The Many Merits and Some Limits of Social Accounting

Why Disclosure Is Not Enough

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Abstract

This chapter explores the potential and limitations of Social Accounting, a much relevant discussion in the context of a book about Ethics in Finance. This chapter intends to introduce some of the ongoing discussions around Social Accounting to scholars from other disciplines. There is no intention of presenting an exhaustive picture of Social Accounting, and the choice of literature has been narrowed to those issues more relevant for Ethics in Finance.

The chapter presents a short introduction to Social Accounting and its recent history. Then, there is an exploration of five issues that may interest a general academic audience: first, the reasons and purpose of corporate disclosure of social and environmental information, being that this kind of disclosure is usually not mandatory; second, the current discussion about regulation in this field, whether regulation of Social Accounting contributes to Sustainability or not; third, an introduction to the use of Social Accounting for internal purposes, that is, information not disclosed to external parties but used instead by management

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for decision-making; fourth, the link between Social Accounting and financial performance; and finally, the promise of Social Accounting to contribute to Sustainability.

Some of the main ideas are as follows. There is a tension between companies, which possibly do not share all social and environmental information, and stakeholders, who would expect higher transparency. Thus, we should not assume that companies naively disclose social and environmental information. Then, regulation for social reports could help to increase the quality of reports, but some studies show that regulation by itself will not automatically improve disclosure. Additionally, studies in managerial accounting emphasize the complexity of working with social and environmental indicators. Thus, it is possible that managers struggle to collect and make sense of information about all the social and environmental impacts of their firm. Furthermore, the link between sustainability and financial performance remains elusive. Finally, we should be aware of what Social Accounting can deliver (and what it cannot do) in terms of organizational change. Consequently, practitioners should not refrain from using complementary tools from other disciplines. Overall, Social Accounting can contribute in a consistent way to the improvement of corporate sustainability. In that sense, Social Accounting is an increasingly important tool for both managers and stakeholders.

**Keywords**
Sustainability · Ethics · Finance · Social Accounting · Stakeholders

**Introduction**

In their exploration of different questions in Ethics in Finance, San-José and Retolaza (2018) point to Sustainability as one of the most pressing issues today. This is not surprising, as we are collectively becoming more aware about environmental degradation, climate change, and inequality. While those problems correspond to different causes, companies’ activities are certainly one of those factors at work. Following San-José and Retolaza (2018) definition of Sustainability, namely, “...social and environmental balance with the aim of diminishing future negative returns or the generation of negative externalities,” it is clear that those externalities, returns, and balance have to be measured with some kind of Accounting. More precisely, with Social Accounting tools. Consequently, a discussion about Social Accounting, its promise, and its limitations is much relevant in the context of a book about Ethics in Finance. Thus, this chapter intends to introduce some of the ongoing discussions around Social Accounting to scholars from other disciplines. There is no intention of presenting an exhaustive picture of Social Accounting, and the choice of literature has been narrowed to those issues more relevant for Ethics in Finance.

Besides, this chapter uses the expression “Social Accounting” as a broad term that also includes environmental contents. Some other equivalent expressions may exist,
for instance, sustainability accounting, social and environmental accounting, and nonfinancial accounting. Similarly, for this chapter we use the expression “social report,” which can be replaced by sustainability report, Corporate Social Responsibility report, among others.

Social Accounting and Its Promise

Social Accounting attempts to measure a complex, broad, and not always clearly defined object. It is curious to see that corporate social responsibility (CSR) has at least 37 different definitions (Dahlsrud 2006), not all of them equivalent. Consequently, it is difficult to say that any company is more or less socially responsible, or that it has a better CSR performance than that of any other firm. For instance, when Margolis and Walsh (2003) analyzed 127 studies that attempted to measure the Corporate Social Performance of firms, they found that in those studies, Social Performance is measured in many different ways: disclosure of pollution elements, reputation rating in a business magazine, evaluations from social investing rating agencies, and so on.

Thus, the scope of Social Accounting can be subject to debate. Besides, this scope is clearly broad, as it includes an ample specter of indicators that attempt to capture the complexity of social and environmental impacts. Testimony to this breadth of Social Accounting is social reports, which in many cases have been increasing in length in the last years. Because of this mentioned breadth of scope, social accounting reports bring a wealth of information that can potentially interest many different stakeholders. However, there is a tension between comprehensiveness and comprehension – the longer, the more complex and complete social reports are, the more difficult they become to read. Thus, when reporting about many different social and environmental features, possibly each of one of them much interesting in itself, we may end up producing a report that is difficult to read. Stakeholders can struggle to appreciate “the big picture” of a company’s social performance when the firm prepares a lengthy, complex-to-understand report. Legibility of social reports is a relevant issue for stakeholders, particularly as most of them are not necessarily experts in social accounting.

Additionally, those indicators are in many cases nonfinancial (i.e., not measurable in money), which implies that the source of data goes beyond the conventional accounting system of the company. As a comparison, the source of financial accounting reports is the company’s accounting system, a coherent and usually well-prepared system, which already exists and has a single unit of measure (i.e., money). Practitioners of Social Accounting need instead to collect, record, and analyze different types of information. This information corresponds to diverse units of measure (i.e., hours, tons, number of people) not found in the accounting system of the firm. Consequently, setting up and maintaining a reporting system for Social Accounting can require a consistent effort, which not all companies can afford to do. It is not surprising that social reports are much more common in large companies than in small ones.
Furthermore, and following the comparison with conventional financial accounting, Social Accounting is a far more recent practice. While the conceptual basis of conventional accounting was set during the Italian Renaissance (Fra Luca Pacioli published his treatise of Geometry and Accounting in the late fifteenth century in Venice), Social Accounting is a creation of the twentieth century. Thus, there are five centuries of continuous practice and academic study of conventional accounting, compared to only few decades for Social Accounting. It is no surprising that both academics and practitioners in Social Accounting still struggle to agree on conceptual frameworks and standards.

A Short Story of Social Accounting

Some of the early discussions in Social Accounting come from the 1970s. Curiously, many of the early papers raise issues that remain valid today. Mobley (1970) argued for the need of Accounting to go beyond the measurement of economic impact only. Estes (1972) pointed to the urgency of measuring external diseconomies, at a time when some environmental regulation was beginning to appear, while Ramanathan (1976) proposed the broad lines of a model for stakeholder reporting. With the benefit of hindsight, we can see that those papers were still isolated and that there was not yet a developed discussion around Social Accounting.

The situation changed in the 1990s, mainly in the UK and Continental Europe, with the appearance of a vibrant community of scholars. Bebbington, Gray, and Owen (1999) distinguish between studies that call for a complete revision of the economic system, while others are more oriented to developing tools that could improve corporate practices. At that time, the emphasis has been more on the first type of papers, more conceptual pieces, sometimes inspired in critical theory. There also has been a discussion around the creation and use of Social Accounting information, that is who prepares that information and who should read it. Social Accounting information can interest investors (Gray et al. 1996) and other stakeholders (Gray et al. 1997). One of the most important rationales for increased disclosure and transparency has been to empower stakeholders so that they can look for improvements in companies’ behavior, for instance, by means of negotiations in the case of NGOs, and investments in the case of socially responsible investors. While many studies have emphasized on the information that companies disclose to external participants, recent papers also study internal information (i.e., managerial accounting). Besides, Gray et al. (1997) point to reports prepared and published by external parties to the company, sometimes called “shadow accounts” or “social audits” (Medawar 1976). For instance, an NGO can prepare information about a company, based on publicly available data from other sources (i.e., not coming from the company itself). As a recent example of this idea, Perkiss, Dean, and Gibbons (2019) present the notion of “Spotlight account”: a crowdsourcing process of data collection about a company, led by independent stakeholders, with the aim of preparing a social report on that firm.
Nowadays most of the largest companies in the world regularly produce some kind of social responsibility report. The field is today more mature, with many active practitioners, including specialized consultants, analysts, and investors. Several reporting standards and models coexist today, and we may expect a gradual convergence in the next few years. In the academic world, Social Accounting is no longer a niche discipline, and today it is quite common to see social accounting papers presented in the main accounting conferences in the world.

In the remaining of this chapter, we will explore five of the issues that may interest a general academic audience: first, the reasons and purpose of corporate disclosure of social and environmental information, being that this kind of disclosure is usually not mandatory; second, the current discussion about regulation in this field, whether regulation of Social Accounting contributes to Sustainability or not; third, an introduction to the use of Social Accounting for internal purposes, that is, information not disclosed to external parties, but used instead by management for decision-making; fourth, the link between Social Accounting and financial performance; and finally, perhaps the most relevant issue on the long run, the promise of Social Accounting to achieve long-term change in companies, and by that doing, to contribute to Sustainability.

**Disclosure on Social and Environmental Information**

While some countries, particularly in Europe, have been recently regulating on the issue, most of Social Accounting disclosures remain to this day voluntary. Thus, companies can decide on what to disclose, how frequently, and to what extent. There are several social reporting frameworks, and they are quite useful as they make intercompany comparisons easier. For instance, the Global Reporting Initiative proposes an extensive collection of different indicators of economic, environmental, and social impact. There are other international standards, for instance, the Sustainability Accounting Standards Boards (SASB) and the Integrated Reporting. However, the adoption of those standards remains always voluntary for companies. Thus, a company can choose to prepare a social report that does not follow any reporting framework.

Today’s situation poses questions of comparability across companies that use different reporting standards or no standard at all. Compared to conventional financial reports, where disclosure is much regulated and independent external audit is de rigueur, social reporting remains much flexible. Consequently, a company has a relatively ample leeway about what to disclose in its social reports, and it can decide to leave those social reports without an external audit.

Many studies have been exploring the reasons for reporting, and what companies eventually decide to report. Regarding the reasons for reporting (the “why” question), one of the answers is legitimacy (Deegan 2002). In line with the classical institutional explanation that companies have to answer to social expectations, companies would choose their disclosures about social and environmental impacts in order to gain legitimacy. For instance, Pérez et al. (2015), in their study of finance
companies in Spain, show that CSR reporting has a positive impact on those firms’ reputation. Shabana, Buchholtz, and Carroll (2016) propose a more elaborated theoretical model, also in line with institutional theory. Social reporting would begin as a defensive strategy, particularly from companies facing environmental problems. In a second step, companies would proactively engage with CSR as it becomes a more mainstream practice, and in a third step, when a critical mass of reporting companies already exists, non-reporting companies would feel pressured to imitate reporting firms.

Regarding the content of social reporting (the “what” question), many empirical studies have explored corporate decisions on disclosure. For instance, Cho and Patten (2007) explain that companies with lower environmental performance tend to report more, for instance about expenditures in pollution remediation and environmental related projects. This would also be the case for companies operating in environmentally sensitive industrial sectors. That is, the decision to disclose would not be a “technical” one, but it relates instead to the situation of the company, its competitive environment, and its willingness to convey a positive impression. In a similar tone, Cho, Roberts, and Patten (2010), when analyzing the language used in corporate reports in the USA, conclude that companies with worse environmental performance tend to use a more optimistic language tone. The two aforementioned studies, using either quantitative or qualitative methods, arrive to similar conclusions. Disclosures would be strategical, in order to influence social perceptions about the firm. Whenever deciding whether to disclose or not a particular piece of information, the company would evaluate pros and cons (or costs versus benefits) of disclosure.

From an Ethics in Finance perspective, these studies do not necessarily imply that companies disclose wrong or misleading information. We can reasonably imagine that such an action would be exceptional and extremely risky for companies. However, we cannot expect companies to naively disclose all their social and environmental information. Similarly, external stakeholders would be empowered in their relation with the firm by having more information about the company. Thus, there would be a tension between companies, which refrain from disclosing all data, and stakeholders, who push for increased disclosure.

### Regulation of Social Reporting

As a general principle, CSR actions are voluntary initiatives that go beyond legal obligations. Consequently, we may expect social and environmental accounting to be voluntary as well. While the majority of scholars have shared this notion, a few colleagues have raised their objections. For instance, Unerman and O’Dwyer (2007) argue for a regulation of both CSR and Social Accounting. The authors claim that this regulation could prove to be beneficial for both shareholders and other stakeholders.

In any case, there is an increasing consensus in that some regulation on social reports could improve comparability among reporting companies and diminish the
aforementioned problems with disclosure. Furthermore, we may imagine that mandatory social reporting would increase the volume of social and environmental information and that, consequently, a better-informed population would more empower vis-à-vis companies. As the Accounting Standards Steering Committee famously put in 1975, several audiences (not only shareholders) “have a reasonable right to be informed...by corporate reports.” Thus, there would be some grounds for regulation of social reporting, tending to increase the number of reporting companies, extend the scope of issues reported, and standardize reporting rules. The point is which kind of regulation would be the most appropriate to achieve those objectives.

The first kind of possible regulation for social responsibility corresponds to soft-law initiatives. These initiatives include existing social reporting frameworks such as GRI, SASB, and Integrated Reporting. Voluntary as they are, these frameworks provide some structure to social reports. That is, if a company claims compliance with some particular framework, it has to abide to its norms. The company would no longer be able to present an inarticulate collection of data as a social report. It will have instead to prepare a presentation of its social and environmental information according to the disclosure rules of the chosen standard. In this sense, compliance to these soft-law frameworks gives at least some comparability among companies that report with the same standard. However, comparability among companies using the same reporting standard can still be difficult. After having explored the reports of several mining firms that follow the GRI guidelines, Boiral and Henri (2017) conclude that comparability can remain an elusive objective. Beyond these difficulties with comparisons, voluntary disclosures can still be much helpful for improving stakeholder engagement. For instance, Zicari and Perera-Aldama (2017) explain how a mining firm in Mexico has been using a voluntary social reporting model as an important reference for its discussions with stakeholders.

The second kind of regulation is hard-law. Some countries, particularly in Europe, have been mandating social and environmental disclosures. This responds to the impulse of the Directive 2014/95/EU of the European Union, which asks companies with more than 500 employees to disclose nonfinancial information. While most of these initiatives are quite recent, some studies suggest that this kind of regulation for social reporting has a limited effect on information quality. For instance, Acosta and Agostini (2016) analyze social reports for a sample of large companies in Italy, both before and after the enforcement of a new regulation for social reporting disclosure. While disclosure increased after the new law, companies tend to report good news more easily than bad news. Besides, disclosure remained selective, as companies end up informing more about the environment than about employees. The authors suggest that lack of involvement from stakeholders and a top-down approach on the side of regulators may have contributed to the situation. For their part, Luque-Vilchez and Larrinaga (2016) did a comparable study for Spain, also before and after the enforcement of a new law on social reporting disclosure. Curiously, the number of social reports did not increase while their quality improved marginally.

The two aforementioned studies focus on the link between regulation and better social reporting. We could also go a step forward and pose a question about
improvements in sustainability performance. After all, social reporting is not an end in itself. It is (or it should be) instead a means to improve the sustainability performance of the firm. This is the question that Leong and Hazelton (2019) explore in two cases of social reporting regulations adopted in different contexts. They conclude that regulation can improve social reports, but that this improvement in itself will not necessarily lead to more sustainable operations. While stakeholders will have more information, this does not imply that those shareholders would be able to influence companies for change. We may end up having simply more information and scarce change. For substantive change to happen, Leong and Hazelton (2019) give some propositions. For instance, they suggest rules that facilitate the involvement of “information intermediaries,” that is, civil society organizations that have time and resources to understand the information released and act on it. They also propose to make access to sustainability data easier, by presenting that data at different levels of aggregation and in a comparable way among different companies.

In terms of Ethics in Finance, these studies show that regulation of social reporting is not a silver bullet. There is no easy recipe for solving the shortcomings of social reporting. Granted, regulation can help, but the law by itself cannot replace the efforts of an involved, active citizenry. Stakeholders cannot abdicate their responsibility for advocating sustainability. They have instead to actively use Social Accounting information as a tool for its negotiations with the company.

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**Social Accounting Inside of the Company**

Up to this line, our discussion was mostly oriented to corporate reporting, that is, information that the company discloses to external parties. This focus makes sense, as social reports are a tangible, concrete materialization of an accounting process. These social reports being publicly available information, we can easily analyze them, compare them, and reach to conclusions. However, our understanding of Social Accounting would be incomplete if we fail to explore what happens inside of the company.

In a case study, Durden (2008) studies a small industrial company in New Zealand. Its owner and CEO is a firm believer in CSR. He consequently strives for different initiatives that clearly differentiate the company from comparable firms. Among other initiatives: donations, a socially oriented hiring policy, and several contributions to local community. Besides, the firm owner wants to measure and manage the sustainability impact of his firm. However, the author found that despite all these sincere good intentions, the company failed to provide a set of internal indicators that could support managers in making decisions. At the end of the day, managers still used conventional financial indicators, in the same way as managers in any other company would do. Curiously, many concurring factors would have facilitated the full deployment of CSR internal indicators in this firm, namely, a very committed owner, who is involved in day-to-day operations, a small, one-site firm. Besides, there cannot be internal resistance to CSR, as this policy comes from
the owner himself and is implemented under his control. Of course, there is no
greenwashing here. This case is a reminder that despite all these favorable condi-
tions, a company may still have difficulty in implementing internal social accounting
indicators.

Gond et al. (2012) attempt to address the possible disconnection between a
company’s set of internal indicators, usually called “management control system”
(MCS) and the firm’s CSR indicators. Based on a series of case studies, the authors
propose a typology of different relations between MCS and CSR indicators. At one
extreme, both systems (MCS and CSR indicators) are completely decoupled and
there is no sustainability strategy. In the other extreme, both systems are fully
integrated, as the company pursues a coherent sustainability strategy that considers
CSR indicators within the global MCS. Between both extremes, several possibilities
exist. For instance, the company can be in a compliance mood, “tick-the-box”
mentality for its CSR indicators, while it can have a very sophisticated use of its
MCS. In this case, the strategy for Sustainability is just to comply with requirements,
without integrating CSR performance in the global corporate performance. Gond
et al. (2012) also propose different pathways for companies, so that they can progress
from an initial situation of decoupling to the ideal situation of fully coupled systems
(i.e., MCS and CSR indicators working in an integrated way). They also affirm that
companies may not achieve this ideal situation, and that they could remain some-
where in the way, for instance in the compliance situation.

Much in line with the previous study, Arjaliès and Mundy (2013) explore how
managers use in practice CSR indicators and link them to the company’s MCS. Their
article is an empirical, qualitative study, based on the notion of the levers of control
theory (Simons 1995), a tenet of contemporary management control. That theory
distinguishes between the diagnostic and interactive use of indicators. On one side,
diagnostic use corresponds to a more classical approach to control, including target
setting, upward reporting, and identification of gaps. On the other side, interactive
use corresponds to a collective learning process in which top management uses
indicators as an occasion to discuss and interact with the operational team. Also
following Simons (1995), the authors explore the companies’ boundaries systems
(i.e., set of restrictions in order to control risks), beliefs systems (set of core corporate
values in order to inspire action), and their interrelation with CSR indicators. Thus,
this study puts CSR indicators into the broad context of an integrated MCS, with the
support of a classical theory in management control.

Burritt and Schaltegger (2010) present an integration of two complementary
perspectives for Social Accounting. A first perspective, which they call “inside-
out,” emphasizes the role of social accounting as a supplier of reliable, actionable
information that contributes to better decision making. This is particularly the case
with internal social accounting information, as it provides tools that help managers to
improve sustainability. This perspective needs to be complemented with the “out-
side-in” approach, where external stakeholders advocate for the improvement of
corporate practices with the help of information that was disclosed in social reports.
The authors consider that both perspectives (inside-out and outside-in) are comple-
mentary and that both of them are necessary for improving corporate sustainability.
In terms of Ethics in Finance, these studies cast a new light on our understanding of corporate decisions related to sustainability. First, we realize that the path to corporate sustainability is not as simple as it seems to be. As the case written by Durden (2008) shows, even a manager with uncontested power and complete conviction can find it difficult to implement a CSR policy in a consistent way. Thus, a company may fail to improve its sustainability performance despite the best intentions of its managers and owners. Second (and because of the latter point), the discussion about corporate disclosure has to be nuanced. The latter studies show how complex is the collection, process, and sense making of social and environmental indicators. It is possible that corporate managers struggle to have a complete picture of those indicators for their companies. Thus, limited or incomplete disclosure may not necessarily mean that managers refrain from sharing social and environmental information. Perhaps managers do not have all the internal CSR information in the first place. This can be particularly the case for large, multisite companies. Instead of assuming omniscient managers who consciously hide information, we could instead consider the possibility that managers ignore in good faith some of the social and environmental impacts of their firm. Third, these studies, with different and complementary approaches, call for an integration of social and environmental perspectives in business. This integrated approach calls for a seamlessly articulation between CSR and corporate performance, far away from the usual situation of CSR being the province of a specialized department or unit.

From Social Accounting to Financial Results (or the Other Way Round?)

A common discussion about Social Accounting is how it relates to conventional accounting. One may imagine that they are two different practices, with different scopes and objectives. Indeed, we may also imagine that Social Accounting only matters to some stakeholders, while conventional accounting matters only to investors. In reality, Social Accounting is increasingly closer, and sometimes even articulated, with conventional accounting. While their respective scopes are different, we may consider that interactions exist and audiences overlap between the two types of accounting. For instance, a company that makes an expenditure in order to make its operations greener. Thus, the same action has an impact on the Profit and Loss statement (i.e., the expenditure) while there is also an impact on the social report (i.e., less pollution). As an example of audience overlap, an investor may read both the financial statements and the social report of the company. Financial statements would help to evaluate the company prospects, while social reports would help to understand environmental risks.

This articulation between social and conventional accounting is far more than putting two reports together. This is not an issue of sharing the same format, but instead of exploring possible cause-to-consequence relations between both dimensions. In this sense, there is an unavoidable comparison with the Balanced Scorecard (Kaplan and Norton 1992). In that tool, there is an attempt to identify, describe, and
measure cause-to-consequence relation. Thus, the Balance Scorecard distinguishes between actionable indicators and result indicators. Managers directly act on actionable indicators while they expect that their actions will bring results (usually, financial results). For instance, if job satisfaction increases, possibly employee turnover will decrease as well, which a consequent diminution in costs. Thus, managers could attempt to increase job satisfaction, with the hope that expected consequences (i.e., less employee turnover and less costs) happen. In the similar way that the Balanced Scorecard attempts to capture the business model of a firm, the articulation (or integration) of social and conventional accounting expects to achieve a comparable tool. With the noble ambition of improving corporate sustainability, echoing the famous claim from Kaplan and Norton: “What you measure is what you get” (1992, p. 71).

However, the comparison with the Balanced Scorecard remains limited. The cause-to-consequence relation between Social Accounting and financial performance is possibly not as straightforward as it seems to be for the Balanced Scorecard. To begin with, it is not always clear how sustainability performance influences financial results. While a complete discussion of this relationship is out of the scope of this chapter, a classical reference is Porter and van der Linde (1995), who famously claimed that companies could be at the same time be “green and competitive.” They argued that improvements in operations could simultaneously diminish costs, increase productivity while decreasing pollution. Indeed, many empirical studies tried to assess the relationship between sustainability and financial performance (Margolis and Walsh 2003). Those empirical studies are frequently correlations between some sustainability indicator and financial performance. However, the problem usually lies in that correlation is not necessarily causation. Simply said, it may be that the company is more profitable because its sustainability performance increases (in line with Porter and van der Linde 1995), or it may be that a more profitable company can afford to spend resources in social and environmental actions. Furthermore, each situation is different, and it may well be that what works in one industry does not work the same way in another industry. Alternatively, a particular strategy achieves to align sustainability and financial results while other strategies do not. Thus, the question about the relation between sustainability performance and financial results remains to this day open.

Each standard for social reports has in some way tried to address this issue. The GRI presents a broad set of indicators encompassing wide areas of economic, environmental, and social performance. The GRI has been created and updated by a large group of stakeholders, who bring their complementary perspectives. This collective processes ends up in an aggregation of indicators, with the purpose of accountability to different stakeholders. Thus, the focus is on disclosure and not necessarily in making links between different indicators. For its part, the Integrated Reporting attempts to bridge the gap between the two perspectives (sustainability and finance). As the Integrated Reporting is a relatively recent experience that has less implementations than the GRI, it is too early to conclude about its potential. On its part, SASB is a more recent framework, which presents sets of indicators that are adapted to different industries. The idea behind is that sustainability issues can differ
among industries and that, consequently, there is a need for different sets of indicators. Besides, SASB has an emphasis on those sustainability issues that can be material (i.e., financially relevant) for investors. There are other initiatives that attempt to address both economic and social value, such as the methodology recently developed by Retolaza, San-José, and Ruiz-Roqueñí (2016). The authors present an integrated approach that takes into consideration the viewpoints of a large spectrum of stakeholders.

In terms of Ethics in Finance, there are two reflections to make. First, as the causal link between sustainability and financial performance is not completely clear, it is possible that managers will not be completely sure whether sustainable policies pay off or not. Being “green and competitive” (Porter and van der Linde 1995) may not happen all the time. Otherwise said, in many cases, managers may implement a sustainability policy because they consider that it is the appropriate thing to do, even if the business rationale is not clear for the moment. Second, when choosing a framework for social reports, managers need to be aware of the purpose of the framework they choose. Even if all the mentioned frameworks are complementary, each one of them has specificities that make it more appropriate for some cases than for others.

The Promise of Social Accounting to Achieve Organizational Change

This is possibly the most relevant issue for the years to come. Social Accounting, important as it is, is not an objective in itself. It has to be instead a means to achieve sustainability. Now the question is if Social Accounting can be conducive, or at least favorable, to improvements in sustainability. In this sense, there are very different viewpoints. Some scholars are confident in the potential of Social Accounting tools in bringing organizational change. For instance, Burke and Clark (2016) in their analysis of a particular framework (Integrated Reporting) claim that this kind of tool will provide better information for decision-making, more teamwork inside of the company, and the promise of improvements in sustainability.

Other scholars are less convinced about the promise of Social Accounting in achieving organizational change. This is the case for instance of Rodrigue, Magnan, and Cho (2013), who study a sample of environmental-sensitive companies and conclude that in many cases, environmental governance is “symbolic,” that is, without achieving real changes. In a similar vein, Larrinaga-González et al. (2001) perform a qualitative study, based on interviews, for a sample of Spanish companies, and they come to similar conclusions. The authors argue that environmental accounting may not lead to significant organizational change. Larrinaga-González and Bebbington (2001) present the case of an electricity utility in Spain that implemented an environmental accounting system. The authors contrasted two opposing tendencies, which they called “organizational change” and “institutional appropriation.” While in the first tendency a real improvement in corporate practices appears, this is not the case for “institutional appropriation,” where environmental accounting fails
to achieve significant improvements. After studying in depth the case of this electricity utility, the authors come to a nuanced conclusion: despite some organizational change, the company failed to achieve a complete environmental transformation. In another case study, Mitchell, Curtis, and Davidson (2012) explore the use of Triple Bottom Line (a classical Social Accounting tool) in a large organization in Australia. They conclude that despite some marginal improvements, there was no iterative learning (double-loop learning) in the organization.

These previously mentioned studies share a rather grim view of social accounting as a tool for organizational change. They underline the difficulties companies may find in achieving concrete improvements. After reading those papers, one realizes that the mere implementation of a social accounting system will not automatically lead to substantial improvements in sustainability performance. We could ask ourselves whether Social Accounting is able to deliver on its promise, and if that were not the case, what to do about it.

Taking a step back, we can see that Social Accounting has been an uncontested success in many realms. For instance, the KPMG Survey of Corporate Responsibility Reporting (2017) studies reporting practices in almost 50 countries all over the world. According to that report, social reporting is a mainstream practice for large firms in many countries, and not only in developed ones. Furthermore, there is a vibrant community of practitioners, consultants, NGOs, and standard setters constantly looking for the improvement of reporting practices. Besides, in the academic world, Social Accounting is no longer an isolated niche, as most of the international journals regularly include papers of this discipline.

However, in some other senses, the Social Accounting project has not yet achieved its objectives. Granted, we know more about companies’ motivations for disclosure, about how to improve disclosure, and what to expect from social reports. We understand better the possibilities (and limits) of regulation of disclosure in Social Accounting. Besides, we have more insight about the role of management accounting (i.e., indicators, incentives, budgets) in supporting Social Accounting and in providing managers with concrete tools for making companies more sustainable. But we may still see that the expected results are not there. Improvements in some large companies, praiseworthy as they are, do not compensate for a business-as-usual behavior in many small and medium companies, that remain below the radar and that collectively constitute most of the production and employment.

Furthermore, we may argue that Social Accounting with its increased disclosure may induce incremental, marginal improvement, without challenging the subjacent business model. Take the case of transportation. Social Accounting’s disclosures may indicate improvements in efficiency, perhaps as measured by tons of carbon per kilometer, fuel efficiency, and asset rotation. But we could still fail to pose more fundamental questions about transportation. For instance, do we need really to travel that much? Recently, the recent COVID-19 crisis made us realize that much (if not most) of our business meetings could be done online. Even if the technology for online meetings has been there for a while, and we have been more or less familiar with it, we have strangely remained too much attached to travelling.
Otherwise said, looking for incremental (and much welcome!) improvements in Social Accounting could hide the pressing need for revising our conventional business models. On the long run, it is probably not a matter of improving incumbent business models, but perhaps in many cases, of changing those business models. Take the example of mining. There is nothing such as “green mining.” Mining, by definition, will always be a polluting activity. Moreover, it is frequently socially controversial as well, as explorations frequently happen in remote areas, sometimes where fragile populations live. Despite all those problems, we still need mining, as minerals are basic inputs for most industrial production nowadays. We may not like the impacts of mining, but mining is still necessary in order to maintain our way of life. In this context, Social Accounting would give managers and stakeholders in mining companies most valuable information that may help to achieve improvements in many areas. This kind of effort is worthwhile and certainly merits to be done. However, on the long run we would ask ourselves about how to diminish the need for industrial inputs that come from mining, perhaps by new technologies that ask for less minerals, or by some kind of circular economy solution.

Social Accounting is necessary, welcome, and helpful for improving incumbent business models. More disclosure will help managers to focus on opportunities for improvement, to reorient companies’ efforts and resources toward increasing social expectations. More transparency will also empower stakeholders in their relation with the company. In that sense, Social Accounting has a bright future, both in practice and in academia. But there is a limit to the kind of improvements that Social Accounting can bring. After all, Accounting as a discipline tends to look at the past, certainly with the aim of taking stock, learning, and improving things. This is the same for both conventional and social accounting: the status quo remains the starting point for any accounting practice.

In many industries, in many business models, merely improving the current situation is not enough. Radical change may be necessary in those cases, and Social Accounting will not be of much help. Most probably, we would have to redesign business models, and sometimes to create business models from scratch. For example, the report of Ludeke-Freund et al. (2015) brings interesting propositions for developing more sustainable business models. Otherwise said, complementary approaches from other disciplines, like Design Thinking, could complement efforts toward changing current business models.

In terms of Ethics in Finance, this last point makes us to be cautious about the potential of Social Accounting. Useful as it is, Social Accounting remains a mean to an end. Its test of success will be its ability to create tangible change in corporate practices. This is most possibly the case for the improvement of existing business models. However, in those cases where business models have to be completely changed, Social Accounting most probably needs to be accompanied and supported with other complementary approaches and tools.
Conclusion – Social Accounting and Ethics in Finance

This chapter brings a succinct analysis and discussion of the main contemporary issues in Social Accounting, from the viewpoint of Ethics in Finance. This chapter has its place in a book on Ethics in Finance because Sustainability is nowadays a most relevant issue in Ethics in Finance (San-José and Retolaza 2018). The discussion has been organized around five major issues. First, in terms of corporate disclosure, there is a tension between companies, which possibly do not share all social and environmental information, and stakeholders, who would expect higher transparency. Thus, we should not assume that companies naively disclose social and environmental information. Second, regulation for social reports could help to increase the quality of reports, but studies show that regulation by itself will not automatically improve disclosure. Most probably, an active involvement of citizenry is necessary in order to reap the full potential of regulation on disclosure. Third, studies in managerial accounting emphasize the complexity of working with social and environmental indicators. Thus, it is possible that managers struggle to collect and make sense of information about all the social and environmental impacts of their firm. Consequently, these studies tend to nuance the first point about corporate disclosure. It could well be that managers are not hiding some information for the simple reason that they do not have it themselves. Fourth, the link between sustainability and financial performance remains elusive, and this is despite Porter and van der Linde’s (1995) promise of becoming “green and competitive.” Additionally, when managers choose a framework for social reports, they need to be aware of their specificities.

Finally, we should be aware of what Social Accounting can deliver (and what it cannot do) in terms of organizational change. Besides, and in a more fundamental sense, Social Accounting can help to improve existing business models, but by itself, it does not lead to the creation of new business models. Consequently, we should not refrain from using complementary tools from other disciplines. Overall, Social Accounting can contribute in a consistent way to the improvement of corporate sustainability. In that sense, Social Accounting is an increasingly important tool for both managers and stakeholders.

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