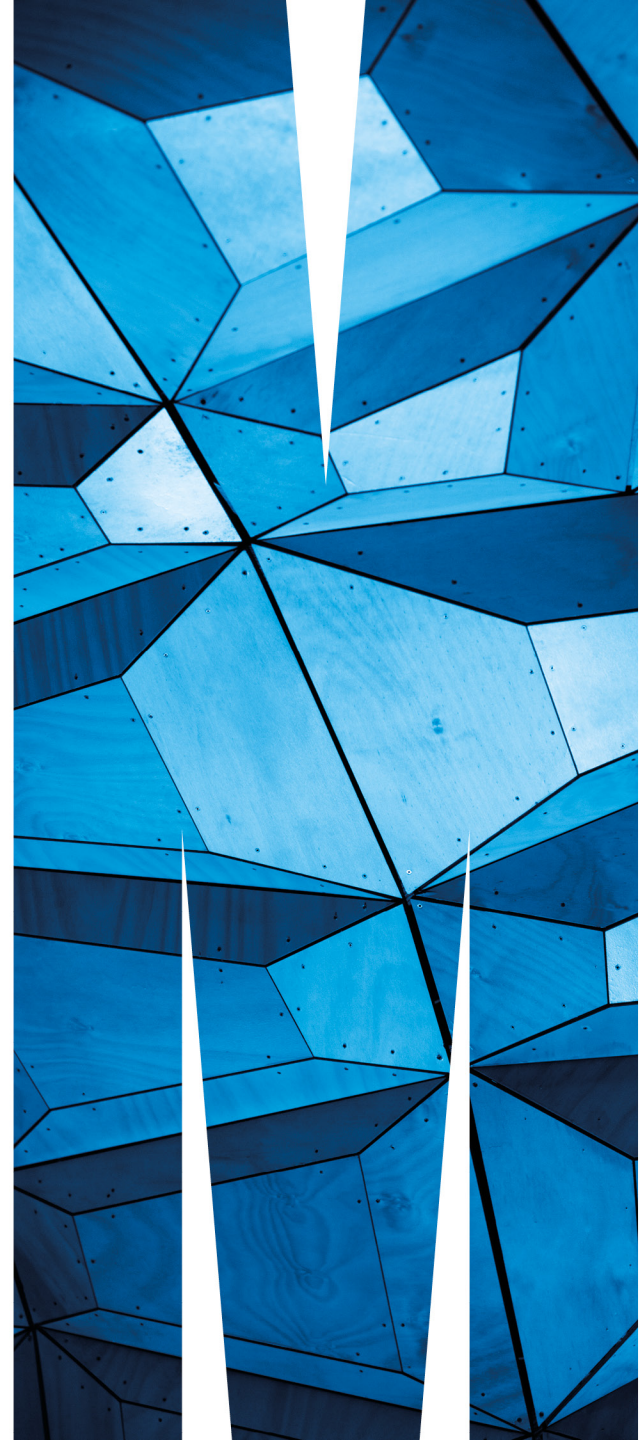


ACX2900

Accounting for Sustainability

Theories and Sustainability



INTRODUCTION AND OUTLINE

- Introduction
- Recap of Week 1 – Introduction to sustainability
- What is a theory?
- What theories are commonly used to explain/support CSR?
 - Legitimacy theory
 - Institutional theory
 - Stakeholder theory
 - Shareholder theory
 - Human rights theory
- Application of learning (Case study)

SURVEY

Please make sure to open Kahoot on your mobile device or your computer to participate in a quick, anonymous, survey

Recap Week 1

WHY

*“Operating in an **environmentally, socially and economically sustainable manner** is one of the **most urgent challenges** facing organisations today. [...] It is increasingly important for organisations **to understand and respond to** both the manner in which these issues will **affect their own continuity and long-term success**, and to how they **can help society as a whole** in meeting the challenges faced.”* (Hopwood, Unerman, & Fries, 2010, p. 1-2).

- Notion of sustainability
 - Conceptualisation of sustainability is constantly changing
 - Environmental, social and economic component
 - “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Greenwood et al., 2015)
- Accounting
 - “[accounts] are always engaged in interpreting a complex reality, partially, and in a way that is **heavily weighted in favour of what the accountant is able to measure and chooses to measure**, through the particular scheme of accounting to be adopted”. (Morgan, 1988, p. 480)
 - Accounting processes and practices “enable the **systematic identification and interlinking of the economic, social and environmental costs and benefits** of organisational strategies and actions.” (Hopwood et al., 2010, p. 2).

Learning outcomes for this week

- After today, you will be able to
 - Explain the purpose of theories
 - Choose an appropriate theoretical framework, and provide a justification for your chosen framework
 - Critically apply theoretical accounting knowledge, more precisely
 - Refer to theories to critically evaluate the sustainability implications of organizations' actions and decisions



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What is a theory?

THEORY DEFINED

- A belief or principle that guides actions or behaviour
- An idea or set of ideas that is intended to explain something
- The set of principles on which a subject is based or of ideas that are suggested to explain a fact or event

WHY DO WE NEED TO KNOW ABOUT THEORIES?

- To provide an explanation of what is happening
- To help us predict what will happen
- Theories drive many real world situations
- Theory informs decisions about:
 - Tax
 - Interest rates
 - Education
 - Global Warming
 - ... pretty much everything



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CSR Theories

OVERVIEW OF CSR THEORIES

■ Positive theories

- Companies are viewed as the total of the contracts they enter into
- Belief that as these contracts dictate business of companies, core driver of success is efficiency
- Examines real life occurrences
- Describe, explain and then predict how companies address accounting treatment of transactions and events to understand the economic consequences of those accounting decisions
- Help to understand what happens in the world
- Start with specific policies, and generalizes to higher-level principles

OVERVIEW OF CSR THEORIES

- Normative theories
 - Recommend what should happen; what ought to be
 - Based on a theoretical principle
 - More of a deductive process than positive accounting theory
 - Starts with the theory and deduces to specific policies
 - Why should companies pursue a sustainability agenda?
 - See for an example, the paper by Gray (2010) on Moodle
 - Deontological perspective
 - Intention behind the action is as important as the action itself
 - Teleological perspective
 - Focuses on the outcome

EXAMPLES OF THEORIES

- **Stakeholder theory**

- Normative theory: what stakeholders should a company consider?
- Positive theory: Managerial stakeholder theory – Identify those stakeholders with the most power

- **Institutional theory**

- Positive theory
- Influenced by the institutional environment

- **Legitimacy theory**

- Normative theory: should consider the social contract
- Also a positive theory because it can explain corporate action

- **Agency or shareholder theory**

- Positive theory: focuses on manager/shareholder relationship



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Stakeholder Theory

“We need to understand the complex interconnections between economic and social forces. Isolating “social issues” as separate from the economic impact which they have, and conversely isolating economic issues as if they had no social effect, misses the mark both managerially and intellectually. Actions aimed at one side will not address the concerns of the other. Processes, techniques and theories that do not consider all of these forces will fail to describe and predict the business world as it really is.” (Freeman, 1984, p. 40)

- Considers the relationships that exist between the organisation and its various stakeholders
 - Stakeholders are “any group or individual who can affect or is affected by the achievements of an organisation’s objectives” (Freeman, 1984, p. 46)

NORMATIVE VS. MANAGERIAL BRANCH OF STAKEHOLDER THEORY

Normative branch

- Stakeholders are identified, and should be considered in organisational decisions because of their interest in the activities of the organisation

Managerial/Positive branch

- Seeks to explain how stakeholders influence organisational actions
- The extent to which an organisation will consider its stakeholders is **related to the power or influence** of those stakeholders
 - A stakeholders' **power is related to the degree of control they have over resources** required by the organisation (related to resource dependency theory)

STAKEHOLDER VS. SHAREHOLDER THEORY (1/2)

- **Shareholder theory** (Milton Friedman, 1960s): In capitalism, the only stakeholders a company should care about are its shareholders, its bottom line
 - Managers have a duty to maximize returns to satisfy shareholders (owners)
 - Other stakeholders as a means to an end of maximizing profitability
- **Stakeholder theory** (Edward Freeman, 1980s): Need to take the interest of all stakeholders into consideration when making decisions, not just shareholders
 - CSR important because stakeholders and shareholders have, in most cases, different viewpoints
 - Stakeholders concerned with longevity of their relationship with the organization and quality of product/service, rather than just (short-term) profits

STAKEHOLDER VS. SHAREHOLDER THEORY (2/2)

- Shareholder theory is not an “anything goes” drive to lift profits
 - Process must be legal
 - Maximizing profit through non-deceptive practices
 - Does not exclude charitable works
 - Often considers ‘enlightened self interest’, which would mean a longer term focus and reflects the business case for CSR
- Likewise, stakeholder theory does not ignore profits
 - Needs to make a profit to continue operations to be able to address sustainability issues



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Institutional Theory

- **Origins:** How organizational founding and change were driven less by functional considerations and more by symbolic actions and external influences than the theory at the time assumed
Explains not only why organisational structures and practices become entrenched, but also how and why change occurs
- Meyer and Rowan (1977) distinguish between
 - a genuinely accepted and entrenched institutional practice or standard, on the one hand,
 - and institutional myths, on the other.
 - **Institutional myths** are those standards or practices that are merely accepted ceremoniously in order for the organisation to gain or maintain legitimacy in the institutional environment.
 - **CSR:** Attempts to avoid further regulation by showing that company is doing the right thing

Isomorphism (DiMaggio & Powell, 1983)

- Coercive isomorphism: Competitive pressure to conform or peer pressure
 - Mimetic isomorphism: Mimetic pressures to copy successful forms/standards or players in the field
 - Normative isomorphism: Pressure through regulation
 - **Proposition:** Institutional pressures increase homogeneity of organizational structures
-
- **CSR:** For example, as new standards/practices become more widely accepted and adopted, they become gradually more legitimized in the environment. Ultimately, these standards/practices reach a level of legitimization where failure to adopt them is seen as irrational

Legitimacy theory

“Many researchers employ the term *legitimacy*, but few define it.” (Suchman, 1995, p. 572).

Group Task: Define “legitimacy”

At your table, use the table to draw a mind-map of what the term “legitimacy” (i.e., what is legitimacy vs. legitimacy for what?) means to you and what it entails when it comes to organisations.

LEGITIMACY THEORY

- Based on the **idea of a social contract**
 - Relates to the explicit and implicit expectations society has about how businesses should act to ensure they survive into the future
 - Organisations need to show they are operating in accordance with these expectations (i.e., comply with the social contract)
- **Focuses on whether the value system of an organization is congruent with the value system of society, AND**
- **Whether the objective of organizations is to meet social expectations**
 - Does not specify how the congruency could be reached, or how the actions should be formulated

▪ Organisational legitimacy – General definition

- “Legitimacy is a generalized **perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.**” (Suchman, 1995, p. 574)
- In the past legitimacy was considered only in terms of economic performance
- Now businesses are expected to consider a range of issues, including the environmental and social consequences of their actions, decisions and activities

DISCLOSURES AND LEGITIMACY

- Four ways an organisation **can obtain or maintain legitimacy**:
 1. Seek to **educate and inform society** about **actual changes** in the organisation's performance and activities
 2. Seek to **change the perceptions of society**, but not actually change behaviour
 3. Seek to **manipulate perception** by **deflecting attention from the issue of concern to other related issues**
 4. Seek to **change expectations of the organisation's performance**
- **Disclosure of information** about an organisation's effect on, or relationship with society **can be used in each of the strategies**
 - An entity might provide information to offset negative news which may be publicly available
 - An organisation may draw attention to strengths
- **Public reporting** through the annual report or the entity website **can be a powerful tool** in showing an organisation is meeting the expectations of society

EXAMPLE: CLASSIFICATION OF FREE RANGE EGGS

- Labelled free range improves legitimacy and reputation
- Options:
 - Make changes to practices and educate public about improvements
 - Seek to change perceptions of society about amount of space needed
 - Change expectations of performance
 - Have pursued changing the evaluation method
 - Lobbied to reduce the amount of space needed to be considered free range – 750 chickens per m² to 1500 chickens per m²



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Human Rights Theory

HUMAN RIGHTS THEORY

- The philosophy of human rights addresses questions about the existence, content, nature, universality, justification, and legal status of human rights
- *Human rights are universal*
 - Independent of whether they are found in the practices, morality, or law of a particular country or culture
 - Respect: Considering or upholding the rights of others
- *Human rights are rights*
 - Most, if not all, human rights are claim rights that impose duties or responsibilities on their addressees or duty-bearers
 - For example: Freedom of speech = human right

HUMAN RIGHTS THEORY

- Don't confuse rights with obligations or duties
 - A right is something you are entitled to
 - A duty is something you are obligated to do
- No hierarchy of rights
 - Universality needs several qualifications
 - The hum right of freedom of movement may be taken away temporarily from a person who is convicted of a serious crime
 - Rights of one person may conflict with those of others
 - Right to free speech may outweigh right of other not to be discriminated against

- Universal Declaration of Human Rights (1948)
 - proclaimed by the United Nations General Assembly in Paris on 10 December 1948
 - <http://www.un.org/en/universal-declaration-human-rights/>
- Article 1: All human beings are born free and equal in dignity and rights
- Article 2: Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.

- TED talk: Mary Robinson
 - “Why climate change is a threat to human rights”
 - <https://www.youtube.com/watch?v=7JVTirBEfho>
- Changes in climate have affected access to food and ability to grow food
 - Recent years long periods of drought, flash flooding then more drought
 - Climate change has reduced this access for some, mostly developing, nations

HUMAN RIGHTS AND CLIMATE CHANGE

- **Those most affected by climate change are not responsible for their production**
- **No country has grown without increasing emissions**
 - Finance, technology, systems needed for this
- Capable of coming together to solve problems: No one can escape climate change
- **UN Sustainable Development Goals (agreed 2015, to be implemented 2030):** Goals to live under sustainable development
- **Paris Climate Agreement**
 - On trajectory for 4 degrees, but we need to keep global temperature rise below 2 degrees
 - US left in 2017 with President Trump stating “The Paris accord will undermine [the US] economy [and] puts [the US] at a permanent disadvantage.”



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Application of learning

Case Study “Plastic Bags” – Group Task

- You will be divided into groups
- You will be presented with the “plastic bag case”
- Drawing on any of the theories you got to know today,
 1. Critically discuss why Coles and Woolies decided to ban plastic bags in 2018
 2. Make recommendations on what else should happen/should have happened (especially from an “accounting/reporting” perspective)

Case Study “Plastic Bags”

- Coles and Woolworths claim that the bag ban **diverted about 4.7 billion single-use plastic bags** from landfill in 12 months
- Woolworths alone claims that nearly 5,000 tons of plastic have been kept out of circulation (equal to more than 780 African elephants)
- Aldi has never offered single-use plastic bags and claims this it has kept 40,000 tons of plastic from entering the environment
- It will be illegal for VIC retailers to supply customers with single-use plastic bags from November 2019

Case Study “Plastic Bags”

- Dr. R. Taylor (University of Sydney): “What I found [when studying a similar policy in California] was that sales of garbage bags actually skyrocketed after plastic grocery bags were banned.”
 - Purchase of small plastic bags jumped by 120%
 - Reusable bags for rubbish take longer to break down in landfill
 - “About 30% of the plastic that was eliminated by the ban comes back in the form of thicker garbage bags.”

Case Study “Plastic Bags”



- Dr. Thornton (Hazardous material management expert):
“Garbage bags are only used once [...] **they generally have more plastic**, they’re heavier, they’re often colored so there’s chemicals [...] sometimes the cotton bags or the reusable bags are the ones that are causing more environmental concerns than the plastic ones. **We don’t get that sort of data from the supermarkets or the retailers to say what is actually happening.**”

Case Study “Plastic Bags”

- “They’re [supermarkets] obviously seen as the product stewards, so a lot of people will come back to them.” (Stout, National Retail Association [NRA], 2018)
- “For many businesses, giving a free plastic bag to every customer incurs substantial cost, and current sentiment presents an opportunity to reconsider that habit.” (Stout, NRA, 2019).
- “You will get difficult customers” (IGA owner, Mount Evelyn).
- There is no ban on the lightweight plastic bags used to gather up fruit and vegetables



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Recap and Next week

NEXT WEEK

- We will be watching and discussing a film
- You will then be asked to write a reflective piece of the film which forms part of the individual assessment
- In case you miss the class in Week 3, you will need to organize a copy of the film in order to be able to fulfill this assessment task