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ACCOUNTING FOR SUSTAINABLE DEVELOPMENT: A REVIEW OF ITS OUTCOMES AND THE ROLE OF THE ACCOUNTING PROFESSION

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ABSTRACT

This paper sought to develop a theoretical argument that ultimately showed that the accounting profession's response to the issue of sustainable development was not necessarily an evidence of the self-avowed commitment to public interest but rather an illustration of the profession's commitment to the survival of the business unit. This investigation was done via an exploration of literature which subsequently established the reactive nature of the profession, thus reinforcing the view that the profession reacted only because it became critically necessary to do so. The contribution of the accounting profession to sustainable development was also considered.

This investigation also attempted to analyze the impact of Socially Responsible Investment (SRI) via a consideration of the financial, environmental and social outcomes. While it was established that suggestions that SRI led to improved outcomes when compared to conventional funds were based on largely anecdotal data, this investigation showed that the necessity of incorporating social and environmental considerations in organizational policy as imposed by SRI as well as the availability of additional SRI funds cannot but be a source of strategic advantage.

Keywords: Socially Responsible Investment (SRI), sustainable development, conventional funds

I. INTRODUCTION

The concept of sustainability is not entirely new with the connection between the quality of life and the environment was first considered in the United Nations Conference of 1972. However, it was not until the Brundtland Report of 1987 that the consideration of the concept as an exploration of social equity, environmental quality and economic development was clearly established. Sustainability development was considered in the Brundtland report as development that guarantees the satisfaction of the needs of the existing generation while ensuring that the ability of future generations to meet their own needs is not compromised (Rogers, Jalal and Boyd 2008, Kuhlman and Farrington 2010). An illustration of a simple sustainable development model is shown in Figure 1

Fig 1: A simple illustration of the sustainability development model (Globalpermaculture 2011)

This representation of the connection between corporate economic, environmental, social and governance (ESG) behavior in a transparent and traceable medium is done via the utilization of sustainability reports (Altanova 2013).

Indeed KPMG(2002) considered sustainability reports as reports that provide a balanced representation of both quantitative and qualitative information regarding corporate financial (economic), social (ethical) and environmental performance, with Banhegyi et al. (2007) suggesting that this disclosure of relevant information with respect to the three major aspects identified was adequately captured by the phrase 'triple bottom line' reporting. These reports will therefore enable the company to efficiently identify and manage the full range of the corporate sustainability impacts from processes, products, services and activities (White 2009). Beyond the management of corporate impacts Mitra and Agarwal (2003) considered the improvement of customer confidence, reduction of operating costs, the improvement of reputation and image for improved investments from environmentally and socially inclined investors as well as encouragement of the innovation of new processes and technology as other significant reasons for sustainability reporting.

II. THE ACCOUNTING PROFESSION AND THE PUBLIC INTEREST CONCERN

The importance of preserving public interest has always been considered a major concern for the Accounting Profession as illustrated by the incorporation of the public interest concern in the vision and mission statement of the International Federation of Accountants (IFA) where the drive to serve the public interest was clearly emphasised (IFA 2014). However, while it is clear that the accounting profession claims to do good in the interest of the public, there has not always been a common consensus on what exactly this public interest concern encompasses (Fülöp 2013, McPhail and Walter (2009). Indeed, there are studies that suggest that no correlation exists between this reported obligation to public concerns and their implementation in practice (Sikka, Willmott and Lowe 1989). Furthermore, it has been suggested that beyond the public interest rhetoric early traditional forms of accounting had a distinctly commercial orientation, focusing on financial performance, thus maximizing shareholder value was paramount with non-financial cost and benefits considered irrelevant (Carmichael and Swieringa 1968 ,Stoner and Werner 1994). Hence, it can be inferred that traditional accounting was concerned with protecting the interests of the shareholders, with the concept of public interest synonymous with the interest of the shareholder as well as all beneficiaries of an enhanced financial performance such as managers and creditors. This deeply financial orientation has, in recent times been broadened to include social and environmental concerns, with different schools of thought identifying different drivers for this change.

III. TRADITIONAL ACCOUNTING TO SUSTAINABILITY ACCOUNTING - PUBLIC INTEREST COMMITMENT OR ECONOMIC CONCERNS?

The development of sustainability accounting in recent times has generated a source of debate with respect to the role of the accounting profession as an agent of change from traditional accounting. It has been suggested that sustainability accounting was introduced due to the commitment of the accounting profession to concerns of the public with respect to the insufficiency of traditional accounting methods (Mook 2013). This assertion was reinforced by the suggestion that although the accounting profession's response was not voluntary, it was a consequence of increasing public pressures, which forced the expansion of the scope of stakeholder consideration beyond the traditional shareholders (Porter and Kramer 2006). Indeed the accounting profession demonstrated that it was responsive and sensitive to prevailing criticisms, which may be considered as the conduit for public concern therefore illustrating the pervasive and enabling characteristics of the accounting profession (Potter 2005).

Others will however emphasize that beyond the direct response to external public pressures, development of sustainability accounting was not necessarily independent of threats to the financial enhancement of the organization, indeed, Schaltegger and Burritt (2006) identified the need for profit maximization as the major driver for change. According to Chatterjee (2011) the sustainability perspective was a straightforward economic logic constituting a means to induce capital accumulation to promote higher profit levels. It can therefore be implied that the accounting profession was a function of the needs of the organization (investors) rather than due to the self-avowed commitment to public interest. These compelling views impose the need to inquire if the accounting professing would have responded to public pressures if such pressures did not have a direct impact on the economic state of the organization!

Kaidonis (2008) however made the potentially decisive observation that since public interest was seldom a homogeneous set of ideals the, market behaviour served as an indication of what the prevailing public interest was. Indeed the Institute of Chartered Accountants in England and Wales (2004) suggested that supply chain pressure due to the expectations of the public for an improved standard of sustainable performance highlighted the mutually inclusive nature of public interest with respect to sustainable development and the economic performance of the organization. Consequently, negative views held by the public for a particular organization will manifest via reduced sales and profits.

IV. THE CONTRIBUTION OF THE ACCOUNTING PROFESSION TO SUSTAINABLE DEVELOPMENT

According to James (2003), the influence of the Accounting profession in the development of sustainable development remains largely undisputed with the provision of incentives for exemplar professional approach in sustainability reporting via a myriad of awards, research and discussion documents. Indeed, Minga (2012) emphasized that the accounting profession has invested consistently in research in an attempt to correlate finance, environmental and social performance in other to validate suggestions that models of earning in a sustainable path are comparable to models of price earnings ratios. Furthermore, it has also been suggested that the accounting profession has sought to keep pace with contemporary change by initiating a reassessment of accounting education although there are also arguments that these required changes in accounting education may not have been rigorous enough (Appleby 2012, Lockhart and Mathews 2000). Phansey (2012) also emphasized the critical role of the accounting profession by exploring various traditional accounting tools, which he suggests, serve as invaluable instruments that have contributed to the evolution of sustainability accounting such as the ecosystem services model.

Thus, although the accounting profession has taken considerable strides in an attempt to promote sustainable development Ngwakwe (2012) suggests that the resultant contemporary sustainability accounting remains a weak approximation of the triple bottom line concluding by emphasizing the need for a more pragmatic response of the accounting profession to the issue sustainable development.

V. SUSTAINABILITY ACCOUNTING AS A TOOL FOR SURVIVAL

A consideration of the investigation presented illustrated the deficiency of the traditional accounting dogma that assumes that what is good for business favors the environment and society, indeed, sustainable accounting clearly suggests the opposite - what is good for the environment and society as illustrated via public interests favors the business. This was aptly summarized by Deegan (2002) when he stated that the survival of an organization is threatened if the public finds that the organization has dishonored the social contract, in other words in considering the demise of an organization, overwhelming public disapproval should be explored as a logical culprit. Thus, since public expectation has changed over time traditional accounting has simply undergone series of modifications in an attempt to align with the interests of the public ultimately birthing the concept of sustainability accounting in other to facilitate organizational sustainability.

It is therefore safe to conclude that the accounting profession's response to the issue of sustainable development as illustrated via the introduction of sustainability accounting was not necessarily an evidence of the self-avowed commitment to public interest but rather an illustration of the profession's commitment to undertaking all steps necessary to guarantee the survival of the business unit.

VI. ACCOUNTING FOR SUSTAINABILITY AND SOCIALLY RESPONSIBLE INVESTMENT (SRI)

The concept of Socially Responsible Investment (SRI) is not entirely new indeed Sparkes (2002) established that the earliest significant reference to ethical investment was made with respect to investment by the UK church investors of 1948. The concept is considered by many as a critical component of the world financial system due to the unique role it plays in improving corporate environmental, social, and governance performance (Sophia 2012). According to Fung, Law and Yau (2010) the concept could also be defined as an umbrella term for investment strategies that incorporates considerations of environmental damage, social change as well as religious beliefs to facilitate the improvement of long term returns with Betz (2009**)** emphasizing its role in establishing sustainable business practices. Coulson (2007) stated that SRI sought to influence corporate behaviors by utilizing positive and negative screening as well as the engagement investment tools. The negative and positive screening involves avoiding investing in companies which are perceived to have negative environmental and social impacts while investing in those with recognized positive impacts while the engagement method, which was an introduced in the 1990s involves influencing behavior by building relationships to facilitate provoking change from within the organization as shown in Figure 2.

Fig2: The Socially Responsible Investment Methods (Broadhurst, Watson and Marshall 2003, pp. 16)

It is suggested that the concept was conceived in response to a greater demand for sustainable development by environmentalists that considered the existing forms of economic development as unsustainable arguing that sustainable development would ultimately become the only practicable economic model (The Ecodesign Foundation 2001). This assertion was also re-echoed by the International Finance Corporation (2003a) when it was acknowledged that the introduction SRI promoted the development of the sustainability ideology via the conscious imposition of checks on corporate behavior on a range of social and environmental issues.

Furthermore, the upsurge of such ethical investors also necessitated the need for sustainability reports as a tool for presenting reliable and credible information on which such investors could base their judgments (Buhovac and Epstein 2014).

VII. THE IMPACT OF SOCIALLY RESPONSIBLE INVESTMENT (SRI) ON SOCIAL AND ENVIRONMENTAL OUTCOMES

While it may be illogical to ignore the obvious positive correlation between SRI and the evolution of accounting for sustainable development the exact impact of SRI on actual social and environmental outcomes remains largely obscure. Indeed, The International Finance Corporation(2003b) conceded that although there exists is a myriad of evidence of Social Responsible Investments impacts on existing social and environmental concerns, it remains largely anecdotal due to the unavailability of rigorous data. According to Behrman (2011), there is very little information about the impact of SRI on social and/or environmental outcomes resulting from such ethical investment.

Solomon (2007) however argues that with respect to the general impact of SRI on the institutional investment community there is sufficient evidence to suggest that SRI has had a substantial and quantifiable effect. He suggests that SRI has caused a paradigm shift in the attitude of the capital market from a solely economic perspective to a more expanded focus that encompasses social, environmental and governance considerations in its bid to attract and retain investments.

It therefore satisfies logic to suggest that although there is very little data to suggest improved social and environmental outcomes the increased awareness of sustainability concerns imposed on the companies by virtue of selective ethical investment cannot but ultimately have a positive impact on the need to account for sustainable development. SRI consistently forces companies to take decisive steps in aligning with the expectations of these investors if investment is to be engaged and retained.

VIII. THE IMPACT OF SOCIALLY RESPONSIBLE INVESTMENT (SRI) ON INVESTMENT RETURNS

The effects of SRI on investment returns has in recent times constituted a major subject of controversy amongst economic theorists due to perceived limitations in economic performance when investing in only socially responsible portfolio (Kempf and Osthoff 2006) . Indeed Sally, Hoje and Meir (1993a), identifies major schools of thought built around three alternative hypotheses with respect to the relative returns of socially responsible funds and conventional funds. The first hypothesis suggests equal returns of socially responsible funds, the second hypothesis suggests lower returns of socially responsible funds while the third hypothesis suggests higher returns of socially responsible funds when compared to the expected returns from conventional funds.

The suggestion that the emergence of SRI may have a negative impact on financial intermediaries such as the SRI portfolio managers arises due to the expanded focus on both financial and social objectives, it is suggested that this ‘multi-focus’ may compromise fund managers’ incentives to pursue economic efficiency (Renneboog, Horst and Zhang 2008). Grossman and Sharpe (1986) however emphasized that recent studies shows no significant decline in the returns of SRI funds, which may suggest a decreasing economic efficiency. On the other hand Sally, Hoje and Meir (1993b), explains that the suggestion that the expected returns of socially responsible funds will be higher than the expected returns of conventional funds is logical if a reasonably significant number of conventional investors consistently underestimate the possibility of negative information being released about companies that are not socially responsible. Hence, utilizing the oil and gas companies as an illustration, if conventional investors consistently underestimate the possibility that oil companies stocks will be compromised will due to negative information of oil spills. Indeed, such negative information will cause a clear decrease in the price of oil company stocks leading to lower returns on conventional funds invested in those oil company stocks while the funds of socially responsible investors not invested in oil will remain unaffected.

Kalev and Wallace (2012) however argues that mixed results are observed when comparing the returns of SRI funds with conventional funds suggesting that this lack of unequivocal evidence as to whether SRI hinders or benefits financial outcomes making it impossible to draw logical conclusions. While it is clear that most empirical studies of this vast body of literature are consistent with the hypothesis that no significant difference exists in the returns for SRI and conventional funds it must be recognized that by addressing and attempting to satisfy multiple investors certain economic benefits can be achieved (Rathner 2011),. Orlitzky, Schmidt and Rynes (2003) suggests that managers can increase the amount of funds available for operations while simultaneously improving the organizations overall efficiency with respect to the organization’s adaptation to external demands subsequently bolstering the company's competitive advantage in a fair and rational manner.

Thus, it satisfies logic to state that although there is no conclusive absolute evidence that supports an overall improved financial flow of SRI it is clear that adding SRI funds to the pool of funds available to a company cannot but be a source of strategic advantage. (Word Count **Section 3**: 1124)

IX. CONCLUSION

This investigation was expected to explore sustainable development as well as the existing framework utilized by organizations in accounting for sustainability via a consideration of SRI as well as the contribution of the accounting profession while exploring the perceived drivers for this contribution.

This investigation was subsequently able to establish that the accounting profession's response to the issue of sustainable development was more of an illustration of the profession's commitment to organisational survival rather than its commitment to public interest. This conclusion was reached by considering the historical drivers of change of traditional accounting while consequently establishing the reactive nature of the profession to threats to the organisational economic well- being.

While this analysis was able to establish the anecdotal nature of existing data suggesting improved financial returns, it explored the possibility of an increased overall organisational efficiency in its attempt to improve access to funds. Indeed, this analysis demonstrated that improved efficiency via the increased adaptation to external investment demands remained an undisputed source of strategic advantage to the business unit. Indeed, this analysis sought to propel critical thinking with special attention given to these identified areas of priority ultimately reinforcing the relevance of accounting for sustainability to organisational survival!

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