

SOCIAL AND ENVIRONMENTAL ACCOUNTING: EVIDENCE FROM THE STOCK EXCHANGE OF MAURITIUS

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ABSTRACT

This paper looks at the social and environmental disclosure in Mauritius. In particular, the listed companies of Mauritius were targeted to assess their views for and against the social and environmental practices. Using a sample of 30 listed companies, the results suggest that there are listed companies in Mauritius which are engaged in some of the elements of social and environmental accounting (SEA) practices such as disclosing issues, ensuring transparency, complying with corporate governance. However, there are still areas of improvement such as proper education and wellbeing of the citizen, training, employment of handicapped person with adequate equipment amongst others which need to be addressed.

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INTRODUCTION

In today's world, it is essential for companies to follow the Social and Environmental Accounting (SEA) practice. According to Carroll (1999), it is a way of doing business in an ethical and honest way in respect to the various groups of stakeholders and to also consider the consequences of business's activities and their remedies, rather than concentrating only on making profits.

Among the different schemes taken by the government, the latest one being the project of 'Maurice île durable', concentrates on motivating the society and companies to opt for a better ecological way of doing business and of living. Listed Companies in Mauritius are already implementing this practice by undertaking the social and environmental reporting despite the fact that there are currently no specific guidelines to determine the extent the companies are engaged and disclose their information on environmental and social issues.

To our knowledge, there has not been a formal study so far to examine the issues of social and environmental disclosure for listed companies in Mauritius. In this respect, this study contributes to the knowledge gap by assessing the views of listed companies in Mauritius. In addition, this research will add to existing literature on developing countries and as such, findings can be used to compare with other countries.

The remainder of the paper is organized as follows. The next section describes the detail review of related literature with regards to the SEA framework and the variables which affect SEA practice. Next, we consider the data and methodology used in the study. The results are presented in the following section. The paper ends with some concluding comments.

LITERATURE REVIEW

According to Gray et al. (1987), SEA is the process of considering the social and environmental outcome of an organization's actions on the society as a whole. In this respect, Henriques (2010) quoted that stakeholders of an organization state that a major function of the social accounting is about demonstrating accountability and ensure transparency which ultimately help the organization to identify and manage the social risks. On the other hand, environmental accounting is the practice of using accounting principles to calculate both the short term and long term impact of the organization's activities on the environment.

Moreover a major benefit of SEA is that it creates a good impression of the firm towards stakeholders by considering the environmental, social and economic factors which also helps in boosting up reputation, public relations and motivating existing staff while attracting potential ones (KPMG, 2005). Ultimately the process of collecting, collating and analyzing data help the organization to better highlight potential opportunities by using the resources more efficiently. However, the negative aspect is that to adopt the SEA principles, a company must invest a lot in terms of time consuming, heavy costs and too many formalities as stated by Ness and Mirza (1991). KPMG (2005) also argued that the integration of such concept is a complex task and that it is difficult to calculate the costs and benefits being involved. As such, there is no certainty of achieving favorable performance for the society and the environment. There are different theories that exist to explain the importance of investing in SEA with the main ones being the legitimacy theory, stakeholder theory and the agenda setting theory.

Legitimacy Theory: As per Sushman (1995) this theory is about the generalized perception that the company's activities are desirable proper and appropriate in respect with the socially constructed system of norms, value, beliefs and definitions. Being one the most common theories, the legitimacy theory as defined by Springer (2015), is about explaining the effort made by an organization to implement and develop voluntary reporting and disclosures both socially and environmentally so as to meet their objective set and to survive in an unstable environment rather than being prescribed the corporate behavior. The action of the company is hence reported in accordance to the expectations of the society. In situations where the society is not satisfied in concern with the social and moral values of the firm, its continuity may be revoked.

Stakeholder Theory: This theory as suggested by Carroll (1999), states that corporate social disclosure is related to the wide range of stakeholders. This hence imply proper communication with each group is essential, such as the managers having incentive to disclose information about certain programs and initiatives to particular group so as to show that they are conforming to their expectations. Gray, Kouhy & Lavers (1995) added that to ensure the company's continuity, the support and approval of different group of stakeholders is crucial.

Agency Setting Theory: McCombs and Shaw (1972) developed this theory stating that it describes the ability to project information through media and having an impact on its audience. The theory affirms that the best way to convey social and environmental information is through the media which ultimately create public awareness and is additionally a method for companies to get free publicities.

Empirical Evidence of SEA in Other Countries

Concerning the SEA, as per Deegan and Unerman (2006), there are nowadays more and more mandatory legislation being adopted in countries like UK, France, Netherlands, South Africa, Australia and others. And according to KPMG (2002, 2011), Sustainability (2010) and Gray (2002), numerous studies were carried out which revealed that organizations are now reporting further on their social and environmental issues in their annual report.

Gamble et al. (1995) investigated the quality of environmental disclosures in the UK using annual reports of 234 companies in twelve industries, between 1986 and 1991. The main findings were that there had been a major increase in environmental disclosures in annual reports in 1989. Some industries, for example petroleum refining, hazardous waste management and steel manufacturing were judged to have provided the highest quality of disclosures in annual reports. The authors concluded that the overall quality of disclosures was low, although as stated above, some were better than others.

Kreuze et al. (1996) argued that most companies did not provide any information about the corporations' environmental philosophy or policies, and 73% of the reports surveyed did not contain any discussion of environmental issues anywhere in the report. It was noted that that the majority of company provides only generic disclosures.

In France for instance, companies did not have a good reputation as compared to other European and American companies in disclosing their social and environmental issues. However in January 2002, a new legislation was implemented known as the Law on New economic Regulation (Nouvelle Regulations Economiques- NRE), which required all nationally listed companies to integrate social and environmental performance in their annual reports and to disclose a range of certain information including human rights, local impact, sustainability issues and dialog with different group of stakeholders in their own way. In Netherlands on the other side, the environmental reporting as per Driehuis (2001) is qualified by the fact that companies should assume their activities as mentioned in the Environmental Management Act (1997) entering in force in January 1999. The companies are hence required to issue two different reports annually. A government report meant to evaluate environmental policy and for the environmental reports and statistics, and a public report where information are available to the public. Both reports should contain adverse effects on the environment and the measures for protection. The result is however far from being successful because of its legal aspect where the law is not clear regarding the evaluation method of the government report and the content of the public one and because of the time and cost being involved. The government should therefore set adequate processes to improve the quality of the reports and its reliability.

In Australia, despite the voluntary sustainability reporting, the SEA practice makes the well in advance. Moreover a centre for CSR known as the Centre for Australian Ethical Research (CAER) has been set up since 2000 to establish long term values and objectives for investors. As stated in *The State of Sustainability Reporting in Australia* (2005), 24% of Australia's 500 largest public and private companies, voluntarily undertook sustainability reporting in 2005. South Africa is one of the leaders in effectively integrating the sustainability report into the annual report. It has been improving since the listing requirements of the Johannesburg Stock, which demand the use of global reporting initiative (GRI) because the market basically necessitates social and environmental responsibilities by disclosing certain information. On the other hand, Deegan and Gordon (1996) analysed the such practices by Australian corporate entities and they found an increase in environmental disclosures over the period 1980-1991, but the standard of the 1991 disclosures was not necessarily very impressive, with an average of 186 words of self-laudatory material per annual report. Environmental lobby groups appeared to have an effect because there was a positive correlation between environmental sensitivity and the level of disclosure, and in some sensitive industries between environmental disclosure levels and firm size. Interestingly, a research carried by Burritt and Welch (1997) revealed that there is an increase in total environmental disclosures with budget entities reporting a greater volume of environmental disclosures than non-budget entities.

Frost and Wilmshurst (1996) made a survey of Australian companies and they found that less than half (43%) of the respondents agreed with the statement that environmental information was useful to the users of annual reports, and 46% opposed the mandatory disclosure of environmental information in the annual report. All together a rather dismal set of results for those favouring the extension of accounting disclosures.

In New Zealand, Milne and Chan (1999) reported the results of a study of corporate social disclosures and decision-making by investors. The study determined whether narrative social disclosures in the annual report actually impact on the way investors allocate investment funds. The researcher found that investors drawn from the accounting and finance professions largely ignored narrative social disclosures in making investment decisions.

The UK is also identified as one among the leading countries who contributes internationally in terms of CSR practice. The UK government feels extremely concern by the CSR policies which are led by the department of Trade and Industry, because they think business is the vital factor to meet the social and environmental goals. The policies on CSR include voluntary initiatives, codes of practice and beyond compliance behavior as stated by the European Commission (2001, 2002). In 2004, the UK government updated a CSR report of 2001 which stressed the fact that such report should be voluntary which would ultimately boost the social and environmental performance. Notable awareness was also made and understanding campaign carried out along with launching its own CSR Academy in July 2004 to support the development of CSR practice through CSR competency framework and signposting to training and development opportunities.

DATA AND METHODOLOGY

The purpose of this research is to find out how the social and environmental information are disclosed and its importance in the listed companies of Mauritius. Data have been collected from primary sources from the companies through a questionnaire. Most of the data were collected through face to face interview with the respondent while some of the data was collected through mail responses. Also, the secondary data in terms of the company's annual reports were used in the research for further analysis.

Sample: To analyze the SEA practice on the listed companies of Mauritius, a sample of 40 companies from the official market of the stock exchange were selected to represent the whole population from various sectors. Out of these 40 companies, only 30 responded to our survey.

Questionnaire Structure: The questionnaire was designed based on the findings of literature review and to meet the objective of the study. It was divided into 3 sections, where section A concentrated on the relationship between the organization and the SEA from different sectors considering their knowledge of reporting and other guidelines. It also considers the impact of being engaged in such activities on the corporate profitability. Section B on the other hand, looks at the social and environmental performance being disclosed by the organization. The section C was ultimately designed so as to analyze whether it would be useful that the government set frameworks to disclose certain information.

RESULTS

Analysis has been done based on the findings acquired from the questionnaires circulated and the data were examined through the SPSS software projecting the results on the following tables.

Awareness of SEA and Other Guidelines

As an introduction, the respondents were asked whether they are aware of the terms mentioned in table 1. As presented above, the 4 terms were in most cases known. However, except for the term CSR, a small percentage of companies were not aware of terms (36.7% not knowing the term TBL and the 16.7% unaware of the process of SEA itself), which should normally become more popular in the coming years. With a 100% for CSR, and 90% for SR and GRI, it demonstrates that a large number of the Mauritian Listed Companies are familiar with and are therefore likely to adopt these concepts.

Table1: Awareness of SEA and Other Guidelines

		Frequency	Percent
SEA (social and environmental accounting)	No	5	16.7
	Yes	25	83.3
	Total	30	100
CSR (corporate social responsibility)	No	0	0
	Yes	30	100
	Total	30	100
SR (sustainability reporting)	No	3	10
	Yes	27	90
	Total	30	100
TBL (triple bottom line)	No	11	36.7
	Yes	19	63.3
	Total	30	100
GRI (global reporting initiative)	No	3	10
	Yes	27	90
	Total	30	100

This table shows the respondents' awareness on the concepts of SEA and other reporting guidelines.

Engagement in Social Activities

Table 2: The Extent to Which Organization Are Involved in the Following

		Frequency	Percent
Responding to feedback and complaints	No Engagement	1	3.3
	Engage Slightly	1	3.3
	Engage Moderately	9	30
	Engage partly	8	26.7
	Fully Engaged	11	36.7
Ensuring product and service safety	No Engagement	1	3.3
	Engage Moderately	9	30
	Engage partly	10	33.3
	Fully Engaged	10	33.3
Community Activities	Engage Slightly	4	13.3
	Engage Moderately	7	23.3
	Engage partly	6	20
	Fully Engaged	13	43.3
Healthy and Safety	Engage Moderately	3	10
	Engage partly	9	30
	Fully Engaged	18	60
Corporate Governance	Engage Moderately	3	10
	Engage partly	12	40
	Fully Engaged	15	50
Social Contribution	No Engagement	3	10
	Engage Slightly	2	6.7
	Engage Moderately	1	3.3
	Engage partly	9	30
	Fully Engaged	15	50
Equal Employment Opportunity	Engage Slightly	2	6.7
	Engage Moderately	4	13.3
	Engage partly	10	33.3
	Fully Engaged	14	46.7

This table shows the degree to which respondents are engaged in social activities.

From the above table 2, it seems that on overall companies seem to partly or mostly engaged in the social activities. It seems that companies are most conscious about health and safety issues, corporate governance and social contribution.

Drivers of SEA

Table 3: Ranking the Driver of SEA

		Frequency Percent				Frequency Percent	
Comply with legislation requirements	Slightly Applicable	1	3.3	Legitimate to society	Slightly Applicable	1	3.3
	Moderately Applicable	12	40		Moderately Applicable	10	33.3
	Partly Applicable	8	26.7		Partly Applicable	10	33.3
	Most Applicable	5	16.7		Most Applicable	5	16.7
Maintain a good relationship with stakeholders	Moderately Applicable	3	10	Retain/Attract talented workforce	Not Applicable	2	6.7
	Partly Applicable	9	30		Slightly Applicable	2	6.7
	Most Applicable	14	46.7		Moderately Applicable	9	30
Create/ reinforce image	Not Applicable	1	3.3	Good Corporate Governance	Partly Applicable	7	23.3
	Slightly Applicable	4	13.3		Most Applicable	6	20
	Moderately Applicable	2	6.7		Slightly Applicable	1	3.3
	Partly Applicable	6	20		Moderately Applicable	6	20
Create financial value	Most Applicable	13	43.3	Organization own interest	Partly Applicable	8	26.7
	Slightly Applicable	4	13.3		Most Applicable	11	36.7
	Moderately Applicable	11	36.7		Not Applicable	2	6.7
	Partly Applicable	6	20		Slightly Applicable	2	6.7
Transparency and accountability	Most Applicable	5	16.7		Moderately Applicable	3	10
	Moderately Applicable	7	23.3		Partly Applicable	15	50
	Partly Applicable	4	13.3		Most Applicable	4	13.3
	Most Applicable	15	50				

This table shows the respondent views on factors driving social and environmental accounting. The total number of respondents for this question is 26 given that there are four companies which did not answer this question.

From Table 3, the main driver of SEA seems to be the company’s own interests and good corporate governance. In addition, 46.7% think it is essential to maintain a good relationship with their stakeholders. The major reason behind such motivation is that the companies realized that a good relationship with different stakeholders imply a good running of their activities and efficiently exploit their resources. The following drivers as illustrated are about creating or to reinforce the organization’s image and to maintain good corporate governance.

The factors that are the least motivated by the companies who have responded not applicable are Creating or reinforcing the organization’s image, retaining or attracting talented workforce and the organization’s interest with 3.3%, 6.7% and 6.7% respectively. The retention of potential and talented workers is however a crucial factor which might affect its efficiency and result to its eventual demise. The companies should hence consider the particular driver to maintain a good performance of their business.

SEA, Mandatory Reporting and Role of Government

As projected by table 4, 70% of the listed companies are positively influenced by the idea of the government introducing relevant guidelines with respect to Social and Environmental Reporting while the remaining 30% choose exactly the opposite. The reason being mentioned is that the companies think it will help to set the boundary, thus avoiding abuses and will ultimately help in ensuring that everyone complies with what is beneficial for the society on the long term. However, the guideline should be flexible and should allow the organization to conduct their own assessments.

Table 4: SEA, Mandatory Reporting and Role of Government

		Frequency	Percent
Government impose guidelines	No	9	30
	Yes	21	70
	Total	30	100
For or Against Mandatory	Against	13	43.3
	For	17	56.7
	Total	30	100

This table shows the respondent views on the role of government on social and environmental accounting.

CONCLUDING COMMENTS

The objective of this study was to request companies to provide their views on social and environmental disclosures. Data have been collected from primary sources from the companies using 30 companies from the official market of the stock exchange of Mauritius from various sectors. The results suggest that despite some listed companies in Mauritius are engaged in the SEA practices such as disclosing issues, ensuring transparency, complying with corporate governance amongst others, there are still areas of social and environmental accounting which needs to be improved.

However, the study is still at its preliminary stage and as such, the findings should be treated with cautious given the limited sample size. Nevertheless, some suggested points which might be taken on board by listed companies are to ensure the following actions; proper education and wellbeing of the citizen, investment in training, employment of handicapped person amongst others. Also, production of friendly products should be encouraged and to create awareness on the preservation of the environment. Finally, the companies should be guided in terms of a specified framework about what information to be projected and where to publish. With regards to future research, there is the possibility to look at aspects of SEA in other sectors of the Mauritian economy. These sectors can range from SMEs, manufacturing to tourism.

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