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**What (if anything) has Accounting got to do with the
impending Environmental Crisis?**

by

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BACKGROUND

Social and environmental accounting (SEA hereafter) is a new field of study within the accounting discipline, it questions what has always been taken for granted by those who practice accounting. In a way, it presents a wealth of accounting theory which influences the way accountants look at things and the way they do things. In Uganda today institutions teaching accounting and the accounting related subjects are yet to start teaching SEA. Also there is evidence that corporate reporting in Uganda hardly considers social and environmental issues. From these two observations one may seek to investigate why SEA is not popular in both accounting education and in accounting practice. A few questions may arise from these observations;

- Is the way we teach accounting such that the "practical" aspect that is, the way things are done (positive) is emphasised more than the theoretical aspect, that is, why things are done and how they should be done (normative)?
- Are the social values in harmony with the accounting values (under the conventional model of accounting)?
- What informs the way accountants think about what they do?

The following text tries to discuss some of these issues. The text is a result of a paper that was presented in the public lecture series at Uganda Martyrs University, it has been improved to provide an introduction to the field of social and environmental accounting. It also provides an introduction to the theoretical perspective of the subject and a link to what is thought might be done to improve on corporate reporting by accountants in Uganda.

Introduction

Social and Environmental issues are not a new phenomenon in the world today. They are the issues which affect every thing else of our lives- our politics and our business. For the past 20 years or so, there has been increased debate on these issues and these efforts resulted in the Rio summit in Brazil in 1992, and the recently concluded follow-up meeting in Japan. The results of these and many other such conferences is the acknowledgment by different professions, businesses, and institutions that there is need to address issues of such a nature. The experimentation with social and environmental accounting is a result of the accounting profession questioning: What (if anything) has accounting got to do with the environmental crisis?

Organization of the paper

The paper is divided into three parts. The first part discusses the assumptions underlying conventional accounting thought and practice. This is also meant to expose the strength, but more so the weakness of traditional accounting models. An accountability approach is proposed as a better means of providing information to a society, thus making accounting play a more active role in the environmental debate.

The second part presents accounting using a systems perspective. It will be argued that accounting is part of the organizations sub-systems, hence it interacts with both the other organizational sub-systems and the external systems, that is, social systems and the biosphere (see Gray et. al, 1996). This is specifically meant to show whether accounting is in anyway related to the environment and, therefore, can be implicated in the impending crisis. The third and last part of the paper is focuses on the future of accounting in mitigating the environmental crisis.

The sustainability concept will be introduced as the guiding concept in the interaction between human beings and the planet, and this interaction is placed within the accountability framework.

Part 1

Perhaps a good point to start is to understand what is meant by accounting; this can be done by making reference to some of the theoretical under-pinnings of accounting. Traditional accounting thought is predicated upon the paradigm implied by the neo-classical economic theory of free market (Chua, 1986). The function of accounting within this paradigm is defined as: providing useful information (financial in nature) to individual decision makers (shareholders and financial market investors) who use it in accordance with their profit-centred goals, thereby, effecting an efficient allocation of resources. The underlying criterion of the provision of accounting information in this case is the decision usefulness. Basing on this criterion, the American Accounting Association in their Statement of Basic Accounting Theory (SBAT) of 1966 defined accounting as:

A...the process of identifying, measuring and communicating economic information to permit informed judgment and decisions by the users of that information@ Later on in 1975 they added that the purpose of this process was *A..to provide information which is potentially useful for making economic decisions and which, if provided, will enhance social welfare..@*(cited in Gray et al, 1996).

The above definition can help us to derive the traditional accounting model by: identifying an accounting entity, that is, a unit within society for which we account and this is referred to as the focal organization. Secondly, to identify economic activities as they directly affect the accounting entity. Thirdly, accounting for those events which involve or will generate some cash equivalent (financial transactions). Lastly, the purpose is implicitly assumed to be the provision of information to a particular set of individuals (shareholders and finance market investors) for a particular purpose. Such information is contained in the financial statements which are perceived to be the end of the accounting process by the accountants.

Throughout conventional accounting theory, teaching and practice there appears to be a widespread acceptance of a constrained view of the purpose of financial statements that, for example, the purpose of financial accounting is to inform the self-interested decision makers in order that they may maximize their personal wealth and explicitly or implicitly ensure efficiency of the market (Benston, 1982a). The big question here is, why such a privileged and talented group of people, by the title of accountants, operate to make the rich richer and more powerful? To this, accountants have always answered that we are serving the clients or the law requires it so. *What about catering for the public interest as professionals?*

The earlier claims are fraught except if we conceive the world where all are equal, free to act (liberal), and can express choice in the market (economic) and actions in the political arena. In this

conception the essence of individual rights and freedoms are paramount: that all have a right to information and come to economic exchange equally able and free to express personal economic choices.

The analytical strength of this conception develops when each agent is presumed to be acting in their own self-interest. The sum total of all these social, political, and especially economic actions of self-interested individual, does, it is claimed, produce maximum economic efficiency. This pursuit of economic efficiency seek out the >best= economic choice and ensures that finance, labour, "know-how", physical capital and materials are put to the best economic use. As a result, this generates maximum profits and economic growth. So any economy which generates financial wealth must make society better off, thus making everyone better off in society.

This picture of a Pristine Liberal Economic Democracy (PLED hereafter) avoids any reference to emotive matters, such as, ethics and morals. This is because embedded in the assumed working of the PLED is a version of the ethic of Utilitarianism. This ethic states that every action should be judged by the consequences of that action and, in particular, by reference to the consequences to the agent, that is, change in his or her utility. This utility is to be measured by cashflows, profits, and GNP and thus the consequences (rightness) of an action are captured in profits. A profitable action is a good action! No wonder that the profit figure in the income statement is a major concern to a particular group of users of financial statements.

Failings of the conventional accounting model

Conventional accounting can be justified under the PLED conception if the following links are true: if all agents were equal and if markets were information efficient, and if this led to allocative efficiency and in turn, to economic growth, and if this ensured maximum social welfare and if maximum social welfare is the aim of society, then accounting is morally, economically, and socially justifiable. Of course this is not the case.

Firstly, all individuals are not equal, they differ socially, economically and politically. Secondly, individuals are not free to act, there are restrictions in society imposed by the law and other societal systems. The ethical problems are also crucial and significant, Friedman in Ramanathan (1976) argues:

The traditional view of corporate performance is idealized in the quest to maximize profits. It is widely acclaimed that a firm's only social responsibility in a free market is to maximize its profits, for in so doing it is presumed to maximize its contribution to society@ (pg. 516).

The pursuit and reward of >more profit= is not amoral, because it tends to bring more environmental degradation, exploitation and inequality. Decisions are moral choices, therefore, it is some form of intellectual dishonesty to claim, as do accounting, finance and economics that moral issues

have nothing to do with me. Within the PLED conception of the world, self-interested utilitarianism is moral because its consequences, that is, economic efficiency, growth maximizing social welfare are desirable. Consequentialism (of which utilitarianism is one part and which is also implicit in traditional accounting thought) can be criticized that, for a given action one cannot know all the possible outcomes. In accountancy and economics, professionals completely ignore the outcomes and events which cannot be expressed in monetary terms and these are referred to as externalities, for example, environmental issues (as will be discussed later in the paper). This is only one way of assessing the rightness or wrongness of an action. The motive of the actor (motivism) and the intrinsic rightness or wrongness of an act (deontological ethic) are other ways of assessing an action. The deontological ethic is an ethic of duty and may apply better in the society-organization dialogue. However there can be no unequivocally correct way in which to judge an action since the criteria tend to conflict.

Accountability model

One of the major flaws of the conventional model of accounting is that it focuses on shareholders and creditors (finance providers) as the users of the financial statement. In spite of efforts by different professional accounting bodies to identify a wider range of users (see for example; The Corporate Report, 1975; International Accounting Standards, 1997) there is minimum response from those in practice. This poor response can be attributed to the failure of the accounting bodies to adopt a framework which supports the proposal.

The new approach which is proposed by Gray et. al, (1986) is the accountability model. Accountability is according to Gray et. al, *ibid*;

At the onus to provide an account (by no means necessarily a financial account) or reckoning of those actions which one is held responsible@ (pg. 38).

There are three elements to note in this notion of accountability, these are: a duty of the accountant to provide an account to the accountee, second is the action for which he or she is accountable, and lastly is the issue of satisfying responsibility and consequently discharging accountability. From this model a two-way relationship is developed, in which society is conceived as a set of relationships between different parties and can be thought of as having individual social contracts between members of society and society itself. The social contract is the one which stipulates the responsibility and the rights to information, thereby determining accountability.

In relation to the organization, therefore, a relationship exist between society and the organization through law and quasi-law. A duty of accountability is owed to society at large by the organization. The organizations are responsible for an account of the extent to which they have complied with the law. This concept exposes, enhances, and develops the social relationships and social contract through the

redefinition and expansion of established rights to information. The accountability approach concerns itself with the moral case for organization disclosure of accounting information to individuals and groups with a right to such information. It calls for companies to be more transparent by disclosing more information to a wider group of stakeholders as opposed to shareholders. It might be that if accounting took on this conception it would be an environmentally benign discipline (this will be discussed later in the paper).

Part 2

Systems perspective of accounting

Accounting is often considered in a severely constrained perspective, but accounting is not a system simply operating in isolation, nor is it simply part of one system which can be described as economic. Accounting also interacts with systems, that is, political, social, and ethical as well as being directly related to interactions within and between organizational systems and between those organizational systems and individuals, groups, communities, and the non-human elements of the planetary natural environment. Conventional accounting too often ignores these interactions and it falls to environmental accounting to attempt to account for some of the missing elements from conventional accounting study and practice.

Accounting substantive environment

By applying systems thinking and terminology we can show that indeed accounting creates a constrained view of the world and reality. The accountants' world centres around the organization (accounting entity), which itself is a system made up of sub-systems and these are located in a substantive environment. This substantive system is bounded with reference to that which accounting traditionally recognizes (the economic events that can be described in financial terms. There are three flows recorded in this system: inflows (debits), outflows (credits), and physical resources (goods and services). This captures all the bookkeeping and financial reporting done by accountants.

Social substantive environment

The organization is a complex web of interactions drawing from and contributing to the social world in many ways (both negative and positive). Many of these are not made explicit by the price system. The inflow in this system may include; infrastructure (legal, fiscal, social, ethical, legitimacy). Outflow may include; man-made capital, income skills, social structures, values, choice, and development of infrastructure.

The Biosphere

Our present interest is with environmental issues. We have seen that the substantive environment of the organization operates within a social substantive environment, and all this can be part of a greater environment which is the biosphere. The activities of the organization in creating material well-being draw from the biosphere some things for which price exist (raw materials) and some things for which no price exists (landscape, sea water). The biosphere is diminished by this. The processes of producing man-made capital and the subsequent consumption benefits lead to a waste. This is discharged into the biosphere. The accountant's model cannot recognize these interaction and they are ignored and this give

an incomplete picture of the organization.

In so far as accounting is an important source of information about organizations, this incompleteness may be very dangerous. The information from the accounting system is used in a whole range of management decisions and is a major source of information to the external participants of the organization. It not only forms part of the basis of important decisions but, more importantly, accounting helps define and measure the success of actions, and ultimately helps in constructing our concept of organizations (Hines, 1988).

With regard to the environment, it is obvious that the accounting picture is one from which essential elements are missing and if used as a basis for action and decision it must mislead. The present environmental crisis (depletion of the ozone, habitat destruction, acid rains, desertification, soil erosion, water and land pollution, third world debt, deforestation, waste disposal, energy usage, starvation, inequality, water and mineral depletion, toxic chemicals, nuclear waste, poverty), are certainly the result of decisions taken for reasons of economic success or efficiency. To a large extent accounting forms a major basis for the assessment of economic success and efficiency. Accounting is the score keeper. The score takes no account of environmental matters and so, as a result, neither does economic decision-making. Given the importance of accounting information and the way in which we account, it seems inevitable, therefore, that economic decisions must be environmentally malign. The environmental crisis, in part, is an inevitable result of the way accountants do what they do and how they do it. To this extent then, accounting bears a serious responsibility for the growing level of environmental devastation .

Gray and Bebbington's study also draws attention to the fact that while accounting is of marginal relevance at the present time in the context of corporate environmental management, the accounting system still clearly dominates traditional areas of decision making, such as medium and short-term planning, capital expenditure, and divisional performance evaluation. There is therefore, a clear danger that short-term restrictive focus adopted by traditional accounting systems which ignore the environmental dimension may be transmitting signals that encourage environmentally malign behaviour and offer resistance to initiatives designed to encourage more environmentally sensitive behaviour.

Other areas of traditional accounting and finance in conflict with environmental initiative include; investment appraisal criteria (Net present value, Internal rate of return and Pay back methods), Performance appraisal criteria, budgeting constraints, share price performance, reported earnings per share, priorities in annual reports, forecasting, assessing environmental costs and costs of sustainability.

Part 3

Accounting and Sustainability

Given the environmental crisis what about the future ? We need not stop at implicating accounting in the environmental crisis but rather we must make a further step to question if accounting can play any role in mitigating the effects of this crisis. Sustainability has emerged as the dominant concept guiding humankind's present and future interactions with the environment. Sustainability requires that humanity ensures that development meets the needs of the present generation without compromising the ability of the future generation meet their own needs (WCED, 1987; Cited in Gray et al, 1993).

For sustainability to have any realistic chance of being achieved, society must make many judgments about choices that influence or govern our current way of life, for this society needs information, information guided by the concept of accountability and transparency. A sustainable society will require information about the effect on the environmental of the actions and choices they make (eco-efficiency). Environmental accounting may be able to provide data on this. At a minimum provide some basis for environmental disclosure and accountability.

A sustainable society will also need to know the justice of its decisions, wealth distribution, how the its decisions affect this distribution, and how the future generation are affected by the present practice (eco-justice). Social accounting may provide such information. **Conclusion**

For any really significant environmental response from business, it will be necessary to redefine accounting >concepts, rules, conventions, methodology and education= in order to allow accounting to internalize all external environmental costs. Until environmental matters are included in the accounting systems of organizations (performance appraisal, budgeting systems) any initiatives will almost always lose out to the financial criteria.

More importantly this may have to start with accounting education for it is in accounting education that we are taught: what to account for, how to account for it, when to account for it, to whom the account is due.

As far as Accounting education is concerned there has been a considerable debate in the literature as to whether accounting is a service or not. Those who urge that accounting is an art or a trade suggest that accounting skills necessary to be a good tradesman should be taught, and not a legalistic approach to accounting is warranted. The advocates of accounting as a science suggest instead the teaching of accounting model of measurements to give the accounting students more conceptual insight in what conventional accrual accounting is attempting to do to meet the general objective of service user needs and to provoke critical thought about the field and the dynamics of change.

How accounting is taught, as a science or trade or as an art will affect the views of the field and the preparedness of those students electing to major in accounting an to join ultimately the ranks of the

accounting profession. Theory, in both the normative and positive sense, and the science of accounting placed at the front and not only at the back of the curriculum may prepare the student to understand better the accounting practice, to be prepared to changes in these practices, and ultimately to make better policy decisions.

The above argument fits perfectly to the now widely accepted view that accounting is a fully pledged social science. Mautz (1975), on this observes that;

Accounting deals with enterprises, which are certainly social groups, it is concerned with transactions and other economic events which have social consequences and influence social relationships; it produces knowledge that is useful and meaningful to human beings engaged in activities having social implications. It is primarily mental in nature.

Fine with all that, but a further step may be guided by the following questions: Why do we account for certain things and not others, how can we therefore account for those "other things" not accounted for in the conventional accounting model. This can be subject of another paper, it is worth thinking about accounting.

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