

Sustainability Accounting

Subjects: Others

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Sustainability accounting is expanding in the academic context and business practice. It has different meanings but few definitions, and this demonstrates a lack of conceptualization in this regard. The concept is often used as a synonymous of environmental accounting, social accounting, or non-financial accounting.

According to Zvezdov and Schaltegger (2013), it “entails systems, methods, and processes of creating sustainability information for transparency, accountability, and decision-making purposes. This includes the identification of relevant sustainability issues of the company, the definition of indicators and measures, data collection, overall performance tracking and measurement, as well as the communication with [...] internal and external information recipients.

Keywords: social and environmental accounting ; non-traditional accounting

1. Introduction

According to Schaltegger and Burritt^[1] (2010: 381), “[s]ustainability accounting can be seen as a pragmatic goal driven set of tools which attempt to develop measurement tools for different integration levels and methods of environmental, social and economic accounting and reporting expressed in physical and monetary terms. This includes the measurement and management of information about all linkages and aspects of corporate sustainability: eco-efficiency, socio-efficiency, stakeholder value, shareholder value contributions of corporate citizenship, etc.”.

It encompasses different types of non-traditional tools mainly focusing on non-financial performance information, i.e. environmental and social, rather than economic aspects. These aspects impact not only on the economic performance of organizations but mainly on the environmental performance and the whole society.

Sustainability accounting relates to the different types of non-traditional forms of accounting and reporting. It can be understood as^[1]:

- (1) An illusion and a buzzword;
- (2) A concept with multiple meanings, e.g. environmental, social, eco-efficiency issues;
- (3) A broad concept embracing information about corporate sustainability measurement and management;
- (4) A stakeholder engagement process for the development of measurement and management tools linked to the economic, social, and environmental aspects.

2. History

Deep involvement of accounting in sustainability issues can be traced back to the 1960s and 1970s^[2]. In this period, there was a spread of awareness about the insufficiency of traditional types of accounting to highlight the social and environmental impacts of organizations’ activities. In these decades, this situation gave rise to environmental accounting^[4].

In the 1980s and 1990s, Gray^[5] (2010) recommended accounting to include environmental and social aspects, e.g. waste and energy reporting, social and environmental reporting, environmental impact assessment, and accounting for environmental assets and liabilities. In this context, there emerged the belief that companies should be accountable not only for the bottom line, i.e. for the economic impacts of their action^[6] but also for the whole social impacts of their activity. For this reason, the concept of the Triple Bottom Line (TBL) emerged. According to Elkington^{[7][8]} (1999; 2018), the triple bottom line includes profit, people, and the planet. This means that accounting should deal with financial, social, and environmental (i.e. ecological) aspects.

The interest of companies and academics toward sustainable development has particularly intensified since 1987 when the Brundtland Report was published^{[9][10]}. At the time, a widespread interest in the concept of sustainable development arose, understood as a commitment to organize and manage human actions in a way that allows satisfying the physical and psychological needs of people without compromising the integrity of the economic, social, and ecological environment^[9].

In 1997 the Global Reporting Initiative (GRI) was established. It is a non-profit organization aiming at supporting the reporting of sustainable performance of any type of organization (independently of their size, public or private nature, sector, or country).

In recent decades, public and private organizations have been expected to be increasingly accountable for the impact of their actions in all aspects of the TBL. In this context, the role of accounting is very important, as it must provide information not only on the economic performance of companies and the economic effects of their activity but also on a large number of social and environmental aspects.

However, accounting is not only a useful tool for reporting the various types of performance achieved; companies could also use it as a public relation tool aimed at providing third parties with information improving their image and reputation, in order to obtain legitimacy from stakeholders^[9]. This latter case is an improper use of accounting commonly called “window dressing”^{[1][10]}.

3. Sustainability accounting tools

The term “sustainability accounting” is commonly used to describe a wide range of accounting and reporting tools^[11]. Schaltegger et al. ^[12](2002) have identified 46 different tools suitable for implementing sustainable development in business enterprises, categorizing them into three dimensions: environmental, social, and integrative. Among them, those specifically qualifiable as “accounting tools” are:

- environmental, social, and sustainability accounting;
- special types of cost accounting;
- social accounting;
- substance flows analysis.

Environmental, social, and sustainability accounting are “extension approaches” of conventional accounting, complementing traditional financial information with methods aimed at record, document, and examine social and ecological effects of the organization’s activities. Among these types of non-traditional accounting, Schaltegger et al.^[12] (2002) identified various tools, such as investment appraisal, and eco-budgeting.

Special types of cost accounting include:

- environmental cost accounting, aimed at register direct and indirect costs of corporate environmental impacts, and consider their impact on the attainment of the organization’s goals;
- material flow cost accounting, useful for identifying cost-intensive process stages, unidentified possible cost savings, and ecological effectiveness raisings,
- environmental management accounting (EMA), aimed at identify, record and analyze both physical information about energy, water, and materials use and flows, and monetary information about environmental costs, savings, and earnings (CGMA).

Social accounting includes accounting systems supplying information about the social costs and benefits of the organization’s activity. Usually, it does not offer a social report (understood as a balance sheet) but there can be sometimes social reports or life cycle assessments.

Substance flows analysis reports and analyzes the pathway of a substance from raw material state to waste. It includes material flow accounting, i.e. the analysis of material flows on a local (e.g. national) scale.

4. Conclusions and Research Directions

Despite the growing interest of companies and academics in sustainability accounting, its concrete diffusion is still low^[11] (Passetti et al., 2014: 305). As happens in general in the context of non-traditional accounting and reporting, the paucity of uniform rules implies, on the one hand, a lack of standardization, as there is a wide variety of accounting tools; on the other hand, this situation allows the development of new sustainability accounting tools, which can respond to the varied needs of companies and their stakeholders.

Future research directions include to delve into the reasons why sustainability accounting tools and techniques have still a low application, the influence of organizational culture on sustainability accounting^[11] (Passetti et al., 2014: 305-306), the ability of sustainability accounting tools to satisfy the knowledge needs of stakeholders, the truthfulness, correctness, and completeness of the information reported in the sustainability accounting and reporting tools, as well as the ability of this information to improve the decision-making processes.

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