfer of financial information from one position to another would be made outside of the three individual statements; for example if the impact of the organisation on the social structure of the area or the environment could be reliably determined in financial terms, this could be shown as an offset to the income earned, and vice versa.

Table 1 Scholarly Papers in Peer Reviewed Journals (ABI 2003)

Search Term	1974-84	1984-94	1994-2003	% change
Corporate Social Contract	7	31	51	629% increase

Table 2 Scholarly Papers in Peer Reviewed Journals (ABI 2003)

Search Term	1974-84	1984-94	1994-2003	% change
Environmental reporting,	1	12	39	380% increase
Environmental accounting,	36	72	190	428% increase
Corporate social responsibility	304	382	626	106% increase
Corporate social responsibility accounting	44	34	41	7% decrease
Corporate social responsibility reporting.	30	10	27	10% decrease
Totals	415	510	923	122% increase

*Note: although the last two items show an overall decrease they experienced an increase in the last decade of 21% and 170% for accounting and reporting respectively.

Table 3 Response to call for reporting through the GRI 2002 Guidelines

Corporate Social Responsibility Reporting by Global 250 Corporations	110
Global Companies producing GRI reports	379
Global Companies reporting 'in accordance' with GRI 2002 Guidelines	19
Source: Global Fortune 250 report 2003 and GRI website accessed 16/1/04	

Figure 4 Relating Motivation or Underlying Philosophy to Output of Publications and Reports

Motivation/ Underlying Philosophy	Critical Theorists	Social Contract	Organisational Legitimacy	Wide-----Narrow	Business Case Positive
Direction of Action	Little or none, not supporting the status quo	Idealist, Exhortation	All Stakeholders	Limited Stakeholders	Limited to action where profitable
Models/ Systems	Gray et al., 1996 Chapter 10	Mathews 1997 Mega-Accounting Spiller 2000, SA8000	Forms of Triple-Bottom-Line Elkington 1997, GRI 2002	SA1000 EMAS	Environ. Mgt. Accounting
Evidence	ISO14000 included in total of 923 articles	51 articles 1974-2003	923 articles ----- > 1974-2003	379 GRI reports	more than 49,000 ISO 14000 reports