



2nd Global Conference on Business and Social Science-2015, GCBSS-2015, 17-18 September 2015, Bali, Indonesia

Sustainable Development and Reconceptualization of Financial Statements

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Abstract

The study aims at formulating an integrated concept of financial statements in accordance with sustainable development spirit. It employs sustainable development accountability, a concept of business people who are aware of their accountability to advance corporate sustainability by which they work to extend the life expectancy of ecosystems, societies and economies. By adopting this concept, business organizations could declare their involvement in sustainable development agenda. The study finds that the reconceptualized financial statements should explicitly declare economic, social and environmental aspects as the elements of financial statements. It also suggests adoption of this idea in accounting policy making.

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Peer-review under responsibility of the Organizing Committee of the 2nd GCBSS-2015

Keywords: economic; environment; financial statements; integrated reporting; social; sustainable development.

1. Introduction

Rio Summit held in 1991 has dictated that accounting should take a crucial role in global agenda named sustainable development (SD). As a discipline takes place at the center stage of business information system, accounting is expected to support and promote involvements of business organization in SD agenda. This includes involvement of business organization in sustaining its business activities and, at the same time, sustaining its most important assets, i.e., social community and ecological environment. According to Gray and Bebbington (1996) the central argument behind this quest is “that accounting is pivotal to the capture or re-capture of the sustainability agenda.” However,

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some experts recognize a phenomenon indicating an unsuccessful acceptance of SD spirit in sustainability reporting practices.

Gray (2002), for instance, argued the theorization of conventional accounting was deficient as it had failed to identify that social and environment accounts were missing from its conception of the world. These deficiencies could be overcome by transforming current structure of financial statements to comply with SD thought. The transformation should be intended to put SD spirit at the center stage of accounting discipline (Gray, 2002). Efforts intended to respond to the demand for transformation of financial statements has appeared as the emergence of corporate social responsibility and sustainability reporting practices (GRI, 2006, 2011, 2013). However, these approaches are placing corporate sustainability information in disclosure of financial statements or separate reports. These practices are conceptually not consistent with the idea of placing SD spirit at the heart of accounting information and analysis.

An important question raised in this study can be stated as “how is the conception of financial statements that is in accordance with the spirit of SD?” The idea behind this question is that the spirit of SD should be embedded in financial statements, instead of placing it as extra reports. This study is expected to contribute to the fields of business in its effort to built long-term, integrated and holistic view of business strategy. Another contribution might be traced to the field of accounting. Accounting policy makers and standard setters might consider the idea proposed in this study in building conceptual framework for financial reporting and accounting standards.

2. Toward integration

There are growing demands toward integration of corporate sustainability information and traditional financial statements. In fulfilling these needs, accountants should utilize their ability and expertise. Sustainability initiatives are becoming increasingly popular and utilizing accountants’ expertise could become an important weapon in strategic integration of sustainability initiatives (Ballou et al., 2012). The traditional reporting model was developed for an industrial world. Consequently, it continues to play a valuable role with respect to stewardship of financial capital. According to International Integrated Reporting Committee (IIRC), the traditional model of reporting mainly focuses on a relatively narrow account of historical financial performance and its main concern is on the value creation process conducted by business organizations (2011:4). If it is not transformed, the traditional model could hamper the efforts intended toward integrated reporting. For those reasons, some organizations have started their efforts to build a conceptual framework for integrated reporting, including IIRC and A4S.

IIRC attempts to build a framework for integrated reporting that combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole (2011:6). The core objective of the International Integrated Reporting Framework outlined by IIRC is to guide organizations in communicating the broad set of information needed by investors and other stakeholders (2011:2). By utilizing the information, investors and other stakeholders should be able to assess the organization’s long-term prospects in a clear, concise, connected, and comparable format. This will enable those organizations, their investors and others to adopt better short-term and long-term decisions.

The importance of a framework for broader and longer-term sustainability considerations has also gained important attention from the Accounting for Sustainability Project (A4S). This framework is intended to facilitate integration and connection of sustainability considerations with traditional accounting measurements. In a broader sense, A4S arrived at recommendations addressing two issues. Firstly, a guidance to embed sustainability into day-to-day processes, and secondly, a proposal on new Connected Reporting Framework intended to encourage and facilitate clear, concise, and comparable sustainability reporting (2015:ii). According to Prince of Wales, the initiator of A4S, organizations’ survival and prosperity at the age of sustainability revolution highly depend on their commitment to environmental, social, and ethical management practices (A4S, 2015:1). In another report, A4S also mention the need for better accounting model that must become part of business venture toward sustainability practices (A4S, 2012:ii). This model should be able to integrate traditional reporting requirements and corporate sustainability information.

Considerations and recommendations made both by IIRC and A4S clearly present the existence of need to perform transformation of the current structure of financial statements to comply with SD thought. This transformative action should be preceded by transformation in spirit gained through educational process. This concept can be learned from Basic Scheme of Critical Social Science (Fay, 1987).

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