Accounting Practices leading to Sustainable Development

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Abstract

As the world increasingly grapples with the effects of global warming, the thrust of economic activity is towards development that is sustainable. Organizations exist in society; therefore they must abide by not only the rules framed for the conduct of any business but also current public concerns. It is accepted now that the organizations are accountable to their shareholders, to the society as well as to the environment. All professions including accounting need ethical behavior. As companies become better governed, they will start using the available resources judiciously. This responsible behavior would lead to sustainable development as a whole. Managers have fiduciary responsibility and it must be reflected in their behavior. The interlinkage of accounting ethics and responsible behavior on the part of managers will ensure that the organizations are successful without compromising the wellbeing of all the stakeholders. The practice of sustainability reporting may be useful in identifying and quantifying the impact of organizational activity on the stakeholders.

Key Words

Sustainable development, Accounting, Ethics, Stakeholders

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Introduction

As societies evolved, the laws came into existence. Laws ensured correct behavior on the part of all members of the society. Laws also conferred protection on the most vulnerable entities in the society. Rapid industrialization led to complexities in business. The judiciary was slow to respond to these complexities and therefore the world saw many upheavals and scandals in the business world. Profit maximization was considered the only real objective of organizations. The impact on environment or on society was not considered while making decisions. However, today's world is becoming more conscious and many societies and countries have put in place extensive legal frameworks to ensure ethical conduct from managers.

Managers are custodians of society's resources and accountable to all the stake holders. Stake holders are not just the shareholders who have invested in the company. Stakeholders are also all those entities which are profoundly impacted by the actions of the company. These stakeholders can be customers, the civil society at large, the environment and also the future generations – as the decisions taken today will affect them profoundly as well. The next big challenge that the world is facing is continuing the tremendous advancement with finite resources, which are depleting day by day.

Most managers would consider themselves to be ethical individuals. This leads them to undertake conduct that goes beyond mere legal obligation. The behavior of the managers is mainly decided by the rules and regulations since the corporations must abide by them. Most countries have intricate and elaborate legal frameworks to govern this behavior. The managerial behavior is also guided by ethics. So the behavior should be ethical in the sense that they follow not only legal and non-legal aspects due to obligations but also adopt ''ethics'' for formation of a good organization which is a part of society as a whole.

With this goal in mind, the business world is moving towards more ethical practices. These practices first and foremost include changes in the production and technological inventions to make the business activity less polluting and less wasteful. Another front on which the business world has responded is in terms of accounting practices. Ethical and conscious accounting practices go beyond merely meeting the legal requirements. They ensure that the interests of all stakeholders, including all silent or invisible stake holders, such as the

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nature and future generations -are protected. All resources are accounted for and efficiently used, thereby lessening the burden on the environment and achieving advancement that is sustainable.

Objectives of the Study

- To demonstrate the changing role of accounting in today's business world
- To explain how the business world has responded to the challenges of sustainable development through accounting practices as well
- To highlight the concept of Triple Bottom Line accounting
- To shed light on some of the accounting approaches adopted by the business community towards sustainability reporting

Research Design

The research was based primarily on secondary form of data derived from books and scholarly research papers. The paper gets its start from the literature review and then attempts to draw conclusion through analysis and critical thinking.

Literature Review

It has been many decades since the concept of Business Ethics has taken root and been recognized as an essential subject area in its own right. (Baumhart R, 1962). The Dictionary defines Accounting ("Accounting" 2015) as the system of recording and summarizing business and financial transactions and analyzing, verifying and reporting the results. The raison d'etre of accounting is to keep a track of a company's funds as well as portraying a picture of its financial wellbeing, based upon which the potential investors could make informed decisions. For this purpose, two groups of professionals have generally emerged. Namely: the in-house or internal accountants and the external auditors.

Accounting ethics is a field that applies the mores and rules of ethical conduct to accountancy. Luca Pacioli is largely credited for introducing ethics in accounting. (Lee T, Bishop A, Parker R Eds.2014)**.** As the economies around the world advanced, so did the financial mal practices and irresponsible use of the organization's resources for personal gain. It was forgotten that the managers are merely trustees and not the owners of the money entrusted to them by the shareholders. Governments responded by putting in place extensive rules and regulations.

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Today the all over the world ethics and accounting ethics are taught in the hope that the future managers will be more ethical and responsible in their behavior.

The managers sometimes feel pressured to resort to fraudulent activities to achieve business goals. (M Baucus 1994) The role of accountants and auditors has been recognized in ensuring correct practices and bringing transparency. Not just external auditors, but internal auditors and accountants too can help in detecting and preventing frauds. (James K 2003) All these best practices will lead to responsible use of available resources – money as well as other resources. If all organizations are as efficient with their resources, the society at large will automatically be more efficient with the available resources.

The word 'sustainable' means something that can go on existing infinitely. (Webster's 2015) The world has progressed a great deal. However, this progress has come at a great environmental cost. This kind of development is not sustainable. The world needs to change its course of action if it needs to keep progressing. Sustainable development is essential not just for advancement but indeed for the very existence of our planet.

Today it is recognized that there several visible and invisible stakeholders to any economic venture. The visible stakeholders are shareholders, the government and the society at large. The silent stake holder is the environment and the invisible stakeholder is the future generation. (Freeman R. Edward 1994) Taking into consideration the welfare of all these stakeholders, it is absolutely imperative that organizations remain ethical in their conduct and contribute to sustainable development.

Once, they became aware, corporations took on the challenge of lessening the negative impact and bringing about positive change. This also made good business sense. (Joyner B, Payne D 2002) The production systems were revamped to be more efficient, thereby ensuring that the resources are being used judiciously. A lot of investments were made in finding alternative fuels and materials. Efforts were made to make the buildings, factories less polluting and more environmentally friendly. The corporations also built strong Corporate Social Responsibility programs that give back to the society. All of these efforts matter. Gauging the impact of these efforts is also extremely important (Epstein M & Buhovac A 2014). Instead of treating profit maximization as the 'be all and end all' of organizations, today's e managers have started paying close attention to the impact of organizational activity. The managers and accountants are greatly aided by the emerging field of sustainability reporting (Kolk A 2004).

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Sustainability reporting strives to express the impact on stakeholders in quantifiable or monetary terms; making it easier for analysis and decision making. The concept of sustainability reporting might have taken root in 1990s (R Hahn, M Kühnen 2013) but it is only now that the concept has received wider acceptance.

Triple Bottom Line (TBL)

The accounting world has responded to the challenge by coming up with several concepts and approaches that faithfully report the impact of sustainability practices of corporations. One such widely accepted approach is the Triple Bottom Line Approach. John Elkington, who is considered an authority on sustainable practices, is credited with originating this approach. This approach, which is essentially an accounting approach, goes well beyond the usual norms of return on investment, profitability, etc. Instead, the Triple Bottom Line Approach concentrates on three aspects – People, Profit and the Planet. (Elkington J. 1999) These three are irrevocably interconnected. The TBL approach demonstrates that the 'bottom line' is not only with respect to the profits earned, but also relating to the kind of impact that the organization will have on individuals and the ecology.

The Triple Bottom Line approach is unique in that it started accounting for the impact of the business activity on not only the concerned company, but other stakeholders such as individuals and indeed the entire planet. It is these stakeholders that are indirectly, but equally affected. But the traditional accounting and reporting systems would not represent their interests and concerns.

The adoption of the Triple Bottom Line demonstrates the tacit agreement and acknowledgement on part of the business world about this impact. The first step in resolving any problem is the acknowledgement. Triple bottom line approach will demonstrate to managers the impact of actions not only on visible stakeholders but also on invisible or silent stakeholders as well. As the impact becomes apparent, the managers will feel compelled to decrease negative impact and increase the positive impact, thereby achieving the organizations goal in a sustainable way.

Corporate Sustainability Reporting

The challenge still remains as to how to report or quantify the impact of sustainable practices. There is no uniform, measurable unit that can accurately pinpoint the impact of sustainable

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practices as a quantifiable value. Again, the accounting world has responded with several approaches to tackle this challenge. One such approach is suggested by Global Reporting initiative (GRI). This is a professional, not for profit body. Comprising of accounting professionals, they have designed a framework to help companies report on their sustainability practices. The framework has been adopted by more than 11,000 corporations around the world. The GRI framework is fundamentally based upon GAAP (generally accepted accounting principles). This framework strives to report the triple bottom line with clarity and accuracy. The GRI has constructed 146 different indicators on which to measure the performance (Sustainability Reporting Guidelines on Economic, Environmental and Social Performance, Global Reporting Initiative, 2000) such as Economic (profits, ROI, sales), Environmental (Energy needed, Waste Material generated and disposed), Social (benefits to employees, product safety). GRI approach helps companies measure the sustainability impact and brings in transparency. It will also help managers to make informed decisions. Again this is an attempt on part of the business world to not only acknowledge but also to actively address and report the sustainability practices in terms of quantifiable terms.

As the concept of Corporate Sustainability Reporting gains wide acceptance, more and more companies will start accounting for actions and their impact, this will further encourage companies to adopt practices which friendly towards the environment and conscious about the social good.

Conclusion and Recommendations

Ethical practices can help steer our behaviors to maximizing welfare. Accounting ethics and sustainability reporting will help companies monitor their own behavior and prevent any wrongdoing. Showing the impact of sustainability practices as measurable and quantifiable values will help companies adopt the practices that maximize value and discard the wasteful ones. If each organization of the society is similarly conscious and efficient, the world as a whole will be more efficient. Money saved is money earned. Resources saved are resources generated. With correct and ethical practices, accounting will show how to maximize the benefit accruing from existing resources, thereby helping the world with sustainable development. The world will learn to operate within the available resources, thereby ensuring that we keep up the pace of development without compromising the long term wellbeing of our planet. This is what sustainable development is all about.

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It is indeed admirable that the accounting world has taken on the challenge of achieving sustainable development through the accounting practices. However, it shouldn't get complacent. It must find better and more efficient ways of reporting so that the impact – both positive as well as negative – can be viewed as one monetary figure. The method of quantifying will help the company as well as the society at large to know what has been the cost of the business activity and correct the course of action if necessary. There should be a discourse on finding out if the sustainability reporting should be made mandatory. If made mandatory, the sustainability reports can be audited just like the regular financial reports. This framework will help the companies to save resources and to ensure ethical practices that will help all the stakeholders a great deal.

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