



On the interplay between environmental reporting and management accounting change



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ABSTRACT

This paper investigates how environmental reporting (ER) and environment-related management accounting (EMA) practices may interact in the process of responding to disturbances of the natural environment (e.g., changes in environmental regulation, green consumerism, societal pressures for environmentally-responsible conduct). Based on data gathered in four Belgian case companies, we find that the emergence of an interplay between ER and EMA practices is related to the change pathways followed by these disturbances. Moreover, the strength of the environmental disturbances, top management commitment and the presence of an environmental champion are important contingent factors in understanding the development of a recursive relationship. Finally, the findings illustrate that an interplay between ER and EMA practices has the potential to foster or stifle organizational greening.

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1. Introduction

In a world conscious of sustainability issues and constraints, the demands for different flows of information are likely to grow (Hopwood, 2009). In particular, in response to disturbances of the natural environment (e.g., changes in environmental regulation, green consumerism, societal pressures for environmentally-responsible conduct), organizations may change their reporting (e.g., Bebbington et al., 2009; Cho and Patten, 2007; Spence and Gray, 2007) and management accounting practices (e.g., Albelda-Pérez et al., 2007; Fraser, 2012; Larrinaga-González and Bebbington, 2001). Moreover, Frost and Seamer (2002) and Tilt (2006) have proposed that there may also be an interaction between environmental reporting (ER) and environment-related management accounting (EMA); that is, procedural changes in one may elicit procedural changes in the other. The question then arises how this interplay

is bound up with the change process towards organizational greening. Accordingly, the purpose of this paper is to investigate *how ER and EMA practices may interact in the process of responding to disturbances of the natural environment*. This research question is mainly addressed through 15 semi-structured interviews with general, finance and environmental managers of four Belgian companies. The data were collected over a two-year period.

To fathom the various facets in the change process towards organizational greening, we use Laughlin's (1991) organizational change framework. As a middle range theory, the framework merely provides a language to explore change processes, in that empirical flesh is needed to make it meaningful (Laughlin, 1995). Several authors in the social and environmental accounting area (Gray et al., 1995; Larrinaga-González and Bebbington, 2001; Larrinaga-González et al., 2001) have already acknowledged the framework's capacity to sensitize the researcher to observe change that is not readily observable (Fraser, 2012).

The contribution of this paper is threefold. First, because the process of constructing environmental reports can

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be of greater value than the actual reports themselves (Adams and McNicholas, 2007), we enrich studies that mainly considered ER as an outcome (e.g., Gray et al., 1995; Larrinaga-González et al., 2001) by considering reporting as a process. In particular, we complement studies that investigated change pathways in response to disturbances of the natural environment (Fraser, 2012; Gray et al., 1995; Larrinaga-González and Bebbington, 2001; Larrinaga-González et al., 2001) by providing a detailed analysis of the emergence of an interplay between ER and EMA practices during this change process. At the same time, we empirically test Tilt's (2006) assumption that ER can be considered as a response that may result from undergoing some form of organizational change or as one of the drivers of it. Second, given that academic evidence on EMA is still sparse, we also respond to calls for more research in this area (Burnett and Hansen, 2008; Ferreira et al., 2010; Henri and Journeault, 2010; Parker, 2005; Perego and Hartmann, 2009). Furthermore, we complement research on the interface between managerial and financial reporting (Hemmer and Labro, 2008). Finally, by uncovering the mechanisms through which accounting develops in a specific setting, we contribute to the broader accounting change literature (e.g., Burns and Scapens, 2000; Hopwood, 1987; Innes and Mitchell, 1990; Vaivio, 1999).

The remainder of this paper is organized as follows. Section 2 reviews the relevant literature. Section 3 elaborates on the employed research method, while Section 4 analyzes and discusses the findings. The final section offers some concluding remarks.

2. Literature review

2.1. Organizational change in response to disturbances of the natural environment

Organizations are naturally change-resistant (Broadbent and Laughlin, 2005). Therefore, the dynamics of organizational change need to be studied in relation to 'disturbances' (or 'jolts', 'kicks' or 'noises') (Laughlin, 1991), for example of the natural environment (e.g., Gray et al., 1995). When organizations can successfully avoid disturbances, no change occurs. This non-change is described by Laughlin (1991) as *inertia*. In the context of the natural environment, inertia implies a complete ignorance of the environmental agenda (Gray et al., 1995; Larrinaga-González et al., 2001).

In other organizations, disturbances can cause changes in the balance of the organization's components; that is, in the amalgam of subsystems (tangible elements such as buildings, people, machines, etc.), design archetypes and interpretative schemes (Laughlin, 1991). Hinings and Greenwood (1988) define archetypes as 'compositions of structures and systems given coherence or orientation' (p. 4) by interpretative schemes. More specifically, design archetypes are 'the intervening variable between the higher level values and the tangible subsystems and are intended to guide the design of the latter to express the perspective of the former' (Laughlin, 1991, p. 212). As such, accounting forms an important part

of an organization's design archetype (Broadbent, 1992). Bartunek (1984) sees the interpretative schemes as a set of shared meanings, values and beliefs that provide a means by which organizational members have the possibility to achieve a shared interpretation of the same events. Drawing on Levy (1986), Laughlin (1991) subdivides the interpretative schemes into three increasingly deeper levels of abstraction: (1) beliefs, values and norms; (2) the mission or purpose of the organization; and (3) metarules.

To delineate the different pathways that disturbances may follow and the different degrees of change they may engender, Laughlin (1991) distinguishes between first-order or morphostatic and second-order or morphogenetic change (Levy, 1986). Morphostatic change can be characterized as merely giving things a different appearance, whereas morphogenetic change deeply penetrates into the organization's 'genetic code' (Smith, 1982) as a result of learning and development processes (Robb, 1990). While morphostatic changes leave the interpretative schemes unaffected (Laughlin, 1991), morphogenetic changes involve shifts in all three organizational components (subsystems, design archetypes and interpretative schemes) (Laughlin, 1991). Levy (1986) is more specific and argues that morphogenetic change is only possible when the deeper levels of the interpretative schemes alter.

Within each order of change, Laughlin (1991) further distinguishes two change pathways. First, *morphostatic* change is subdivided into rebuttal and reorientation. In the case of *rebuttal*, only the design archetypes will be slightly altered and then, once disturbances have been rebutted, the change may revert back. In the context of the natural environment, the primary feature of this pathway is that companies refuse to recognize their environmental impact ('the environment has nothing to do with us'; Gray et al., 1995) or divert responsibilities away by blaming other stakeholders (Larrinaga-González et al., 2001). *Reorientation* change transforms both the design archetypes and the subsystems, while leaving the interpretative schemes intact; for example, the adoption of environmental initiatives for conventional business concerns (Gray et al., 1995). Second, Laughlin (1991) subdivides *morphogenetic* change into colonization and evolution. *Colonization* change is forced upon the organization, whereas *evolution* change is chosen by the organization. Colonization change is initiated in the design archetypes, which then modify the subsystems and the interpretative schemes. In the case of evolution, changes in the interpretative schemes affect the design archetypes and next the subsystems.

Gray et al. (1995) and Larrinaga-González et al. (2001) found views that could be identified with colonization (fear) and evolution (choice) but could not detect adjustments within the interpretative schemes. This led them to theorize that both colonization and evolution can be either morphostatic or morphogenetic. Finally, it should be noted that Larrinaga-González and Bebbington (2001) and Fraser (2012) found that an organization's response to environmental disturbances also depends on the specifics of each situation, such as the strength of the

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