Explaining Accountability through Social and Environmental Accounting Practice in Ethiopia

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Abstract – Most of the developed countries have made socio-economic developments through industrialization; however, a high level of industrial development is not always appended by social and environmental responsibility, which is an important element of company’s sustainability. The purpose of this study was to evaluate the social and environmental accounting practice and accountability of large taxpayer companies in Ethiopia. Stakeholder and legitimacy theories were used to explain the relationship between companies and their environment in terms of accountability. This study adopted survey research design in which data were collected by questionnaire, interview and focused group discussion from 262 companies. The analysis revealed that accountability was the main driving factor behind the companies social and environmental reporting; however, motives other than accountability also conceived. Furthermore, the result indicated partial consistency with both legitimacy and stakeholder theories.

Keywords: Social and environmental accounting, Accountability, Stakeholder theory, Legitimacy theory

1. INTRODUCTION

Accounting as a language of business is used to communicate information about how companies perform to all interested parties. Through these information stakeholders can evaluate the economic efficiency of the company; however, there is a growing concern of stakeholders regarding the impacts of business economic activity on the society and the environment (Reddy & Thomson, 2014). Consequently, organizations are now expected to account and report their social and environmental responsibilities (Jamali, 2006; Narang et al., 2007).

In light of gearing towards industrialization in Ethiopia, companies are expected to address the impact of their operations on the environment and society in general; and should report it in the accounts and annual report. Despite social and environmental accounting (SEA) being a contemporary issue, there is which represent a mechanism for accountability (Buhr and Reiter, 2006).

However, studies have evidenced a lack of consensus on the purpose of social and environmental reports and guidelines used (Kareiva et al., 2015; Milne & Gray, 2013). These challenges the aspect of accountability within social and environmental accounting. According to Deegan (2002), disclosure decisions should be based on the beliefs about what managers are considered to be accountable for, and what people need to know also referred as an ethical decision. Whether for moral, economic, legal or pragmatic reasons, every organization has to make an increasingly explicit assessment of its environmental and social impact and attempt to re-position itself.

Over the last three decades there has been a great deal of research in the social and environmental accounting and accountability practices of organizations operating in developed countries where pressure from different stakeholders is the main driving force (Islam & Mathews, 2009; Cahaya et al., 2008; Wendy & Jeremy 2005; Thomson & Zarina 2004). However, the practice in developing countries is underdeveloped (de Villiers and & Staden, 2006). Ethiopia being as one of the developing countries, most of the organizations operating in the country are not even aware of the most influential reporting guidelines such as GRI and AA1000.

According to FDRE 2014 report, Ethiopia is working towards industrialization to boost the economy. In the arena of industrialization, every country faces serious environmental problems. It is due to the fact that a high level of socio-economic development is not always followed by high environmental sustainability (Angkasa, 2017).

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evaluate the social and environmental accounting practice and accountability of large taxpayers companies of Ethiopia.

2. LITERATURE REVIEW

2.1. Theoretical Review

Legitimacy and stakeholder theory is commonly used to explain the relationship between organizations and their environment in terms of accountability. Both theories explain how the social and environmental reporting practices of organizations strive to satisfy the expectations of certain stakeholders or the society. The two theories are often used as interrelated and overlapping aspects supporting and promoting social and environmental accounting (Gray et al., 2014; Chen & Roberts, 2010; Deegan, 2002). However, what, for whom and what format of social and environmental reporting varies depending on the theories.

2.1.1. Legitimacy theory

Legitimacy theory explains and considers the relationship between organization and society (Gray et al., 1996). According to Lindblom (1994) legitimacy is a status which exists when an organization’s value system is congruent with the value system of the larger social system in which the organization is a part of. It is based on the notion of social contracts (Deegan, 2000) which considers that an organization’s survival will be threatened if society perceives that the organization has breached its social contract (Deegan, 2002).

Its’ conceptual idea is that companies will strive to satisfy the society as a whole by identifying values, norms, and beliefs, which are expected by the companies (Michael, 2013). These values, norms, and beliefs are not considered to be fixed, but they change over time, thereby requiring organizations to be responsive to the ethical (or moral) environment in which they operate. In adopting a legitimacy theory perspective, a company will voluntarily report activities if their management perceived that those activities were expected by the communities in which it operates (Deegan, 2002; Cormier & Gordon, 2001; Deegan et al., 2000).

Within legitimacy theory, ‘legitimacy’ is considered to be a resource on which an organization is dependent for survival (O’Donovan, 2002). Deegan (2002) provides example for how the organization depends on this resource: consumers may reduce the demand for the organization’s products; factory suppliers may eliminate the supply of labor and financial capital to the business; or constituents may lobby government for increased taxes, fines or laws to prohibit those actions which do not conform to the expectations of the community. However, unlike many other ‘resources,’ it is a ‘resource’ that the organization is considered to be able to impact or manipulate through various disclosure-related strategies (Woodward et al., 1996).

2.1.2. Stakeholder theory

Stakeholder theory is based on the satisfaction of certain stakeholder’s interests. It is concerned with how firm’s behavior is conditioned by the pressures exercised on organizations from different stakeholders (Llena et al., 2007). What, for whom and what format thus becomes a result of the expectations perceived by the companies from certain stakeholders. Stakeholders are people who can affect or be affected by the organization actions, decisions, policies or goals (Deegan, 2001; Carrol & Bucholtz, 2006). Stakeholder theory has two branches: ethical and managerial (Deegan, 2001). From an ethical point of view, environmental disclosures are responsibility driven, and management should organize business to the benefit of all stakeholders. Stakeholders have the right to assess company information and acknowledging that right can lead to improved corporate financial performance (Hategan, 2018). However, from a managerial perspective, management tends to respond to the information demands of stakeholders who are important to the organization’s survival. The provision of information will depend upon how powerful stakeholders are perceived to be, and their expectations will affect companies’ operations and disclosure policies.

2.2. Accountability

Under both Stakeholder and legitimacy theories, the purpose of companies to report social and environmental issue is the desire of accountability. Accountability is ill-defined term and poorly structured concept that does not lend itself to precise definition (Almqvist et al., 2013). There is a distinct lack of consensus as to what being held accountable actually entails. According to Gray et al. (1996), accountability is considered as the duty to provide an
account or reckoning of those actions for which one is held responsible. Accountability in its core sense means ‘being called to account for one’s actions’ (Mulgan, 2000).

The aspect of accountability within the SEA-literature is that the view of accounting needs to be expanded in order to comprehensively account for relationships between accounting entities and the external environment but not only financial accountability (Messner, 2009). According to Andrew (2001) accountability forms part of the philosophical justifications for accounting practice, and it is a concept that will provide a pivotal grounding upon which environmental issues will be recognized within its practice. Therefore, it is a duty (legal or moral) which arises from the responsibility that individuals and organizations have to explain and justify their activities (Cooper & Owen, 2007; Gray, 2000). Stakeholders have a ‘right to know’ (Swift, 2001) and then apply rewards and sanctions through ‘exit,’ ‘voice’ or ‘loyalty’ options. The capability of stakeholders both to reward and impose sanctions is a key component in the accountability process.

2.3. Theoretical Framework

Although accountability needs to be viewed from both the accounting entities as well as its stakeholders and the society (Messner, 2009), it originates from an ethical basis rather than an economic basis, and it is considered as a responsibility towards others (Shearer, 2002). From this standpoint, it can be noted that the responsibility of preparing and reporting social and environmental practices is laid on the accounting entity or the firm. Therefore, this study was focused on the accounting entities’ accountability by adapting Gray et al. (2014) model.

The ability and obligation to justify the organization’s activities to the society and the relationship between the society and the organization can be explained by both legitimacy and stakeholder theory. However, according to Gray et al. (2014) model the relationship remains undefined. Therefore, these theories were used for this study to examine the relationship of the organization and the external environment by incorporating them in the original accountability model.

According to Deegan (2009), there are four relevant questions to ask within social and environmental accounting studies: i.e., why, what, for whom and in what format is social and environmental accounting reported. These questions can be investigated in view of both legitimacy and stakeholder theories. However, to create a clear understanding about the current SEA practice and to examine which theory is more appropriate to explain the practice and accountability of organization in Ethiopia, it is necessary to answer all these questions. Accordingly, this study incorporated four questions to the original accountability model.

![Fig. 1. Adapted model of Gray et al. (2014) model](http://www.ijmsbr.com)
Muttanachai & Patricia (2012) examined why companies make or do not make environmental disclosures and if stakeholder theory can explain voluntary environmental reporting practice in Thailand. A five-point Likert scale questionnaire was used to collect the data from 311 accountants, and the collected data were analyzed based on descriptive statistics and t-tests. The finding revealed that meeting legal obligations, increasing customer loyalty, competitive advantage, customer concerns, and investors’ right to information were the highest-rated reasons; whereas, absence of environmental impact and absence of environmental regulations were identified as reasons for not disclosing environmental information.

Afzal et al. (2016) investigated the sustainability performance of 50 top construction contractors listed by Engineering News-Record against the triple bottom line. The study adopted survey design in which content analysis was done. The sample was divided into four groups based on regions as Australasia, America, Europe, and Asia. The results demonstrated that there was increase of sustainability reports however the quality of report vary in each region.

Islam & Deegan (2008) studied motivations for garment export organization within Bangladesh to report social responsibility information by using a combination of interviews of senior executives and content analysis. The results indicated that particular stakeholder groups had placed pressure on the industry in terms of its social performance and in turn, drives the industry’s social policies and related disclosure practices.

Eugenio (2009) evaluated social and environmental accounting regulation as a reason for the increase of environmental disclosures by a Portuguese cement company and to confirm if legitimacy theory explained its practice. A case study methodology was employed, then data were collected through content analysis of annual reports during the period 1997-2007. The results from this study showed that accounting regulation has an impact on the content of environmental information and it was a way to enhance accountability pertaining to environmental issues in organizations.

Cooper & Owen (2007) examined corporate social reporting and stakeholder accountability. The paper critically evaluated the degree of institutional reform and corporate accountability of UK quoted companies. It was concluded that both voluntary and mandatory forms of disclosure offer little opportunity for facilitating action on the part of organizational stakeholders, and cannot, therefore, be viewed as exercises in accountability.

2.5. Summary of Empirical Review & Literature Gap

Even if the above studies contribute a significant literature in accounting research, most of them (Muttanachai & Patricia, 2012; Eugenio, 2009; Cooper & Owen, 2007) lacks vivid way of examining accountability practice of the organization and evaluating how organizations discharge their accountability, which is essential in investigating accountability of organizations towards social and environmental accounting (Deegan, 2009).

In addition, it can be noted that social and environmental accountability was studied in different perspectives and major contribution in all perspective of social and environmental accounting was held in developed nations. However, studies in developing countries focused on motivational factors of social and environmental disclosure. Accountability issues are not sufficiently considered within the context of developing nations and the existing studies were deficient in examining and explaining findings based on a theoretical approach. Finally, to the knowledge of the authors, there is no study found in the area of social and environmental and accountability practice in Ethiopia.

3. RESEARCH METHODS

The study used survey research design. The data was obtained through semi-structured interview, structured questionnaire and focused group discussion. A semi-structured interview was conducted with company’s managers, and it was designed after companies SEA reporting documents and annual reports were investigated, which enabled us to qualitatively investigate how companies perceive the relationship between them and the accounts and how they use SEA to implement accountability into the relationship.

The questionnaires were designed, tested and refined in the Ethiopian companies’ context and it was distributed to one financial manager or senior accountant of each sampled companies to investigate in what way companies discharge their SEA accountability. The focused group discussion was conducted by clustering the companies based on their...
firm type; namely: service giving, merchandising, manufacturing and agricultural sector. Within each cluster, managers of the companies’ and stakeholders were involved which helped us to explain their relationship and understand the existing regulations, reward or the stakeholder’s power over resources of the company.

The population of this study was companies in Ethiopia classified under large taxpayers (Companies with annual turnover of more than ETB 37 million). Companies, categorized as a large taxpayer, are usually subject to a set of standards requiring both type and quality of the information that they have to disclose for stakeholders. According to the records held by Ethiopian Revenue and Customs Authority (ERCA), there are 1050 companies categorized under large taxpayer. Based on the formula of Yamane (1967), 290 companies were selected by using (FGD) indicated that there was no obligatory requirement to follow any SEA reporting guidelines, and most companies followed their own way to report their SEA practice, and some of them tried to follow ISO 26000 social responsibility guidance for their practice. Figure 2 illustrates the percentage of companies that disclosed social and environmental items in their reporting.

![Figure 2: Types of SEA information that the companies choose to disclose](http://www.ijmsbr.com)

From Figure 2, it can be observed that most frequently practiced and reported items by the companies were infrastructure (around 55.91% of companies with SEA reporting). Followed by employee benefit (47.31%), environmental protection (38.71%), scholarship (21.51%) and others (15.05%).

The companies motive to report SEA had various explanations which can be seen from figure 3. Since this study explained SEA from company’s accountability perspective, the other undermentioned motives were identified which might have an influence on accountability. Around 47.31% of companies with SEA viewed reporting SEA as discharging accountability of their business. 34.41% of companies with SEA perceived their reporting as a tool to enhance transparency. The data collected from FGD revealed that these companies professed accountability as a way of explaining their actions; and transparency as one way of conveying explanation for both positive and negative events of

4. RESULT AND DISCUSSION

Out of 262 companies, 186 companies reported SEA, which represents 70.99% of the sample. The remaining 29.01% responded that they did not participate in social and environmental activities; more than half of them were not even aware of social and environmental accounting, and some of the companies believe that their company’s activity will not affect the environment which lifts their responsibility for the environment. Since there is no obligatory requirement for social and environmental accounting and reporting in the country, these 186 companies were involved in voluntarily reporting. The data gathered from focused group discussion respectively. Although the companies SEA practice and report is voluntary-driven, most companies are involved in infrastructure for the reason that they were required to contribute to grand governmental infrastructure projects. Others type of information (emissions and waste; compliance and environmental goals) were mostly disclosed by the manufacturing sector. These companies could damage the environment through the use of hazardous and toxic materials and/or discharge harmful wastes and effluents; therefore, they faced more stringent pressures. As a response to these pressures, companies started to practice social and environmental activities, but still their reporting was only voluntary and were not regulated.

4.1. Why do companies need to report SEA?

The companies motive to report SEA had various explanations which can be seen from figure 3. Since this study explained SEA from company’s accountability perspective, the other undermentioned motives were identified which might have an influence on accountability. Around 47.31% of companies with SEA viewed reporting SEA as discharging accountability of their business. 34.41% of companies with SEA perceived their reporting as a tool to enhance transparency. The data collected from FGD revealed that these companies professed accountability as a way of explaining their actions; and transparency as one way of conveying explanation for both positive and negative events of
their companies; since, it is this very type of information that may get to the heart of the notion of accountability (Andrew, 2001). This finding was also in line with the explanation of Gray (2000) and Cooper & Owen (2007).

About 30.11% of companies with SEA also believed that their reporting was for marketing purpose and to communicate their invisible quality. From FGD data, most participants viewed both of them as similar and used it as a tool for developing their brand. SEA was also viewed by 25.81% of the companies as a way of developing an internal identity, 21.51% of the companies used their reporting to identify potential business partner, 17.2% considered it as a hygiene factor, 12.9% used it for internal monitoring, and 8.6% report due to social pressure and to educate the public for valuing companies social and environmental responsibilities.

During FGD session, some of the participants have mentioned that their company was reporting SEA as a hygiene factor.

4.2. What do companies choose to disclose?

Based on analysis of the questionnaire, 58.06% of companies with SEA choose what to disclose based on their strategic and competitive objectives; 34.41% of companies selected what to report depending on company’s practice, and 21.51% of companies disclosed SEA based on the availability of information. The lower shares were laid on the company’s choice based on perceived demand from stakeholders and in accordance to regulation, which is 12.9% and 10.75% respectively. There were no companies who have based their decision on public opinion.

Source: 2018/19 Own survey

Fig. 3. Reasons of companies to choose reporting SEA

From the interview and FGD finding, most sampled companies (more than 70%) with SEA considers SEA reporting as a subjective matter and believe that companies should report what they purport to report based on their reasoning. Some respondents also replied that it is too early to talk about SEA in Ethiopia and stakeholders are not well aware of companies’ responsibility to SEA. Additionally,
Fig. 4. What the companies choose to disclose

As observed in Figure 4, most companies choice on what to disclose is based on their strategic and competitive objectives. The finding from the FGD and the response from the interview also revealed the same result. In addition, there were 10.75%

4.3. For whom do the companies report SEA?

From this study, it was identified that there were five major stakeholders that companies with SEA report their SEA practice. From figure 5, it can be noted that shareholders were one of the most important stakeholders that SEA reporting was addressed to which represent 68.82%. The next prioritized stakeholders were the society which represents 51.61%; 47.31% of companies reported to customers; 25.81% of companies reported to employees and 8.6% of companies reported to NGOs. The result of FGD and interview indicated that both society and customers were the most considered stakeholders for the companies; however, they could not utilize effective way to communicate them.

4.4. What format is used by companies?

From figure 6, it can be noted that around 55.91% of companies with SEA reported their SEA activities through their financial report as disclosure; 49.46% companies reported their practice on independent reporting mechanisms like on fliers, social media and their website; and only 8.6% companies reported their practice on their product. On investigation of companies’ annual report, it has been found that the way the companies report their SEA practice was in a less formal and disorganized way. On the other hand, the response from the interview indicated that companies were disclosing SEA information based on their own format and they believed that this had made it difficult for external stakeholders to clearly understand the message conveyed in the report.

Source: 2018/19 Own survey

Fig. 6. Companies SEA reporting format

4.5. Relationship of stakeholders with the companies

The result of the study indicated that the relation between the stakeholders and the companies could be explained partly by both theories. From legitimacy theory perspective, almost all of these companies reported their SEA activities voluntarily if the management of the companies perceived that those activities were expected by the society. Additionally, based on the interview result, these companies considered properly discharging accountability as a way of developing their value in the society and maintaining their social contract. These findings make the result in line with O’Donovan (2002) who considered legitimacy as a resource of the organization.

However, there were partial inconsistencies with legitimacy theory in the companies’ activity. In theory it is expected that companies operating in high social and environmental impact sector will more likely to disclose their SEA activities (Kolk et al., 2001); however, the result of FGD indicated that most service providing companies were disclosing social and environmental activities than manufacturing and agricultural companies.
Even though there was partial consistency with legitimacy theory, the finding was also partially linked to stakeholder’s theory. Accordingly, most companies reported their SEA to shareholders who are expected to be powerful and some companies reported their SEA activity by targeting their customers and based on their decision for what to disclose on their strategic and competitive objectives. These finding indicated that the companies tried to maintain certain stakeholders’ interest which makes it in line with the stakeholder theory.

5. CONCLUSION
The study described accountability of Ethiopian large taxpayer companies towards SEA by basing its explanation on model of Gray et al. (2014). The result of this study answered the four-basic questions (i.e. Why, What, For whom, and What format?) on discharging accountability. In terms of “Why companies report SEA,” the finding revealed that accountability was as the main driving factor behind their reporting within these companies; however, there were also some other driving factors.

With respect to “What was being disclosed,” this study found that most companies decision were based on their strategic and competitive objectives and their practice. This can further be interpreted that the sampled companies reported based on their view and what they perceived was correct for the society instead of what stakeholders need to be reported. However, there were also other alternatives in which these companies based their decision on what to disclose.

For the question “For whom to disclose,” the result of this study viewed it in two ways: from the result of the questionnaire, it was revealed that most sampled companies were basically reporting for shareholders. From the result of FGD and interview, these companies believed the society and customers as the most important stakeholders and aimed to center their report to them; however, they could not get effective way to communicate them.

The last question was “what format is used,” and the study resulted that most companies used their annual financial report to disclose their SEA, but since there is no implemented standard, they reported in subjective way.

The result of the study was compared with the two well-known theories and obtained partial consistency. The companies’ voluntariness and believing on its economic benefit to report were partially in line with legitimacy theory; whereas, the companies’ objective to target specific stakeholders to whom they report showed some indication towards stakeholder theory.

6. THE WAY FORWARD
Since this study is the first survey on SEA in Ethiopian companies, it employed descriptive design, and it centered its investigation on the accountability of the companies which is connected with the two theories; namely: stakeholders and legitimacy theory. However, the finding indicated that there were motivations other than accountability. This might be an indication for SEA practice of Ethiopian companies to be explained by other theories other than the two theories which is advocated on accountability. Additionally, it was beyond the scope of this study to investigate whether these motivations were linked with accountability; therefore, it is better to further investigate their relation in explanatory way.

Furthermore, the study considered only whether the companies report SEA or not, but future studies should be conducted on content analysis of Ethiopian companies social and environmental disclosures.

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