Social and Environmental Responsibility, Sustainability and Accountability: Can the Corporate Sector Deliver?

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Introduction

In the last 10 years we have made truly astonishing progress in environmental management and reporting and, more recently, in both the development of awareness of social responsibility and in a growing understanding of the challenges of sustainability. Much of this progress has been due to initiatives by the corporate sector and the considerable support and encouragement provided the professional accounting community - and, most obviously, by the ACCA.

In a little over 10 years, environmental issues have moved from being the marginalised concern of a lunatic fringe to a central place in the concerns of good organisational management and reporting. Over the same period, the pressing and complex exigencies of sustainability have become better understood and slowly - but increasingly - recognised as an essential factor in any organisation's strategic concerns. More recently, social responsibility has made a welcome - if overdue - re-appearance and, in the UK, the ACCA/ISEA Social Reporting Awards Scheme signals a new acceptance of the increasingly crucial roles that systematic social reporting must play in organisational accountability.

The catalogue of achievements in such a short time is a truly impressive one. And especially impressive when one recognises that most of the progress has been made through voluntary initiatives, cajolery, innovation and leadership from the corporate and accounting sectors. We will hear more about these achievements at this conference and, more especially, we will learn about how current initiatives from, inter alia, ACCA, GRI, WBCSD, FEE, KPMG, BiE and individual companies are continuing to develop and advance the agenda.

The rate of change and advancement shows little sign of slowing down.

It is easy to be mesmerised by this dazzling array of past and future developments and to be lulled into an all too understandable sense that environmental, social and sustainability issues are safe in the hands of business and accounting. The progress made in such a short time surely demonstrates that the critical social, environmental and sustainability problems facing mankind are being dealt with honestly, competently and thoroughly? At the risk of raining on the parade, I have my doubts.

The purpose of this short presentation is not to try to take a high moral stance and/or underestimate the astonishing progress so far made. It will, however, suggest that in our headlong rush towards the institutionalisation of social, environmental and sustainability reporting (in particular) we are in grave danger of overlooking a number of crucial factors without which the social, environmental and sustainability agendas are most certainly not safe in the hands of business and accounting.

The principal points I wish to concentrate upon here are:

- the incompleteness of environmental reporting - in terms of both organisations reporting and the content of that reporting;
- the partiality of current attempts at social reporting and the emasculation of social responsibility;
- the profound emasculation of the concept of sustainability which is currently taking place;
- the very poor standard of attestation (‘auditing’) of social, environmental and sustainability reporting which we are currently witnessing; and....
- the need for a clearer, more rigorous, application of the principles of accountability to current reporting and to the current initiatives which are leading that reporting.

I will deal briefly with each of these in turn. I will try and suggest that whilst social, environmental and sustainability issues are being dealt with honestly and competently by the business and accounting communities, the critical issues are often being ignored and that there is a lack of thoroughness in the way in which these are currently being treated. I will try and suggest that this lacunae arises because of an, entirely understandable, reluctance to address the fundamental conflicts that must exist between conventional business success and the demands of social justice, environmental responsibility and achievement of sustainability. Reluctance to address such conflict does not, of course, mean that such conflict does not exist.

The Completeness of Environmental Reporting

Although there are a number of issues that could be considered here, I'd like to concentrate on just three. These are:

- the widespread phenomenon of non-reporting by organisations;
- the reluctance to adopt eco-balances; and
- the implications of the ecological footprint.

Non-Reporting

In the monitoring of environmental reporting by companies and the inevitable euphoria over the (broadly) increasing number of major corporations voluntarily undertaking (relatively) substantial environmental management and disclosure practices, it is easy to lose sight of the fact of the non-reporting by the majority of companies worldwide. Even if we ignore the quality of much of this reporting (but see below) it is apparent that the majority of organisations will continue to free-ride on the exemplary work of the leading companies until
such time as environmental reporting is a requirement in legislation.

And yet, it seems many companies - even reporting corporations - remain opposed to environmental reporting passing into legislation. It seems to me that evidence continually demonstrates that only when reporting requirements are part of legislation do they achieve widespread reporting. And the usual arguments against legislation are that it stifles experimentation and becomes the lowest common denominator. We have had ten years of experimentation and the level of innovation in environmental reporting seems to be dropping off - whilst the lowest common denominator is currently no reporting at all. It is surely long overdue for all countries to follow the lead of The Netherlands, Sweden, Denmark, Korea and others and adopt substantial environmental reporting as an essential element of corporate reporting.

The Elusive Eco-Balance

Even the reporting we currently enjoy is somewhat partial in its coverage. In very few cases has current reporting on environmental issues advanced much beyond the pioneering examples of Norsk Hydro, British Airways, Noranda and others. Or at least, whilst there have been advances in such areas as environmental management, goals and target-setting, there have been few attempts to substantially, systematically and regularly address the issue of completeness in their reporting.

The issue is that in very few cases with which I am familiar could the relatively informed reader say with any certainty at all whether or not they were looking at a complete environmental report. (And see below when I touch upon attestation). In most cases, it seems highly likely, indeed, that the reports do not cover all the significant environmental interactions of the reporting entity.

The simplest way around this is to frame the report with some form of eco-balance. These statements represent, in essence, all the major physical inputs, outputs and leakages (e.g. spills, emissions and wastes) from the organisation and, thus, provide an attestable (see below) indication of all the organisation's environmental interactions. Such eco-balances do not necessarily need to be as detailed as the German and Austrian eco-controlling statements. (In the eco-controlling statements all quantities are identified in a single unit of measurement - typically weight - so that all losses throughout the organisation can be identified and controlled). But the statements must provide enough detail to persuade the reader of the completeness of the environmental report.

There has been a, perhaps, surprising resistance outside, particularly, Northern Europe, to the provision of such indications of completeness. More worrying, no alternative means of conveying completeness is usually offered in environmental reports. Consequently, one is frequently left with the fear that environmental reports are guilty of cherry-picking and concentrate on the less important or better news areas of environmental activity.

The Ecological Footprint

More substantially, the ultimate question that an environmental report should be seeking to answer is what is the total environmental interaction of the organisation's activities? One measure of this, which generally sidesteps the more complex elements of environmental impact itself, is the ecological footprint. The notion (which comes in many forms) captures a very basic idea - most organisations are growing and their total environmental interactions grow likewise. Such growth is typically considerably higher than the levels of eco-efficiency even the leading organisations are achieving. Hence, total resource use, total wastes, total emissions, total product etc., etc., continue to rise despite significant and impressive eco-efficiencies achieved by an environmentally conscious management.

In broad terms, the total effect of production and consumption on the biosphere is continuing to rise substantially despite years of concerted efforts towards greater efficiency and de-materialisation. It is a rare environmental report that makes any substantial attempt to indicate the growth in the company's environmental footprint and, thus, the rare environmental report which attempts to address the central environmental questions. It is not obvious that any of the current reporting and environmental management initiatives will do much, if anything, to change this situation. And when we start to consider issues of sustainability (see below) this becomes a crucial and critical question.

Social Responsibility and Reporting

More recent, but no less dramatic, has been the re-emergence of social reporting and, with it, a long overdue re-examination of the social responsibilities of organisations. Social issues have, generally, speaking proved to be both less tractable and more emotive than the (apparently) more straightforward 'environmental' issues. This seems to stem from the more obviously 'political' nature of social issues. Thus, whilst species extinction, pollution and excessive waste may be all (apparently) agreed upon as universal 'bads', views are far more diverse on the relative values associated with unemployment, income inequality and alienation.

A further difference between 'environmental' and 'social' issues - at least when it comes to reporting - is that we tend to assume we are pretty clear on what constitutes 'the environment' (and can thus speak about the eco-balance). What constitute 'social issues' and, more particularly, 'social responsibility' is a far from settled question.

In fact 'social responsibility' of business has been a highly contentious subject since, at least, the 1960s. Subsequent attempts to redefine 'social responsibility' as 'social responsiveness', 'social rectitude' or 'social reconciliation' have all founded on the both the lack of a moral foundation and reluctance to consider the ethical/moral basis of the context within which all corporations operate - and, indeed, must operate - capitalism.

It should perhaps come as no surprise that probably the two greatest students of capitalism, Milton Friedman and Karl Marx, tend to agree on the issue of social responsibility. That is, the corporation can have no social responsibility beyond making as much money for its shareholders as possible consistent with playing within the rules of the game. Of course, where Marx and Friedman disagreed was over whether the 'rules of the game' - liberal capitalism - were fundamentally moral and just or not. If the system of capitalism can be shown to be quintessentially a morally sound and just system then corporate maximisation of shareholder wealth can be morally justified. If not, then this cannot be shown to be the case.

It seems increasingly apparent that the extent of corporate discretion, over actions which might be thought to be socially responsible, is exceptionally limited. The company must - for both legal and practical reasons - satisfy both its shareholders and an increasingly predatory financial market. Hence the only responsibilities beyond profit-seeking that a company can seek to fulfill will be compliance with legislation and the undertaking of activities which benefit the organisation (by traditional measures) through the management of its key stakeholders.

This leaves a potential problem for social reporting. If it is not to be entirely at the discretion of the reporting entity, what basis can be
offered for a social report? Certainly, with few notable exceptions (Traidcraft, Cooperative Bank, Shell and, perhaps, Body Shop are examples which come to mind) the current wave of social reporting is partial and selective in the extreme. And despite the emergence of private initiatives for standards such as SA8000 and AA1000, there looks to be a real danger of social reporting becoming very much more partial and bland than even the less praiseworthy attempts at environmental reporting.

This is the case made powerfully by Owen et al., (2000) and one which, I believe, desperately needs the application of a strong systems-based stakeholder model and a firm concept of accountability. (See, Gray et al., 1997 for more detail). I will return to the concept of accountability briefly below but the issue at concern here is that trivial social reporting wrapped around a bland concept of social responsibility can only lead to corporations successfully - although entirely inappropriately - capturing the high moral ground of social justice and responsibility. In such a case society in general and governments in particular will be able to assume, falsely, that the issues remain safe in the hands of business and do not, therefore, need direct interaction from the polity and the demos. Nothing could be further from the truth - even if all companies were committed (as, indeed, some are) to the very highest standards of social and moral integrity. The system of capitalism will simply not permit corporate management to act with the principles of social justice as the centrepiece of their strategy. Such an organisation would probably be acting illegally, be outside its zone of competence and would, in all likelihood, be ‘disciplined’ most severely by the marketplace.

If corporations are to be required to act in socially responsible ways (however defined) the ‘rules of the game’ need to be changed to encourage and require this. A social reporting regime based on accountability can help achieve this - see below.

Sustainability

Social and environmental issues are brought together - and made even more demanding - within the concept of sustainability. Sustainability is a difficult concept to apply to any single corporation. It is primarily a global concept. But that doesn't mean it has no application to corporations - as, indeed, an increasing number of companies and corporate think-tank/pressure groups are actively acknowledging.

In work undertaken through CSEAR, colleagues and I have found it most useful to recognise sustainability as comprising six elements - these are shown in Figure 1.

At its simplest, the definition of sustainability involves (i) the needs of present generations and the needs of future generations and (ii) environmental and social justice. In order to distinguish the increasingly popular ‘eco-efficiency’ (which may involve doing more with less-per-unit but still permits material growth in consumption and production) from a sustainable environment, we have coined the phrase eco-effective (in order to capture the difference indicated by the notion of the ecological footprint). For a condition of sustainability to obtain, we must have pretty reliable evidence that all six conditions (as represented by the six cells) are being satisfied. My judgement of the evidence is that there is no evidence to suggest more than one or two of the least important are currently being satisfied - even under the most rose-tinted of interpretations.

![Figure 1: The Conditions of Sustainability](image)

**Elements of Sustainability**

<table>
<thead>
<tr>
<th>The Needs of the Present Generation</th>
<th>The Needs of Future Generations</th>
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<tbody>
<tr>
<td>Social Justice</td>
<td>✗</td>
</tr>
<tr>
<td>Eco-Efficiency</td>
<td>✗</td>
</tr>
<tr>
<td>Eco-Effectiveness</td>
<td>(?)</td>
</tr>
</tbody>
</table>

Adapted from Gray and Bebbington (2001, forthcoming)

What is of more direct importance to us here is whether corporations are acting - or even can act - in a manner commensurate with sustainability. A small, but increasing, number of companies have been brave enough to state publicly that they believe that neither they nor, in all probability, any other company is capable of acting in a sustainable manner in the current system of economic and financial arrangements. Many more have expressed such views to either myself or colleagues in private. Why in private? The current orthodoxy manifested by, especially, institutions such as WBCSD, is that sustainability is safe in the hands of business. To express a contrary view is to break ranks with colleagues - something which boards do not want.

Relatively recent research suggests (see Gray and Bebbington, 2000, forthcoming) that even environmentally leading companies have little understanding of sustainability. Worse still, as far as I can find, there is no evidence to suggest that companies can act in anything like a sustainable fashion. The evidence, indeed, is all in the contrary direction. But this is not the view which many organisations - sometimes in good faith and unwittingly - perpetuate.

Such misconception is at its most pernicious manifestation in the so-called "sustainability reporting" trend we are now witnessing. With few, very rare exceptions, the label of "sustainability report" is attached to a document which contains (a) the sort of partial eco-efficiency, environmental management environmental report I discussed above; (b) a brief, bland and partial social report as discussed above; and (c) some brief, and substantially un-analytic statement about what sustainability means to the reporting organisation. Whatever else these reports might be, they are not reports on sustainability!

The danger, of course, is just as happened with partial environmental reports and even more partial social reports, the very concept on which the future of the planet depends - sustainability - will be emasculated, appropriated and destroyed by (at best, well-meaning) assertion in the interests of corporations.

If someone could show me that "sustainability reports" have anything to do with re-inventing the nature of the corporation in such a way that it could act in the interests of social justice and environmental responsibility (see, for example, Weizsäcker et al., 1997 for a particularly penetrating and positive analysis of what this might mean) I would be exceptionally pleased - and relieved. As things currently stand, I believe we must treat "sustainability reports" with the profoundest mistrust as one of the most dangerous trends working against any possibility of a sustainable future.
Attestation
The concerns expressed above are all writ large when we examine the current standards of the attestation that some of the better and more innovative reporters append to their social, environmental and "sustainability" reports.

The basic case has been well argued and evidenced by Ball et al. (2000). That is, with few exceptions, the attestations appended to environmental (and other) reports fail to give the reader much, if any, confidence that the report to which it relates is anything like a complete and thorough exposition of the reporting entity's environmental interactions. The attestations are typically constrained by the terms set, for the attestors, by the management of the organisation. These will, again typically, focus on (say) environmental management systems and some selected areas of environmental interaction - wastes, energy, emissions for example. The impression given by such attestations is, of course, that the report is, in some sense, a 'true and fair' representation - otherwise, why bother including an attestation? With few exceptions, any such inference would be fallacious.

The point is not that what is being done is not good or, to some degree, helping develop the social, environmental and sustainability reporting agenda. It is, rather, that the combination of partial (cherry picking) reports, mis-labelled reports and potentially misleading attestations give the impression of a far more substantial progress than is actually the case. In my judgement, many of the most crucial issues are being missed and the polity and the demos is being systematically - if unwittingly - misled into believing that environmental and social responsibility are being fully discharged voluntarily by the corporate sector. Unless I am very much mistaken, this is not the case. Indeed, this cannot be the case because there are (and must be) fundamental conflicts between the corporate pursuit of traditional success on the one hand and matters of social justice and environmental stewardship on the other.

I do not believe that business alone can resolve such conflict - it is a sine qua non of corporate life. My plea here is that business should do what they are best at - playing within the rules of the game - and carry on with the outstanding innovation and progress that has so far been made... but make much more explicit the very real limitations that they face. That is, through no fault of business - and with the best will in the world - business cannot (indeed, must not) reduce income inequality, maintain quality employment, feed the poor, reduce production, encourage more environmentally benign consumption, reduce transport usage, adopt the highest ethical stance with repressive regimes etc... That is the job of government who must set the rules so that business can play within rules that society aspires to - not leave the construction of the social and environmental framework to the very organisations who are best equipped to exploit that framework.

This is where accountability plays such an important role.

Accountability
Accountability, at its simplest, is the duty to provide an account of those actions for which one is held responsible. Whilst certain of business' responsibilities are clear - typically, complying with the law - many (as we have seen) are less so. Thus, what are a business' responsibilities to society, the environment and sustainability? It depends, of course, on one's point of view - and there is a proliferation of such points of view. This is not a firm and settled basis on which a business can proceed and, hence, we see businesses, very properly, either seeking to establish what such responsibilities mean to them or simply choosing to accept such responsibilities as they think appropriate. This is not a satisfactory or democratic means of ensuring that we move towards just societies with the highest standards of environmental stewardship.

It should come as no surprise that the recent developments in social, environmental and sustainability have not placed formal accountability at their heart. Not only is it difficult for a business to identify what these are but we should not normally expect any individual or organisation to gladly and willingly expose themselves to the sort of widespread accountabilities that are implied by the current social, environmental and sustainability agendas.

I have argued elsewhere (see, for example, Gray et al., 1997) that it is relatively easy to make an initial specification of an organisation's potential accountabilities through the application of the stakeholder model. Then, for each organisation-stakeholder relationship so identified, several levels of information are required to approach a full accountability. These levels are, at their simplest:

- descriptive information about the relationship;
- the accountability that society requires (through law and quasi-law);
- the accountability that the business wishes to express; and, finally,
- the accountability that the stakeholders themselves wish to see.

Each party - company, society and stakeholder - is thus given a voice in the process.

But such an approach raises two potentially awkward practical problems. In the first place, the sheer volume of data implied by the method could lead to this approach to social reporting potentially producing enormous and entirely unwieldy reports. Second, this approach initially implies that society is intending to hold every organisation accountable to - not leave the construction of the social and environmental framework to the very organisations who are best equipped to exploit that framework.

The first of these problems can be solved by the reporting entity adopting a transparent approach to reporting on the extent to which the report is not a complete report. That is, whilst completeness might be an ideal state, the second-best solution is to inform readers of the extent of the incompleteness. This would then permit all readers of social, information and sustainability reports to formally assess - and then judge - what is missing from the report;

The second of these practical problems is solved by adopting a slight re-definition of accountability. That is, we tend to assume that any body or thing should meet all its responsibilities. Accountability would be traditionally thought of as being the statement that these responsibilities have been met. If we start from the assumption that corporations cannot possibly satisfy the expectations of it, accountability can become a formal statement about the extent to which the organisation is actually unable to meet the expectations of society and stakeholders. In this manner, the reporting organisation will, in effect pass the decision about what responsibilities a company can and cannot undertake back to society (where it belongs).

(I should also add, that this approach would, I believe, allow a serious and substantive auditing process to take place that clearly
informed the reader about the extent to which the report satisfied the above conditions. Thus would the auditors/attesters be held accountable.

Naturally enough, I doubt organisations would want to do this voluntarily (although, some organisations would find - and, indeed some have found - a sense of relief in opening up to the idea that they cannot reduce resource consumption or operate the highest employment standards etc....). But, primarily, it would be for governments to legislate for this, essentially, democratic manifestation of organisational accountability - and for businesses to avoid using their considerable economic power to lobby to prevent such legislation!

Conclusions

Despite the seriously admirable and quite breathtaking progress made by the business and accounting communities on environmental and (to a lesser extent) social and sustainability reporting in the last few years, I believe that it is time to recognise that there are very real limits on how far business can take these issues. This is not about criticism of business, it is about having reasonable expectations about organisations whose existence depends on traditional measures of success in a hostile world. We can clearly see that most organisations do not voluntarily wish to report on their social, environmental and sustainability activities. We can see that those who do so inevitably limit the coverage of their reporting. We can see that businesses, under the current rules of the game cannot deliver social justice, environmental stewardship or sustainability. It is, actually, madness to think that they could.

Let us recognise this, explicitly. Let us genuinely applaud the astonishing progress that has been made. But let us remember that this is, primarily, not about helping business grow ever bigger and make every larger profits. It is actually about trying to minimise the damage to the planet, reduce the rate of species extinction, reduce income inequality and alleviate starvation, thirst and oppression. Business cannot do this. Democracy should. Accountability is a quintessentially democratic notion that is about society deciding on the world - and the businesses - it wishes to aspire to. A social, environmental and sustainability reporting based on accountability would take us a small step in this direction.

Brief bibliography

Ball A., D.L.Owen and R.H.Gray (2000) "External transparency or internal capture? The role of third party statements in adding value to corporate environmental reports" Business Strategy and the Environment 9(1) Jan/Feb (pp1-23)


