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Sustainability Accounting and Reporting

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PREFACE

This book provides an up-to-date overview of the most current developments in environmental and sustainability accounting and its links to reporting. This fourth volume in the Environmental Management Accounting Network (EMAN) series is characterized by a broad geographical and a contextual range of topics. Contributions from nearly all continents discuss new developments in environmental accounting and investigate topics and links between corporate environmental and sustainability issues as well as between strategy, measurement and information management or between accounting and reporting.

For the last five years EMAN, the environmental and sustainability accounting network, has developed from a small, dedicated group of European academics to a full-fledged international network with strong links to corporate accounting and reporting practitioners, international organizations and regulators. The network provides a platform for the exchange of ideas and the sharing of experiences with environmental and sustainability accounting and reporting. “EMAN Global” (www.eman-global.net) serves as an umbrella organisation of the regional sections in the Asia Pacific (EMAN-AP), Europe (EMAN-EU), Americas (EMAN-AM) and Africa (EMAN-AF). Based on the success of the annual conferences of the European and Asia Pacific sections the American and African groups are planning their first workshops. The regional sections of EMAN have their own independent work agendas but are linked with each other through the steering committee of EMAN GLOBAL and by participating in other regional conferences, fora and workshops.

Dealing with sustainability accounting and reporting EMAN has concluded that environmental management accounting (EMA) constitutes an indispensable cornerstone and can be defined as a subset of sustainability accounting and reporting. Currently EMA is the most developed subset of sustainability accounting. This is why the steering committee of EMAN decided to keep its well-known acronym EMAN but to rename the network into Environmental and Sustainability Accounting Network.

With the extending global EMAN network the fourth EMAN book draws its selection of best papers from the EMAN-EU conference on sustainability accounting and reporting held in Lüneburg in 2004, with more than 200 participants, and the 2005 EMAN-AP conference in Bangkok with more than 100 participants.

The papers presented in this book have gone through an independent peer review and thorough editing process to ensure the highest possible research quality for academic submissions, or, for more practically orientated
contributions, the greatest usefulness for potential corporate and political practitioners. The publications presented in this book have been selected following an intense blind review and editorial process drawing from over eighty initial abstracts and papers submitted. Most papers had to be revised on the basis of two to four reviewer reports linked with two to three revision cycles. Such activity does not just involve a substantial workload for the authors it also depends on the goodwill of and commitment of time from the reviewers and editors. For their valuable comments we would like to thank all reviewers for their diligent and important work: Pat Anderson, Patrick Albrecht, Jan Jaap Bouma, Frank Dubielzig, Reinout Heijungs, Gjalt Huppes, Christian Herzig, Ralf Isenmann, Ki-Cheol Kim, Markus Milne, Andreas Möller, Pall Rikhardsson, Chika Saka, Stefan Seuring, Heiner Tschochohei, Tobias Viere, Marcus Wagner and four reviewers who prefer to remain anonymous. For the initial involvement we would also like to thank Jan Jaap Bouma. All papers have also been reviewed by the editors. A very special thank you goes to Martin Bennett and Roger Burritt who, in addition to the “normal” editing work, given the international nature of contributions, also made a very thorough language check of each paper. In addition, we would like to thank Katja Hölkemeier for the very thorough way in which the manuscript has been brought into the required layout format, with the help of Victoria Voss. Special thanks to Cornelia Fermum for her always reliable secretarial support.

We would like to thank the various organisations whose generous financial support has helped to ensure the success of the EMAN conferences in Lüneburg and Bangkok and to develop this EMAN book: the Asian Society of Environmental Protection (ASEP), German Federal Ministry of Environment (Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit, BMU), InWent Capacity Building gGmbH, PricewaterhouseCoopers (PWC) Denmark, University of Lüneburg and Volkswagen AG.

In particular, the editors of this volume and the Steering Committee of EMAN Europe and EMAN Asia Pacific would like to thank all participants who, by joining in and making presentations at its conferences, have supported the continuing development of environmental and sustainability accounting.

We would also like to invite anyone interested in joining EMAN to visit the website: www.eman-global.net. Further information can be obtained from the EMAN Europe chairperson Stefan Schaltegger (schaltegger@uni-lueneburg.de) and from the EMAN-Europe website (www.eman-eu.net or www-eman-global.net).

*The editors*

*Stefan Schaltegger, Martin Bennett and Roger Burritt*
Chapter 1

SUSTAINABILITY ACCOUNTING
AND REPORTING: DEVELOPMENT, LINKAGES
AND REFLECTION
An Introduction

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Abstract: Companies are key contributors to economic, environmental and social well-being. Corporate activities pervade the present and are likely to be critical in the future, so that corporate sustainability is necessary for long-term sustainable development of the economy and society. In this context, sustainability accounting and reporting which serve the collection, analysis and communication of corporate sustainability information become crucial triggers for management towards corporate sustainability. If corporate sustainability is seen as being the result of management attempts to address sustainability challenges, then it makes sense to discuss and define sustainability accounting and reporting on the basis of the challenges embedded in the sustainability triangle and addressed by cornerstone publications. This chapter concludes with a discussion of the link between accounting and reporting and the question of whether reporting is, or should be, driven by accounting, or conversely whether accounting is or should be driven by reporting.

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1. CORPORATE SUSTAINABILITY – THE BASIS OF SUSTAINABILITY ACCOUNTING AND REPORTING

1.1 What is Understood by Corporate Sustainability?

Companies are key contributors to economic, environmental and social well-being. Corporate activities pervade the present and are likely to be critical in the future, so that corporate sustainability is necessary for long-term sustainable development of the economy and society.

From a pragmatic point of view, corporate sustainability can be viewed as the result of management attempts to tackle challenges posed by the need for corporations to move towards the goal of sustainability (Dyllick and Hockerts 2002, Schaltegger and Burritt 2005). However, it remains unclear when a company can be considered to have reached the state of being sustainable. Sustainable development of a corporation requires the initiation and establishment of organisational development and organisational learning processes. If this view is taken to its extreme, corporate sustainability cannot reflect a given state to which management may strive, but will always have to be a moving target for organisational development. Nevertheless, for reasons of clarity it is helpful for a company which is striving towards corporate sustainability to distinguish between the target state of corporate sustainability and the process of sustainable development. The term corporate sustainable development is therefore used here to mean the processes which are implemented in order to reduce negative impacts and to increase the positive effects of corporations towards attaining a sustainable economy, environment and society, whilst corporate sustainability represents the desired outcome of such processes (Schaltegger and Burritt 2005, see also Dyllick and Hockerts 2002). In corporate practice, the focus is usually on the processes rather than on the end state, representing in essence an incremental process of continual development towards sustainability.

The distinction between corporate sustainability and corporate sustainable development is to some extent also reflected in environmental standard ISO 14031’s distinction between operational performance indicators (OPIs, which map performance and outputs) and management performance indicators (MPIs, which map the route that management is taking to improve its future OPIs).

Given the broad and ambitious goal of sustainable development in general, corporate sustainability is a challenging concept which is in need of operationalisation. In this context, information about sustainability impacts and sustainability performance can help managers to incorporate deliberative, sustainable thinking into their decision-making, planning, implementation
and control activities. This is the sharp end of the debate about corporate sustainability. As a consequence, sustainability accounting and reporting – which serve the collection, analysis and communication of corporate sustainability information – become crucial tools for management in moving towards corporate sustainability.

1.2 Historical Development of Sustainability Accounting and Reporting

The concept of sustainability accounting has emerged over a period of years from both philosophical accounting discussions (e.g. Bebbington 2001, Bebbington and Gray 2001, Gray and Bebbington 2000) and developments in accounting (e.g. Forum for the Future 2005, Schaltegger and Wagner 2006a, Schaltegger and Wagner 2006b, see also Schaltegger and Burritt 2006).

First, it needs to be recognised that accounting has long been presented in a conventional way for use by both management and external parties.

Financial reporting is based on accounting information which is gathered within organisations and then prepared for presentation to external parties through disclosure in external reports. The information which is disclosed revolves around a number of statements which are related to the organisation’s financial activities. In particular the statement of financial position, or balance sheet, shows the financial position of the organisation at a particular date; and the statement of financial performance, or income statement, provides information about the financial inflows and outflows of the organisation in a specified period. Both are based on accruals-based accounting information which is designed to reflect the financial impact of transactions on the assets, liabilities and equity of a company as they occur. Separate information about cash movements in a period is reflected in a cash flow statement, which also reconciles the initial and closing cash balances. Over the years specific rules have been adopted by professional accountancy bodies and regulators on how specific transactions should be accounted for in order to maintain the credibility of financial statements and the organisation in the eyes of external readers.

A second type of accounting, cost accounting, was initially closely related to financial accounting in that it provided information about inventory values for inclusion in the annual financial reports (Wells 1978). Cost accounting was then adapted from its initial financial accounting purpose in order to assist with management control, to emphasise performance reporting based on financial representations of the expected and actual performance of both organisations, and of parts of organisations such as divisions or
departments, and their comparison to provide the basis for management action based on the differences reported.

Since this early adaptation of financial accounting for management control, management accounting has developed separately to focus on generating information for management planning, control and decision-making (Horngren et al. 2005:10). In recent years the strategic importance of management accounting information has been emphasised (Morse et al. 2003, Ratnatunga et al. 1993). Adoption of a strategic approach means that strategic management accounting places stress on the ways in which organisations match their resources to the needs of the market place, particularly to competitive pressures, in order to achieve defined organisational objectives.

This has raised the question of corporate (environmental and sustainability) performance measurement and management which as an integrative approach tries to link strategic management, management accounting, and reporting, in order to organize the flow of information between its justification, creation and communication (e.g. Schaltegger and Wagner 2006a, 2006b). In this view, the term ‘reporting’ is not limited only to external reporting as it is in financial reporting but rather encompasses the whole information communication process, internally as well as with external stakeholders.

The term sustainability reporting is usually used to refer to the publication of external reports, as either printed brochures or electronic versions on the internet. However, one main effect of sustainability reporting is the involvement of management and employees in setting sustainability goals for the corporation, collecting data, and creating and communicating sustainability information. The design of external sustainability reporting should therefore consider its interplay with internal communication and reporting processes.

The significance of these historical developments is that sustainability accounting and reporting could be developed in different ways: first, based on an entirely new system of accounting; and, second, as a development of conventional financial, cost, or management accounting. The former is appealing because if sustainability accounting is developed de novo it allows a complete reappraisal of the relative significance of social, environmental and economic considerations and their interactions in corporate accounting systems, for management and external parties (see Houldin’s (2001:3) comment in relation to the development of new environmental accounting systems). The latter is closer to practice since piecemeal modifications to existing accounting require less dramatic change.

Changes to conventional accounting have taken the form of: environmental accounting and reporting as the foundation for external environmental reporting, with a major emphasis on environmental impacts and extended performance expressed in physical and qualitative terms (Schaltegger and