

Mega-Accounting And Reporting; A Proposal For Further Development

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This paper continues previous research (Mathews 1984, 1997b, 2000a, 2000b, 2003) into developing a proposal for a system of comprehensive reporting based on a concept called mega-accounting. The ideas in mega-accounting are similar to those behind GRI (2002, 2006) and triple bottom line (TBL) reporting (Elkington 1997), but with a different underlying philosophy, a social contract approach compared to one based on organisational legitimacy or the need for management to drive sustainability and sustainable capitalism which is sometimes called 'the business case'.

The paper attempts to develop the concept of mega-accounting by identifying the purpose underlying the reports, and the basis of a conceptual framework, and providing an indication of the content that social and environmental accounting reports may include in the future. Of necessity the research perspective is normative and deductive, as is much of the process of developing accounting standards, the model upon which it is argued social and environmental accounting could be based. The paper concludes by reiterating that the way forward for social and environmental accounting and reporting is for a conceptual framework to be agreed and standards developed via a normative-pragmatic process that will provide the basis for comprehensive, audited, corporate reports encompassing the social, environmental and economic dimension.

Field of research; Social and Environmental Accounting and Reporting

1.0 Introduction

The area of social and environmental accounting and reporting has been described as under-theorised, with few attempts to develop models or proposals for extending this area; Gray et al., 1996 (chapter 10), Schaltegger and Burritt (1997), Mathews (1997b and 2000a), Elkington (1997) and GRI (2002), are some of these examples. These proposals have different underlying philosophies. Gray et al., is based on a critical theory paradigm, Schaltegger and Burritt (1997) is close to the business case, Mathews (1997b, 2000a) has a social contract base, and Elkington (1997) is based on either organisational legitimacy or the business case (Mathews, 2004). GRI (2006) has a complex underlying philosophy but probably lies in the organisational legitimacy camp. This paper continues previous research (Mathews 1984, 1997b, 2000a, 2000b, 2003) in developing a proposal for a system of comprehensive reporting based on a concept called mega-accounting.

The research perspective is normative and deductive, as is much of the process of developing modern accounting standards, the model upon which it is argued the development of social and environmental accounting could be based. The author argues that financial accounting standard setting is now a normative-pragmatic process whereby normatively constructed proposals are exposed to a 'small p' political process (exposure to various interested parties to ensure that the final outcome is accepted by the preparer group and by the legislative agencies, but not involving a formal political process, although the deliberations in producing International Financial reporting Standards (IFRS) may be political).

Mathews (1997b) and Mathews (2000a) advocated the mega-accounting model, with principal component the social contract perspective, and acknowledging that corporate structures have an important role to play in our society provided that they respond sensitively to the needs of that society, including the production and dissemination of social, environmental and economic information. In addition to the social contract of business with society, which has a lengthy philosophical tradition from Hobbes and Locke, through Rousseau to Rawls and Donaldson (1982); mega-accounting is motivated by the Corporate Report (ASSC, 1975); thus, the annual report should be a comprehensive information system providing for stakeholders who have 'rights to information.' Acceptance of the social contract philosophy should ensure that the corporation is not motivated by short-term concerns for shareholder wealth at the expense of the wider stakeholders (Deegan, 2000).

Using the mega-accounting approach the information should be based on a conceptual framework, appropriate legally backed standards and an independent audit. Some progress has been made in this direction with the introduction of Triple Bottom Line (TBL) reporting (Elkington 1997) and the framework of the Global Reporting Initiative (GRI 2002, 2006), although GRI is not a set of standards although it might meet some of the requirements for a conceptual framework. Some organisations are now having independent audits conducted on the SEA aspects of their reports. The legally backed nature of accounting-standards may be controversial when applied to social and environmental disclosures. There are many who would regard legislation as inappropriate where a social contract is invoked, however, there has been a need for legislation with financial accounting standards and the author cannot see that some form of legislation can be avoided with any other form of information sharing. The Triple Bottom Line (Elkington 1997) is approached from a management perspective, and not an accounting approach, and therefore there is no involvement with conceptual frameworks or standards.

The remainder of the paper is structured as follows. Section 2 describes other normative models, and then possible legal impediments to the expenditure of corporate resources on social and environmental resources. Section 3 lists several problems that the author argues remain to be addressed including developing a conceptual framework to underpin standards, the development of standards covering the three dimensions for disclosure (social, environmental and economic), and independent audits of SEA disclosures. This is followed by concluding comments and

future research. An Appendix is used to show a detailed list of ideas to be considered for the development of standards for disclosure in the three dimensions.

2.0 Other Normative Models

Although normative-deductive approaches to developing financial accounting and reporting ceased to be influential at the end of the General Normative Theory Period in 1970 (Henderson and Peirson, 1983), a number of important contributions to Social and Environmental Accounting (SEA) have been based on the Normative-deductive approach. In addition to the mega-accounting model (Mathews, 1997b) and the Triple Bottom Line approach (Elkington, 1997), other have been put forward by Gray et al., (1996, Chapter 10), Schaltegger and Burritt (1996). The set of sustainability guidelines put forward by the Global Reporting Initiative (GRI, 2002, 2006) is another example of a normative-pragmatic statement which is more of a conceptual framework than a set of standards. Another model for a conceptual framework might be aspects of the social accounting information system proposed by (Burke, 1984, p.100 cited in Mathews, 1993, p.68).

These models all lie within the accounting discipline which claims precedence in matters of measurement and reporting of economic and other information. However, in most cases there is no clear philosophical basis or underlying philosophy or if there is it is not a social contract basis as with mega-accounting (Mathews 2004). A different approach has been taken by the legal fraternity, and a recent report outlines how legal restrictions may influence the normative-deductive models of accountants seeking to improve SEA reporting.

Camac (2005) a Discussion Paper on Corporate Social Responsibility (CSR) is concerned with CSR from a legal perspective. Apparently, there is a legal basis for not adopting too liberal an approach to using corporate resources for either charitable donations or environmental protection. Directors are liable personally for actions which result in the unnecessary expenditure of shareholders resources because, in general, there is little legal recognition given to the 'rights' of stakeholders without direct contractual connections with the corporation. Normally, expending resources should have some connection with advancing the future of the corporation. The American Law Institute model (Principles of Corporate Governance model clause 2.01b(3)) states:

Even if corporate profit and shareholder gain are not thereby enhanced, the corporation, in the conduct of its business may devote a reasonable amount of resources to public welfare, humanitarian, educational, and philanthropic purposes (ALI, 1994, p.55).

There could be legal limitations to the extent that SEA activity can be funded unless a connection with corporate advantage can be shown. Clearly this is not a social contract perspective. This position applies to Australia as well as the US. The Australian Stock Exchange (ASX, undated) has issued Principles of Good Corporate Governance and Best Practice Recommendations that follow a corporate benefit approach. The relevance of legal thinking to accounting and reporting is clearly important if standards are to be developed that could be supported by legislation. Legal experts are not alone in their concern about SEA (or sustainability accounting as

it is often called) refer Unerman et al., (2007). Radical accounting objections are outlined in the next section.

3.0 Renewed Criticism of ‘Sustainability Models’

In general the GRI proposals, put forward and developed over several years, have received a favourable assessment, as demonstrated by the number of citations received and the level of influence upon reporters. However, in a recent paper Milne et al. (2008) have criticised the GRI approach (and all others under the general heading of triple bottom line accounting Gray and Milne, 2002; 2004) concluding that:

We argue that the TBL and GRI are insufficient conditions for organizations contributing to the sustaining of the Earth’s ecology. Paradoxically, they may reinforce business-as-usual and greater levels of un-sustainability. (Milne et al., 2008, abstract).

The authors are critical of the GRI and similar schemes because they support the status quo in business and society despite adding to the disclosures to stakeholders, and because they are part of the promethean world view (Dryzek, 1997, in Milne et al., 2008) where there are “benign trends leading off into a happy future”. The problem with the paper by Milne et al. (2008) is that although they very comprehensively address the problems of sustainability (or as they would put them non-sustainability) disclosures, they do not offer alternative models to our present position. Despite the build up the authors do not attempt to fill in the space with any alternatives of their own construction.

The authors are concerned about issues of equity and social justice and core issues around sustainability such as scale of development, limits and constraints to that development and effects on future generations. The authors are moving in the direction of limitations on corporate action, but fail to specify what action they advocate. An argument can be mounted that both a radical new form of organisation and operation can exist alongside the type of reporting proposed by GRI. The problem for those interested in building models is that those who are concerned with the perpetuation of business-as-usual have not put forward their alternatives for criticism in the same way that they are free to criticise those putting forward models of improved disclosure.

4.0 Problems Still to be Addressed

Although a great deal has been achieved in terms of extending the boundaries of accounting and reporting, there are several issues in both social and environmental accounting which have yet to be addressed. These include the provision of a conceptual framework, a more comprehensive set of standards for social and environmental accounting disclosures and independent audits. These issues are considered in the following sections. As noted above a more secure legal basis will be needed if disclosers are to feel confident that their actions will be acceptable to those regarded as the main stakeholders.

4.1 The Development of Standards and Independent Audits

As noted previously there is at least one set of guidelines (GRI 2002, 2006) that many accept as providing standards for disclosures in line with the TBL approach (social, environmental and economic reporting). However, when assessed against the modern approach to financial accounting (conceptual frameworks, legally backed standards and independently audited accounts) the GRI guidelines are somewhat lacking. The conceptual frameworks that have been produced have tended to support sectoral interests (SA 8000 for example) and are not universal (Deegan, 2000, p.322). GRI 2006 does not address the same areas as the financial accounting conceptual frameworks; which organisations should report, how should reports be constructed, and how should we define the different parts of accounting statements? Until the conceptual framework/standards issues are addressed, organisations cannot be required to produce reports that could be independently audited.

It may be possible to have a combined conceptual framework for both mega-accounting and TBL accounts based upon the following objective:

The purpose of a set of mega-accounting (or TBL) accounts is to enable a reader with no prior experience of the organisation, to gain a full understanding of the practices and policies of the organisation as they apply to products, employees, the environment and the general public. The information required will include social, environmental and economic disclosures that have been prepared in accordance with standards and the reports will have been independently audited.

With the social contract as a philosophical basis and this objective we can now address the conceptual framework issues:

4.1.1. *Towards a Conceptual Framework*

At least three matters need to be resolved; which organisations should report, how should reports be constructed, and how should we define the different parts of accounting statements?

The organisations that should report are those having major social and economic impacts on society (ASSC, 1975); the social contract approach indicates that it is the social/economic impact that is important rather than the legal structure. Thus large private companies would be treated no differently from large public companies in terms of reporting any polluting actions. Large public organisations would also be included equally.

How should reports be constructed? If the expanded reports are to earn any credibility amongst users (defined as all those who have 'rights to information' (ASSC, 1975) there must be a degree of standardisation and uniformity, which is also required if the reports are to be audited. It is not sufficient to indicate as GRI 2002 does that organisations should report 'the total energy used in a period' if there is no specification of how this should be measured and what units should be used in

measurement. The same strictures apply to defining the different parts of the statements.

4.1.2 Towards Standards for Disclosure

Some possible disclosures might include the following. A detailed list is provided in the Appendix.

4.1.2.1 The Social dimension:

The impact on employees and the local economy. Details relating to employees; gender, location, numbers employed, wages, salaries paid, dividends and interest payments paid into the national and local economy. Information about payments made for goods and services received and the extent to which they support the local and national economies. A statement of value added. Workplace safety reporting.

Clearly the economic impact is important whether in a buoyant or depressed economy. When an economic downturn is experienced, the way in which the organisation attempts to protect the local economy is clearly very important (Harte and Owen, 1987). In good times the extent to which the wealth generated is shared, will be seen as important not only in wages paid, but also other benefits including; pension contributions, training, and financial support for housing and education. The statement of value added may be used to assist in providing this information. The impact of the organisation on the local social structure will be important to the extent to which the organisation is regarded as legitimate and fulfilling the conditions morally attached to the social contract argument.

4.1.2.2 The environmental dimension:

This area has received more attention than the social in recent years, even though many disclosures have not been aimed at assisting the general public, but at legitimating the performance of the organisation. To enable an outsider (the reader) to appreciate the environmental impact of the organisation the report should contain comparative data allowing the reader to assess data provided by the entity against that required by legislation and industry averages when this data becomes available.

The data could include discharges and escapes of potentially toxic materials as well as those reflecting a poor degree of efficiency of the plant. The energy consumed by a plant in relation to output is an important measure of efficiency and this measure can be used in benchmarking against industry averages. Standards will be required to ensure that the measures used are comparable between organisations and to facilitate the audit process. They could be modelled on modern accounting standards which go a long way towards ensuring comparability between disclosures. Information on the discharge of toxic chemicals has to be made to the authorities for inclusion in the Toxic Release Inventory (US) or National Pollutant Inventory (Australia), and this information could be included, at little additional cost, as mandatory disclosures in the environmental section of a comprehensive annual report by corporations.

4.1.2.3 *The Economic Dimension:*

Traditional accounting reports are the main part of any economic dimension within TBL reporting. However, it should be noted that financial accounting, although greatly improved since the development of legally backed standards post-1984, has not attempted to address a number of financially based dimensions including valuation issues. Although many SEA proponents are not particularly concerned with the development of financial accounting, believing that traditional accounting is responsible for maintaining the social status quo and damage to the environment through short-term decision-making (Tinker, 1985, Gray et al. 1996), mega-accounting, the GRI and TBL all regard the economic dimension as very important and an equal part of the overall disclosures required to inform the general public about organisational performance.

5.0 Concluding Comments

This paper acknowledges the considerable efforts that have been made to improve and extend corporate disclosures since about 1970, although some reports appear to be motivated by purely organisational image needs. Education and legislation may improve current disclosures, however, there are several issues that must be addressed before more far-reaching changes can be achieved. These include the development of conceptual frameworks, standards and independent audits to improve current disclosures. These areas indicate a research agenda for the next period of development of social and environmental accounting.

Social and environmental accounting and reporting is no longer an unusual feature of corporate behaviour, especially with larger corporations or those operating within traditionally polluting industries. However, there is evidence (Deegan and Rankin, 1996; Deegan et al., 2000) that the corporate disclosure mission is often to present only a positive image of corporate performance. This was once a feature of financial accounting and reporting that required concerted action to remedy. The author argues that similar resolute action is required in the area of Social and Environmental Accounting and Reporting with a model for standardised and audited disclosures based upon modern financial accounting with a conceptual framework, standards (perhaps with legal backing) leading to disclosures that can be independently audited.

This paper provides at least some of the necessary components of such a system including, a stated purpose (page 6), a philosophical basis (the social contract), some elements of the conceptual framework, and a list of potential disclosures to be considered for the standard setting phase (Appendix I). It is true that this list of 'things to do' is lengthy and perhaps daunting, but the GRI has a similar list of potential disclosures, but it is argued far less structure or underlying philosophy than mega-accounting. Elkington (1997) also has matters for management to address if business is to remain sustainable, but because Elkington is a management consultant, he cannot be expected to see the need for disclosure standards.

The suggested measures are all capable of being formulated as standards which could be verified and all would provide useful information to satisfy the objective stated. By redefining the target readership to be outsiders wishing to gain a full understanding of the practices and policies of the organisation in social, environmental and economic areas, the report moves away from short-term financial and shareholder-only dimensions.

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Appendix I

Economic Position Statement:

Suggested content would include existing IFRS based standards plus standards to accommodate the following issues;

- Alternative valuations of assets and liabilities using ranges of values around a single point instead of a single point value.
- The inclusion of executory contracts as an extension of the capitalisation of leases.
- Human Resource Accounting, to provide the value of the human asset.
- Internally generated goodwill and other intangible assets. The new IFRS regime is a retrograde step in this area.

Social Position Statement:

Data related to employees, products and services provided; community service and relations with government agencies.

Employee data should include;

- the numbers employed,
- gross earnings i.e. total wages paid.
- Information regarding Trade Union involvement.
- Details of training and funded/subsidised study programmes operated by the organisation.
- Scholarships provided.
- Details of lost-time accidents involving serious injuries and time lost by minor accidents analysed by plant or division.
- The proportion of value added going to labour.
- A measure of net social contribution.
- Number of employees by geographical location, and gender.
- Total payments for salaries, wages, and other employee benefits.
- Official disputes as a proportion of normal working time.
- Unofficial disputes involving a cost to the organisation.
- The extent to which grievance procedures are utilised.
- Details of minority employment where that is relevant to the operation of the organisation.
- Numbers of employees employed at different levels including gender and minority data.
- Comparisons with similar organisations.
- Relationships with the local community including sponsorships, prizes, scholarships, funding of local communities through employment, local purchases of goods and services, payments to local governments and an estimate of benefits received from local government services such as roads, railways, ports.

Environment Position Statement

Although there has been a lot of discussion in the academic literature (Gray et al., 1993; Schaltegger and Burritt, 2000) related to environmental reporting, examples of systematic and comprehensive disclosures are somewhat rare.

Suggested disclosures include.

- Amount and cost of energy used.
- Specific measures of energy used per unit of output.
- Energy used related to output at specific plants and production centres.
- Details of the research programme if directed towards increased efficiency and a reduction in energy use.
- Inputs of materials and outputs of product, waste and by-products.
- Discharges to air and water, especially data supplied for the Toxic Release Inventory.