Back to basics: What do we mean by environmental (and social) accounting and what is it for?—A reaction to Thornton

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A R T I C L E   I N F O

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A B S T R A C T

This paper seeks to explore whether mainstream financial accounting when it appears to genuflect to the ‘environment’ actually has anything substantive do with – or to say about – the natural world. It seems important to remember that conventional financial accounting is a predominantly economic – and not very internally logical – practice which has no substantive conceptual space for environmental or social matters per se. It has no space for what Thielemann calls ‘market alien values’ – values such as environmental concern. The paper re-examines why we might account at all and revisits why accounts which explicitly recognise environmental (and social) issues can be potentially very important indeed. What seems clear is that whilst any account that sought to reflect environmental and social exigencies might choose to use the technologies of accounting – notably debits and credits – there is no essential reason why they must do so. If we wish to account for an environment, we almost certainly would not start with the somewhat bizarre and tortured foundations of conventional financial accounting.

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1. Introduction

There were then…. and there are now people who think that they know what accounting… is. How wrong these people are.

(Hopwood, 2007, p. 1367)

It is probably safe to start with a few statements of the obvious. We are all probably familiar with an accounting – that accounting which is based on the elegant and undoubtedly useful system of double-entry bookkeeping from which various streams of cost and management accounting develop and, in altogether more arcane ways, the craft of constructing financial statements emerges. And that basic accounting with which we are all so familiar is
fundamentally based, as Dan Thornton’s paper correctly notes, on the maintenance of definite entity boundaries and the identification and recording of priced transactions crossing those boundaries.1 Indeed, the basic double entry bookkeeping system is interested only in the cost/price of the transaction and the accounting category to which it can be allocated. Other characteristics of the transaction are typically ignored. It all gets a lot more murky once the basic double entry is completed. Despite a rhetorical attachment to the objectivity and cost/price-driven nature of our conventional accounting, once we pass from a basic trial balance on towards the composition of financial statements, the precise nature of accountants’ consistency and internal logic becomes ever harder to discern.

That this accounting is all accounting, the only accounting or even the most desirable accounting is clearly not the case. The nature of giving and receiving accounts is not set in stone; is not part of a natural law; and, as Hopwood (2007) argues, has changed throughout history.

Trite though it must be, any accounting is typically judged by a combination of the extent to which it meets the purposes that are – or could be – held for it, and the extent of the unanticipated (and particularly the malign) consequences of its application. Whilst much basic accounting might be thought of as primarily intended to support the running of an enterprise of one sort or another, it is quite apparent that much of the paraphernalia of financial accounting is not designed with that in mind. When we approach any accounting it behoves us, I should have thought, to remind ourselves why we think this activity matters. Implicitly, in one way or another, most financial accounting activity seems to be concerned with such matters as maximising shareholder wealth, helping distant and remote financial markets operate and, perhaps, helping navigate tensions between directors and the holders of investment capital. Financial accounting, per se, has no obvious interest in matters environmental.2

Now this probably wouldn’t matter (quite) so much if it were not the case that the natural environment is under the most appalling attack (UN, 2005; WWF, 2012) and that the very processes that conventional financial accounting seems designed to encourage are amongst the most likely causes of the environmental desecration, (Johnson, 2012). In these circumstances, it seems extremely important that any financial accounting which inexorably has the effect of encouraging growth, profit and efficiency at the inevitable expense of social and environmental damage (externalities as Dan Thornton has it) at least acknowledges this possibility, (Birkin and Polesie, 2012). Equally, if we are to try and move towards offering accounts of the natural environment (or moves towards claiming so to do) then it seems a sine qua non that such accounts must reflect the best available data reflecting the planetary state – ‘planetary accounts’ if you will, (Porritt, 2005).

It is from this context that this brief set of reactions to Thornton’s (this issue) paper emerges. The following section offers one reading of “Green accounting and green eyeshades” in an attempt to understand Thornton’s arguments and to tease out his key points.3 The section is probably unsuccessful in this attempt. Section 3 returns to some very basic ideas about accounting and the natural environment and offers a range of possible purposes behind such human activity. As with a lot of previous work in “environmental” (and “social”) accounting, this section privileges (versions of) the natural environment along with the more strictly human notion of accountability. The final section calls for reflection in accounting (and indeed in environmental and social accounting) about its purposes, its politics and its possibilities.

2. Thornton’s case?

It is initially difficult to understand the parameters of Thornton’s argument because the absence of references in the paper made it almost impossible for this reader to know how this absence might be construed. The most immediately obvious interpretations might include that he has some genuine objections to the plethora of early attempts at “green accounting” or that he is simply unaware of the extensive work in the field. This is especially awkward because there is a substantial literature which explores various approaches to (what we might refer to as) environmental accounting and which, to varying degrees meets what I take to be Dan Thornton’s apparent criteria that accounting must comprise debits and credits and reflect some sorts of accounting processes4. This literature (see especially Rubenstein, 1989, 1991, 1992, 1994; but also Dierkes and Preston, 1977; Ullmann, 1976; Bebbington, 2007; Bebbington and Gray, 2001; Epstein, 2008; Herbohn, 2005; Jones, 2003; Lamberton, 2000; Schaltegger, 1998; Schaltegger et al., 2006; Schaltegger and Burritt, 2000, 2005; Schaltegger and Wagner, 2006a, 2006b) is even engaged, to varying degrees, with income statements and balance sheets. This is a long-standing and diverse literature so its absence is therefore puzzling – and quite possibly leads to a more critical reading than would perhaps be apposite.

1 It is worth emphasising that Thornton’s arguments are predominantly concerned with financial accounting although whether this perhaps narrows our focus is a moot point.

2 And the long-standing drift from what might once have been thought of as stewardship to a several decade dominance of the bizarre claims of decision usefulness as a conceptual framework simply emphasises this. (See, for example, Gerboth, 1987; Hines, 1991; Ijiri, 1983; Macve, 1981; Laughlin and Paxty, 1981).

3 Other papers in this issue, provide other readings and reactions (Cho and Patten, 2013; Deegan, 2013; Spence et al., 2013).

4 Four statements on the first page of the paper lead me to this inference.
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