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## Accounting for the environment: Towards a theoretical perspective for environmental accounting and reporting

Michael John Jones\*

School of Economics, Finance and Management, University of Bristol, 8 Woodland Road, Bristol BS8 1TN, United Kingdom

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### ABSTRACT

This article develops a multilayered theoretical model to underpin environmental accounting and reporting (severe environmental dangers; corporate responsibility; new relationship between industry and environment; measure industry's impact, and disclose and report impact). This theoretical model has eight premises. It begins with the fundamental premise that environmental change puts the planet at risk. Given that industry has a great impact on the environment and that society legitimates industry it is argued that industry has a duty to act. As the present situation appears to put the planet in jeopardy, there is a need for a new relationship between industry and the environment. It is argued that, although there should be a long-term radical reorientation, in the immediate short-term sustainable development should be the target. There is a need for a measurement system to assess industry's impact, but current accounting is inadequate for a variety of reasons (e.g., monetary dependence, capitalist orientation, business focus, reliance on neo-classical economics, numerical quantification, and technical accounting practices). There is thus a need for a new holistic accounting which captures corporate environmental impacts. Finally, it is argued that companies because of their stewardship function should report their environmental accounting to their stakeholders. There are several implications from the acceptance of this theoretical model for organisations and accountants. First, at the general level, given the severity of the environmental problems which face us, it would seem prudent for managers and accountants to take immediate action to address these threats. Second, the traditional accounting paradigm with its narrow focus on accounting numbers does not capture the environmental consequences of organisational activity. Third, as part of innovation and experimentation there is a continued need to explore potential alternative monetary and non-monetary valuation systems. Finally, the theoretical framework implies that as part of their discharge of their stewardship function organisations should disclose their environmental performance to stakeholders.

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“Never send to know for whom the bell tolls, it tolls for thee”.  
*John Donne, Devotions upon Emergent Occasions. Meditation XVII*

\* Tel.: +44 117 928 9000; fax: +44 117 928 8577.  
E-mail address: [Michaeljohn.jones@bristol.ac.uk](mailto:Michaeljohn.jones@bristol.ac.uk).

## 1. Introduction

The relationship between human beings and the natural environment has always been complex. Humans are at once both part of, and apart from, the natural world.<sup>1</sup> The general scientific view is that we have evolved through natural selection from within the animal kingdom,<sup>2</sup> but through manipulative technology we increasingly shape and craft the natural environment. In this sense, we are both inside and outside the traditional natural environment: both participants and observers. We thus both form and shape the environment, but are also capable of observing and recording both the environment and our impact upon it.<sup>3</sup>

An increasing recognition of the impact of humans on the environment has led to a radical questioning of traditional economic, ethical, and accounting assumptions. In the 1970s, for example, there was a new concern with questioning the limitations of the traditional management paradigm. Chastain (1973), Gambling (1974), Ullman (1976) and Dierkes and Preston (1977), *inter alia*, explored the linkages between accounting, organisations and society. In the 1990s, the concern turned more specifically to environmental issues.<sup>4</sup> More recently, there have been efforts to operationalise environmental issues.<sup>5</sup> This paper seeks to develop a theoretical framework in which this debate can be located by developing eight premises.<sup>6</sup>

What is undoubtedly true is that concerns with the environment have moved centre stage over the last two decades since Kyoto. There have been a series of global meetings to discuss, *inter alia*, climate change. Following the Stern Report (2006) there is a new global interest in environmental issues (Gray, 2009), in general, and in carbon reduction techniques in particular. Accounting is implicated in these, for example, through carbon emissions trading and its involvement is likely to increase (Hopwood, 2009). Moreover, there is active debate about whether to save the planet we need to move towards a deep green ecological position (Mauders & Burritt, 1991).

This article is located within a broad body of literature concerned with environmental accounting and critical of the current role of accounting. The main purposes of this article are two-fold. First, to synthesise, unify and critically appraise the somewhat scattered prior literatures which provide a theoretical underpinning for environmental accounting and reporting. This prior literature is used to construct a multilayered model with eight premises. Thus, the objective is to provide a theoretical justification for environmental accounting and reporting.<sup>7</sup> Put simply, this article aims to show why it is crucially important that organisations should develop a comprehensive system of environmental accounting and why they should report it to their stakeholders. This paper assumes that companies should behave in a socially responsible way (Solomon & Solomon, 2004; Quinn and Jarvis, 1995). Indeed, demands for businesses to act in ways consistent with social and environmental accounting and sustainable development are growing Milne, Tregida, and Walton (2009). The promotion of this particular model does deny other possible theoretical models. However, this model will hopefully provoke debate and prove useful in gauging corporate attitudes to genuine environmental progress on environmental issues.

It is based on a personal conviction that companies need to engage with environmental issues. Compared to the wealth of studies on environmental disclosure research (Berthelot, Cormier, & Magnan, 2003, for example review 57 studies) relatively few studies have sought to theorise on why we need environmental accounting (see as notable exceptions Gray (1992), Gray, Kouhy, and Lavers (1995), Gray, Owen, and Adams (1996)).<sup>8</sup> Indeed, Hackston and Milne's (1996, p. 78) contention still holds that: "To date, however, there still exists no universally accepted theoretical framework of corporate social accounting" [i.e., by its very nature this includes environmental accounting and reporting]. Such issues generally "rarely merit explicit consideration" (Gray, 2003, p. 357). The second purpose is to examine the implications of the theoretical framework for organisations and accountants. In particular, the main approaches to operationalising environmental accounting are reviewed (such as full cost accounting, Herborn, 2005; Bebbington, 2007; sustainable indicators Jones & Matthews, 2000).

<sup>1</sup> This concept is a relatively new theoretical perspective and is encapsulated in the thinking of writers such as Naess (1985), Rolston (1985).

<sup>2</sup> Note, however, the creationists, particularly in the US, who argue against such Darwinianism.

<sup>3</sup> In a sense, animals (such as elephants cropping the Savannah) and natural events (such as volcanoes) also form and shape the environment. Human action is, however, more pervasive and deliberate.

<sup>4</sup> Interested readers are referred to for example, Gray (1992), Owen (1992), Gray and Bebbington (1993), Gray, Bebbington, and Walters (1993).

<sup>5</sup> As evidenced in the work of Jones and Matthews (2000), Jones (2003), Bebbington et al. (2001), Chambers and Lewis (2001), Baxter et al. (2003), Bebbington et al. (2007), and Howes (2003). In a sense, these initiatives pick up the earlier work by authors such as Beams and Fertig (1971), Dierkes and Preston (1977) and Ullman (1976).

<sup>6</sup> There is not necessarily only one theoretical perspective. In a sense, therefore, this particular perspective is premised upon the author's personalistic ethics and value judgements. However, hopefully it will also resonate with many individual readers' views and values, even if it does not capture them all. By environmental accounting the author means the development and operationalisation of an accounting system to measure the environment. By environmental reporting, the author means the reporting of environment accounting to external stakeholders.

<sup>7</sup> The concern of this present paper is with environmental accounting and reporting, particularly external environmental reporting, rather than more generally with social and environmental accounting. Although environmental accounting and reporting can be purely qualitative this article focuses on its numerical and quantitative aspects.

<sup>8</sup> Gray (1992) introduces the principles of the deep green position and investigates its implications for accounting. Environmental degradation is shown to be one part of the environmentalist agenda and the influence of systems theory is discussed. Gray (1992) also explores the potential of sustainability. Gray et al. (1995, 1996) theorise about the corporate social responsibility literature. These authors partially locate their literature in social and political theory studies (premised on political economy and legitimacy theories).

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