5 Social Accounting and Sustainability

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Introduction

For over four decades, social accounting has been under the scope of accounting study, as well as a concern for major organisations (Milne and Gray, 2012). However, when looking back at annual reports, particularly before the 1970s there was very little that could be identified as a social account. During the 1970s, a few organisations were ahead of their time by disclosing social information in their annual reports and even fewer created a separate social report (Kolk, 2010). During the late 1980s, there was an intense focus on environmental issues (Hahn and Kuhnen, 2013), specifically, how organisations and certain industries are responsible for climate change and what actions could be taken to protect the planet and provide a sustainable environment for society (Hahn and Kuhnen, 2013). Thus, the environmental aspect became included as part of corporate social responsibility. This was the period in which non-governmental organisations concerned with corporate environmental impacts were formed, for example Ceres (1989) (formerly known as Coalition for Environmentally Responsible Economies) and SustainAbility (1987). Following this, the International Organisation for Standardisation (ISO) opened the discussion for ISO 14001 in 1991, which was finally published in 1996. The standard had a clear environmental focus, which was received positively by a wide range of organisations, especially those with environmental concerns and those trying to be viewed as socially and environmentally friendly. It was not until the end of the 2000s that an integrated reporting of both social and environmental aspects was developed. This was mainly because of John Elkington’s influential work in the field in the 1990s and his work on the triple bottom line (TBL). The TBL opened new horizons in
understanding corporate social responsibility (CSR) and allowed for progression in social accounting and sustainability practices and theory (Elkington, 1997).

Capitalising on Elkington’s framework and his definition of sustainability, as well as how corporate reporting should evolve, Ceres formed the Global Reporting Initiative (GRI). Before becoming an independent organisation, the GRI issued its guidelines for CSR reporting, which were the first with an integrated economic, environmental and social focus. The GRI guidelines quickly became popular and, within a few years, allowed for sustainability reporting to rise in reputation (Fifka, 2012; Hahn and Kuhnen, 2013). The GRI came to be the most used set of guidelines in major organisations (KPMG, 2015), and were the only integrated guidelines available until 2010, after which the ISO 26000 was released. Despite the ISO having worldwide recognition, the ISO 26000 still lags in its adoption by large organisations. Delay also exists in governmental guidelines; very few nations have issued or mandated any environmental reporting rules, and fewer have issued social reporting requirements (e.g. Japan, UK). Only the Ministry of Corporate Affairs (MCA) of the Government of India (2011) issued and later mandated integrated reporting guidelines in the form of National Voluntary Guidelines for the Social, Environmental and Economic Responsibility of Business (NVG-SEE). The effects of mandating social and environmental reporting (SER), or their separate reports are not yet clear (Lock and Seele, 2016), but the EU Commission has mandated CSR reporting for entities employing over 500 people, encouraging them to use established guidelines, such as the GRI and the ISO 26000.

Given the importance of social accounting and sustainability for both current and future generations, this chapter takes a closer look at the developments outlined above. It begins with a discussion of the triple bottom line (TBL), a key concept influencing the development and practice of social and sustainability reporting. The emphasis is on both the positive aspects of the TBL as well as its limitations. This is followed by a discussion of major initiatives in the context of concern with CSR and sustainability, including attempts by not-for-profit organisations as well as local governments and the EU. The chapter then takes a closer look at some of the key organisations involved in initiatives on CSR and sustainability reporting before briefly discussing key reporting guidelines. Having outlined some key initiatives and the organisations behind them, the chapter then moves on to a discussion of two key concepts in social and sustainability accounting, namely sustainability and accountability. Some attempts at defining sustainability and examples of sustainability reports, including their relevance to the public sector, are discussed. The concept of accountability and socially and environmentally responsible actions as well as the need for transparency and disclosure are then presented.
The triple bottom line

The triple bottom line (TBL), also referred to as the 3Ps (profit, planet, people), was a concept formed by John Elkington in 1997. The focus was to allow organisations to consider closely not only their economic aspects, but equally their environmental and social impacts. Elkington contended that the modern organisation is held accountable for far more than just its economic performance and, therefore, needs to report on social and environmental aspects to survive competitively and maintain its intellectual capital. The assumptions that TBL reporting would become important were confirmed as more and more organisations started reporting their social and environmental aspects in the late 1990s; a trend which has continued until today. According to a report by KPMG in 2015, 92% of the world’s 250 biggest organisations reported their corporate responsibility in 2015, compared to a mere 35% in 1999. It is important to identify the reasons behind this trend and understand the importance of reporting and acting under the TBL.

The environmental performance of an organisation may attract environmentally aware customers (Sridhar, 2012) or suppliers, which can create a competitive advantage. Modern organisations are not only accountable for their CO² emissions and their water wastes, but also for the effect of their actions on the fauna and flora in other parts of the local or global environment. Also, some governments have specific environmental requirements from organisations, such as the UK environmental key performance indicators (KPI). Certain governments mandate such measures and others publish them as optional. Whichever the case might be, larger organisations endeavour to comply to legitimise their position towards the government and society. Additionally, environmental non-governmental organisations are actively searching to report organisational misconduct on environmental issues, which can have a major negative impact on the reputation of an organisation. One such example of environmental misconduct that resulted in reputational and financial loss is the 2015 Volkswagen emission scandal, which cost the organisation $18bn.

Social aspects are important for stakeholder groups both inside and outside of the organisation (Elkington, 1997). According to social contract theory (formed in Rousseau’s 1762 book The Social Contract), society allows organisations to function, use resources and provide products and services if the general costs (financial and non-financial) and waste created in this process do not exceed the total social gain (Mathews, 1993). Demonstrating the organisation’s engagement with society, as well as its approach to human rights and the treatment of employees, is not only expected, but also sometimes required from large organisations by stakeholder groups. Such social activity and disclosure may attract investors and employees, thus strengthening an organisation’s financial capital by receiving both additional funds and intellectual capital (through attracting better and more experienced employees). Furthermore, taking action, and being transparent connects the organisation with its local community (Sridhar, 2012) which allows