

CHAPTER 2

THE REASONS FOR AND AGAINST ENVIRONMENTAL DISCLOSURE

2.1 Introduction and Overview

2.1.1 Introduction

The research examines the willingness of individuals to support the disclosure of environmental information. The chapter starts off with an overview of the typical reasons put forward for and against environmental reporting.

Accounting could in its broadest sense be defined as the communication of information regarding an organisation. The disclosure of environmental information falls within this definition. It is therefore appropriate to take note of accounting theory and to assess what implications it has for environmental disclosure.

As soon as individuals have to make judgements on whether certain information should or should not be disclosed, one enters the realm of morals and ethics.

Ethics, according to the Oxford Dictionary (Swannell 1986) is the science of morals. Morals in turn are defined as a concern with right and wrong conduct. The difference between the two concepts lies in the science. Morals merely involves decisions about right and wrong, whereas ethics is the systematic examination of the reasons behind morals.

Moral decisions are usually based on beliefs held consciously or subconsciously. Any argument for or against the disclosure of environmental information will similarly be

based on beliefs and such arguments could be refuted by careful consideration of the initial assumptions. It would therefore be helpful to examine ethical theory to ensure unbiased reasoning, or at least to ensure that different views are considered.

In this chapter an overview is given of ethical theories. These theories have been applied to various practical issues, the ones pertinent to this research being business ethics and environmental ethics. These applications are explored.

Apart from any accounting and ethical reasons for environmental disclosure, there may also be some pragmatic reasons. These are explored in Section 2.6.

Reasons for non-disclosure of environmental information are examined in Section 2.7.

If it is assumed that environmental disclosure is justified, the remaining issue is whether disclosure should be mandatory or whether free-market forces should be allowed to regulate the introduction and extension of such information over a period of time. This issue is addressed in Section 2.8.

The method employed to arrive at the conclusions is normative and deductive in nature, as the argument is developed from certain norms and the appropriate action is deduced from it.

2.1.2 Overview of reasons for and against environmental reporting

There could be many reasons for a corporation to disclose environmental information, just as there could be many reasons for non-disclosure. The reasons for disclosure could be divided into moral reasons and pragmatic reasons. The management of a corporation may disclose certain information not because they feel that it is right to do so, but because they perceive some advantage to be gained from disclosure. These pragmatic

advantages of disclosure could for instance be to gain a competitive advantage or to placate shareholders. A few reasons for disclosure could be both moral and pragmatic in nature. Compliance with legislation is a case in point. Other reasons for disclosure or non-disclosure are included in Table 2.1.

TABLE 2.1: REASONS FOR VOLUNTARY DISCLOSURE OR NON-DISCLOSURE

Disclosure:

- If not done voluntarily it will become mandatory
- To legitimize current activity
- To distract attention from other areas
- To develop corporate image
- To build up expertise in advance of regulation
- Positive impact on share price
- Reduction in perceived company or information risk
- Political benefits
- Competitive advantage
- Shareholders' and other stakeholders' right to know
- To explain expenditure patterns
- The desire to tell people what the company has done or achieved
- Forestall disclosure by other parties

Non-disclosure:

- Obverse of the above
- No need/motivation to do so
- Wait and see
- Cost
- Data availability and related costs
- Secrecy
- Absence of demand for the information
- Absence of a legal requirement
- Never thought about it
- Prioritising areas for disclosure

SOURCE: Gray 1993:211

The Canadian Institute of Chartered Accountants (CICA 1993:3-8) mentions, amongst other things, peer pressure and pressure from the capital markets as further reasons for making environmental disclosures. Peer pressure would be felt if most of the players in a corporation's industry already make disclosures. In such circumstances it may be prudent to conform to industry norms. The capital markets are important to any

corporation as a future source of funds, whether in the form of shares or foreign capital. The emergence of ethical investment funds could result in increased disclosure of environmental information to ensure future access to those funds.

One of the moral arguments regarding disclosure is that of externalities. This, amongst others, will be explored in more detail in Section 2.3.

2.2 Accounting Theory

2.2.1 Introduction

Given the fact that the subject of the study is of an accounting nature, it is appropriate to examine accounting theory to determine how environmental disclosure fits into accounting theory.

The purpose of accounting will be explored in this section. The various user groups and their information needs will then be addressed before various accounting theories will be surveyed.

According to McDonald (1972:4) "the single all-encompassing reason for theories is to help us in making predictions". Hendriksen (1982:1), on the other hand, defined accounting theory as "a set of broad principles that (1) provides a general frame of reference by which accounting practice can be evaluated and (2) guides the development of new practices and procedures". However, there is no single accounting theory that meets with universal approval (AAA 1977:1-2). There are instead a multitude of theories that sometimes compete with each other and at other times corroborate each other. Accounting is in this regard no different from other social sciences.

2.2.2 The Purpose of Accounting

According to the accounting framework, the aim of financial statements is to provide information regarding the "financial position, performance and the changes in the financial position" of a firm (SAICA 1990a:12). This information should be useful to a range of users for the purpose of economic decision-making (SAICA 1990a:12).

Financial statements will not necessarily reflect non-financial information (SAICA 1990a:13). Accountability is also mentioned in the accounting framework as part of the purpose of financial statements (SAICA 1990a:14). Management has to account for the resources under its control.

Ijiri (1975:32-3; 1983:75-81), Gray, Owen & Maunders (1987) and Gray (1994:1-51) have proposed that the concept of accountability be used as the basis for an accounting theory. Another influential report that mentioned accountability was the Corporate Report (ICAEW 1975:15).

Accountability theory is similar to agency theory, as principals and agents are also central to this theory. However, whereas agency theory concentrates on the selfish nature of individuals and the resultant agency costs, accountability theory emphasises the information rights of principals (Gray 1994:28). The normal principal and agent relationships envisaged in a corporation would be the shareholders and the directors as well as the directors and the managers. Gray (1994:28), however, proposes an extension as an acknowledgement of the fact that there are other stakeholders in corporations apart from shareholders. Gray (1994:26) argues that accountability theory is, therefore, able to cater for all accounting, not just the financial variety.

Accountability theory, therefore, suggest that the purpose of accounting is for managers to account to all stakeholders for the management of the resources under their control.

The accounting framework is in accordance with this view, although only as far as information is useful for economic decision-making.

2.2.3 User Groups and their Information Needs

The different users and their information needs as identified by the accounting framework are summarised in Table 2.2 below (SAICA 1990a:09):

TABLE 2.2: USERS AND THEIR INFORMATION NEEDS

Users	Needs information to enable them to assess:
Investors	Risk and return on investment
Employees	Stability and profitability of employer
Providers of foreign capital	Risk of default
Suppliers and trade creditors	Risk of default
Clients	Long-term viability of their supplier
Government and institutions	Taxation, regulation and resource allocation
The public	Trends and developments in activities that will influence their well-being

SOURCE: SAICA 1990a:09

The King Report on Corporate Governance (IOD 1994:1) lists all the users mentioned in Table 2.2 above as corporate stakeholders. However, they mention one more group under stakeholders, namely environmentalists. This group will certainly be interested in corporate environmental disclosure. According to the American Accounting Association, the entire community and even future generations may be regarded as users or stakeholders (AAA 1977:2).

Returning to the users, according to the accounting framework, environmental information could be useful to the public as an organisation's environmental conduct could have an impact on their well-being. Government and its institutions may be interested in environmental information for the purpose of regulation and resource allocation. Environmental information could also be useful to other user groups once it

starts to impact on risk/return, stability/profitability, risk of default and long-term viability. In summary, under certain circumstances, the user groups identified here could benefit from the disclosure of environmental information. In addition to this, they have the right to this information according to accountability theory.

2.2.4 Overview of Different Accounting Theories

The different approaches to accounting theory could, according to Belkaoui (1992:58), be split into traditional approaches and new approaches. Within the traditional approaches, it is possible to further distinguish between non-theoretical approaches (the pragmatic and the authoritarian approaches) and theoretical approaches (the deductive, inductive, ethical, sociological, economic and eclectic approaches) (Ibid). The new approaches identified are the regulatory, events, behavioral, predictive and positive approaches (Belkaoui 1992:65). In the traditional approaches, theory construction and verification was regarded as synonymous, whereas more emphasis is placed on verification through empirical study by the new approaches (Ibid). The different approaches will be discussed with reference to their relevance to the study.

2.2.5 Traditional Approaches to Accounting Theory - Non-theoretical Approaches

The pragmatic approach and the authoritarian approach to the formulation of accounting theory can be regarded as the non-theoretical approaches (Belkaoui 1992:58).

In the pragmatic approach to the formulation of an accounting theory according to Belkaoui (1992:58), existing accounting practices are explained. Accounting principles and techniques should, according to this approach, be chosen based on their usefulness to the users of financial information in their decision-making.

In the authoritarian approach, pronouncements are made regarding accounting practices (Belkaoui 1992:59). This approach is used by professional organisations. The authoritarian approach also attempts to provide practical solutions. Again, the accounting theory should, according to this approach, result in accounting techniques that are useful for users of financial information in their decision-making.

In the case of both the pragmatic and the authoritarian approach, the theory is linked to practices to such an extent that it lacks a separate identity. This could result in different methods being acceptable according to the theory (Skinner 1972:302; Belkaoui 1992:59). An example in the South African context is the inclusion of the partial method of providing for deferred taxation. According to Vorster et al. (1993:47), this method was included for pragmatic reasons, as it has no sound theoretical basis.

It can therefore be said that the pragmatic and the authoritarian approaches are not entirely successful in promoting any single method or approach. For example, since some companies do and others do not disclose environmental information, the pragmatic approach will support both.

2.2.6 Traditional Approaches to Accounting Theory - Theoretical Approaches

a. Deductive Approach

A deductive approach implies the deduction or the deriving of a theory from basic elements or assumptions. It can be described as a top-down approach, because there is a move from generalisations to specifics. In the case of a deductive theory of

accounting, Belkaoui (1992:60), suggest the following steps:

1. Specify the objective of financial statements.
2. Select the "postulates" of accounting.
3. Derive the "principles" of accounting.
4. Develop the "techniques" of accounting.

This approach has a sound theoretical footing, but will have to be tested, according to Popper (1959:32-3), as follows:

1. Logical comparison of different conclusions to test the internal consistency of the system.
2. Investigation of the logical form of the theory.
3. Comparison with other theories to determine if the theory tested is an advance on what is available.
4. Test by way of applying the theory to see if its predictions are acceptable.

The response of a deductive approach to environmental reporting will ultimately depend on the objective for financial statements specified. If the objective is, for example, defined as that of the main source of the information requirements of all stakeholder groups regarding an organisation (refer to Section 2.2.2), then environmental disclosure will have to be made.

b. Inductive Approach

The inductive approach to accounting theory is a bottom-up approach whereby observations and measurements are taken and generalised. According to Belkaoui (1992:61) there are four steps to the process:

1. Record observations.
2. Analyse and classify observations to detect recurring relationships.
3. Derive generalisations and principles of accounting from recurring relationships.
4. Test generalisations.

The inductive method could be criticised for being a justification of existing practice and for being unable to suggest new techniques. However, Ijiri (1975:28), points out that the inductive approach can suggest changes to the status quo and such suggestions have a better chance of being implemented if they are derived using the inductive approach.

Inductive reasoning may be used in conjunction with deductive reasoning. In fact Yu (1976:20) believes deductive logic to be a prerequisite for inductive logic.

Since environmental reporting exists in practice, an inductive approach could be used to justify it.

c. Ethical Approach

The ethical approach derives from the concepts of justice, fairness and truth (Scott 1941:341-349). The concept of fairness would seem to be the one that distinguishes the ethical approach from others. Fairness also implies ethical norms. The question of whether one should or should not do something is at stake, which implies moral judgement and thereby ethics.

Accounting procedures, rules and techniques should, according to Scott (1941:342-3), be fair, unbiased and impartial and ensure a true and accurate representation of events. Accounting (and reporting), therefore, have an ombudsman role to play. No one group

should gain an advantage from the accounting techniques employed to the detriment of any other group.

Fairness has become entrenched in accounting literature and accounting practices. Fairness is, for example, specifically mentioned in the Conceptual Framework (SAICA 1990a:46) as is the fact that reporting should be unbiased (SAICA 1990a:36). The audit report, according to statement AU321 (SAICA 1990b:15), also has to indicate whether the financial statements are regarded as presenting a fair reflection.

The ethical approach is of particular importance for the purposes of this study. The approach presupposes a fair presentation of facts from the viewpoint of all stakeholders. As some of the stakeholders will be interested in information regarding the organisation's environmental conduct, these facts will have to be disclosed in an unbiased and comprehensive way. This will ensure that investors, suppliers of foreign capital, employees, customers, suppliers of material and the general public are in a position to make informed decisions regarding their future interaction with the organisation.

d. Sociological Approach

The sociological approach could be regarded as a special form of ethical approach, whereby the concept of fairness concentrates on social welfare (Belkaoui 1992:63). It can be described as a consequential approach to accounting theory. The objective of the sociological approach to the formulation of accounting theory is the greatest good for the greatest number. The approach presupposes the existence of "established social values" that have to be satisfied by an accounting theory (Rappaport 1964:951-962). Ladd (1963:ix) believes that accounting should remain compatible with society, minority groups and issues in the public domain.

The sociological approach to the formulation of accounting theory has given birth to a subdiscipline of accounting, namely socioeconomic accounting. Socioeconomic accounting is about the measurement and disclosure of the performance, social and economic, of organisations in their environment (Belkaoui 1984:15). The natural environment will be included in the total environment, as far as it has an impact on the society.

This approach is of importance for this study as not only does it advocate disclosure of matters of public interest - for example the organisation's interaction with the natural environment - but it also encourages sensitivity towards the views of minority groups. Environmental pressure groups may be regarded as one of these minority groups.

e. Economic Approach

The economic approach is a specific form of ethical approach (Belkaoui 1992:68). The economic approach is also a consequential approach to accounting theory. In this instance general economic welfare is regarded as the measure to establish whether accounting techniques are acceptable. In the sociological approach, the concept of social welfare did not necessarily imply economic welfare. According to Brooks (1976:39-43), the choice of accounting techniques should reflect economic reality and according to Zeff (1978:56-63) they will depend on the economic consequences of the choice made. The economic reality and economic consequences mentioned are the macro-economic reality and consequences.

The economic approach to the formulation of an accounting theory is important to this study in particular because of externalities. The implications of externalities are discussed in Section 2.4.8. In short, externalities could lead to inefficiencies in the economy. This would imply that economic welfare is not maximised. Environmental reporting could ensure the availability of information regarding externalities. This may

minimise their detrimental effect on the economic welfare of society. Externalities should, therefore, be disclosed according to the economic approach.

f. Eclectic Approach

Organisations and individuals have often borrowed from the different approaches mentioned to form an eclectic approach (Belkaoui 1992:72). This type of activity also led to the development of the new approaches discussed below.

2.2.7 New Approaches to Accounting Theory

a. Regulatory Approach

In the regulatory approach, regulations governing financial reporting are formulated by the accounting profession and other interested parties (Belkaoui 1992:74-84).

South African regulations regarding financial reporting are contained in the fourth schedule to the Companies Act of 1973 and in standards on generally accepted accounting practice (GAAP). Standards on GAAP are developed and compliance monitored by the Accounting Standards Council (ASC), consisting of the Standards Development Committee (SDC) and the Review Panel (RP) (Techtalk 1995:1). The ASC operates under the stewardship of the South African Institute of Chartered Accountants (SAICA). Statements on GAAP are based on the accounting standards issued by the International Accounting Standards Committee (IASC) and on the concepts set out in the conceptual framework (AC000) (Techtalk 1995:2). The Standing Advisory Committee on Company Law has accepted proposals by SAICA to give accounting standards the force of law (Terry 1995:2). Section 286(3) of the Companies Act currently requires

that annual financial statements be prepared in accordance with GAAP. GAAP is, however, not defined in the act. It is expected that the act will be amended to define GAAP as compliance with standards of GAAP as issued by the ASC.

It is evident that, in the regulatory approach, the conceptual framework forms the basis of accounting theory, whereas standards on GAAP set out the accounting techniques to be used. Using the same model as for the deductive approach, the conceptual framework will have to:

1. Specify the objective of financial statements;
2. Select the "postulates" of accounting;
3. Derive the "principles" of accounting.

The conceptual framework (AC000) does specify objectives, select postulates and derive the principles of accounting.

The conceptual framework (AC000) was discussed in Section 2.2.2. It will be remembered that the conceptual framework emphasised the disclosure of information that was useful for economic decision-making (SAICA 1990a:12). The information could by implication be non-financial in nature (SAICA 1990a:13), although the emphasis is on financial information.

The implication for environmental disclosure is that environmental information with a financial impact or a potential financial impact on the organisation should, according to the conceptual framework, be disclosed. The information itself could be financial or non-financial in nature.

b. Events Approach

The events approach requires the organisation to make available to users information regarding events in an unaggregated and unclassified form, not only in monetary terms, but also in other measures (Sorter 1969:13). The user is expected to transform the information regarding the events into a useful format. The main advantage is that the information provided is free of any bias that would result from the use of accounting techniques.

There are many unresolved issues regarding the events approach, including information overload and the lack of criteria for the inclusion or exclusion of information regarding a particular event (Belkaoui 1992:113).

The events approach is important for the purposes of this study as events regarding the interaction of the organisation with the environment will, according to this theory, have to be disclosed. Disclosure will, furthermore, not only be of a monetary nature, but may include other measures, such as quantified technical information and narrative.

c. Behavioural Approach

The behavioural approach to the formulation of an accounting theory recognises the fact that accounting is not a natural science (Belkaoui 1992:114). It is a human science influenced by human behaviour. The behaviour of the preparers as well as the behaviour of the users of financial information is examined. Preparers of financial information have to decide what to disclose or what information will be relevant in terms of the decisions that users will make (communication-decision orientation) (Belkaoui 1992:114). When confronted by a given type of information, users will behave in a certain way (decision-maker orientation) (Belkaoui 1992:114).

According to Hendriksen (1982:6) the behavioural approach searches for answers to, amongst other things, the following questions:

1. What are the information needs of the users of financial reports?
2. Will general purpose financial reports suffice, or do they need specific reports?

This study may be regarded as research in terms of the behavioural approach to accounting theory. The study will attempt to answer, amongst other things, the two questions above with specific reference to environmental information.

d. Predictive Approach

In the choice of different accounting methods, the predictive approach to accounting theory would dictate the acceptance of the method with the greatest predictive power with respect to a given event (Beaver et al. 1968:675). The relevance of data mentioned in the conceptual framework (AC000) (SAICA 1990a:26), could be seen in the context of relevance for predictions of future events. The decision-usefulness of information disclosed, in an economic sense, is central to the predictive approach.

The predictive approach is important to this study as it would encourage the disclosure of environmental information with a predictive value regarding economic decision-making for some of the stakeholders of an organisation. In other words environmental information with no immediate financial implication for the organisation would not be disclosed under the predictive approach.

e. Positive Approach

The positive approach to accounting theory is an attempt to explain what accounting is and why it is so as well as what effects these phenomena have (Jensen 1976:13). The positive approach stands in contrast to most of the other approaches, as the others are normative (they dictate what should be).

The positive approach uses different hypotheses in an attempt to explain observed phenomenon. The hypotheses are in turn used to predict unobserved phenomena (Watts & Zimmerman 1986:2). The "bonus plan hypothesis", for example, is used to explain the use of accounting methods favouring increased earnings in current periods rather than future periods in cases where managers receive an incentive based on earnings (Watts & Zimmerman 1986:208).

The positive approach could be used to predict the response of managers to the issue of increased environmental disclosure by their organisations. They may regard it as another responsibility on them which they could do without and therefore they would probably be less than enthusiastic about increased environmental disclosure.

2.2.8 Section Summary

There are many different approaches to the formulation of an accounting theory. Some 13 different approaches were discussed.

Many of the approaches emphasise, as does the accounting framework, the role accounting plays in economic decision-making. For example the pragmatic, authoritarian, regulatory and predictive approaches. Others state that accounting has a much wider role to play and that non-economic information should also be included. For example the ethical, sociological, economic and events approaches. Some of the

approaches to accounting theory concentrate more on the method of arriving at a theory, such as the deductive and the inductive approaches and to a degree the behavioural and the positive approaches.

Environmental reporting can be of both a financial and a non-financial nature. The non-financial information can, furthermore, be narrative or quantitative. Approaches to accounting which limit it to economic information will clearly only address some of the potential environmental disclosures. Other approaches will encompass all potential environmental reporting.

A fact that should be borne in mind is that environmental reporting exists in various forms in practice. Whether it is regarded as "accounting" or not by different approaches to accounting will not alter this fact. The accounting community can decide, by the adoption of one or another approach, whether they want to regard this phenomenon as "accounting" or not.

For the purposes of this study, accountability will be regarded as the most important reason for disclosure. Accountability theory as defined by Gray (1994:1-51) encompasses all forms of disclosure whether they be financial or non-financial in nature. All forms of environmental disclosure will fall within the scope of accountability theory.

2.3 Ethical Theory

2.3.1 Introduction

The value of ethical theory lies in the fact that it provides the building blocks required when ethics is applied to specific areas, such as business ethics and environmental ethics. Ethics is a disciplined enquiry into morality. This provides an understanding of

the reasons behind moral decisions. These reasons are not always obvious even though most people make moral judgements on a daily basis.

The term "science" in the definition of ethics (see Section 2.1.1), implies objectivity in the judgement of right and wrong. Most authors (DesJardins 1993:24; Chryssides & Kaler 1993:83; Mintz 1992:17) on ethics seem to agree that it is possible to know right from wrong objectively.

A major division in ethics is that between consequentialist theories and non-consequentialist theories and this is addressed in Section 2.3.2.

There are many theories regarding ethics, but three main categories can be identified, namely utilitarianism, deontology and natural law. They are discussed in turn in the following sections.

2.3.2 Consequentialism vs Non-consequentialism

One of the major divisions in ethical theory is that between consequentialism and non-consequentialism (Pettit 1991:230). Consequentialism is, as the name suggests, concerned with the consequences of actions (Chryssides & Kaler 1993:88). If the consequences are good, then the action must be good. Right and wrong are determined in terms of good or bad. Conversely, non-consequentialism is based on rules of right and wrong. In this case good or bad is determined in terms of right or wrong (Chryssides & Kaler 1993:88).

An example may clarify the difference. In a situation where the taking of a person's life will result in saving the lives of two others, the consequentialist will kill and the non-consequentialist will refuse to do so.

It would be difficult to apply any one of the above principles exclusively and concessions are made by the proponents of both. Non-consequentialism is, however, the one that would usually make fewer such concessions (Chryssides & Kaler 1993:90).

2.3.3 Utilitarianism

Utilitarianism is a very important example of consequentialism. The nineteenth-century philosopher Jeremy Bentham (1748-1832) formulated this theory, although it had been around for some time (Goodin 1991:242).

Various forms of consequentialism differ in the way that "good" is defined. In the case of Bentham, good is defined as happiness (Chryssides & Kaler 1993:91). He regards pleasure and the avoidance of pain as the only thing that is desirable as an end in itself, because it is the only thing that is good in itself (Goodin 1991:242). This can be regarded as the intrinsic good. All other actions that promote this intrinsic good are also good (instrumental good).

Actions that will result in the maximum amount of happiness are favoured. The greatest happiness for the greatest number could be regarded as the maxim (DesJardins 1993:29).

Utilitarians will usually allow non-consequentialist ideas to temper their actions (Chryssides & Kaler 1993:90).

It is of interest to note that laws of government are usually based on utilitarian principles (DesJardins 1993:29).

The major criticisms of utilitarianism are related to measurement problems and to the fact that wrong deeds can be justified, whilst just deeds can be condemned (DesJardins

1993:32). The total happiness under different circumstances needs to be measured if the greatest happiness for the greatest number is to be attained. Happiness is, however, qualitative in nature and therefore difficult to measure (Chryssides & Kaler 1993:92). A case could also be made that a lot of happiness cannot make good even a small amount of unhappiness in others (Chryssides & Kaler 1993:96). If that is the case, then unhappiness or suffering should be weighted more than happiness, but by how much? The measurement problem remains and implies subjectivity in the application of utilitarianism.

According to utilitarians, any action, including environmental reporting, should be done if it leads to the happiness of society. This could be so, if the reporting allows society to make better decisions regarding the continued existence of companies and actions harmful to the environment.

2.3.4 Deontology

Deontology is often referred to as Kantianism as its formulation is credited to Immanuel Kant (1724-1804) (Chryssides & Kaler 1993:97). Deontology is non-consequentialist in nature and concentrates on principles and duties (DesJardins 1993:33). Kant held that people are free and rational and can choose what to do and what not. This means that they are responsible for their actions, but only for those actions that they have control over (DesJardins 1993:33).

According to Kant something is ethical if it is done in accordance with the "categorical imperative" (O'Neill 1991:175). The categorical imperative refers to actions that comply with two principles. The first is that one should only act in such a way that it would be acceptable to all if such a principle (as the one acted upon) becomes a universal law (O'Neill 1991:175). The second is that humans should be treated as ends and never as means to ends (O'Neill 1991:178).

It is clear that self-interest, sympathy or loyalty are not reasons for action by deontologists, only a sense of duty (Brandt 1959:28). That sense of duty is guided by the categorical imperative. It is important to note that others do not acquire positive rights because of an individual's duties under deontology (Chryssides & Kaler 1993:99). They merely acquire negative rights in that they should not be harmed or treated as means to ends.

Deontologists will generally only allow consequentialist thought to influence their actions in unusual circumstances (Chryssides & Kaler 1993:90).

There are also important objections to this theory. The major one is that it only applies to free and rational beings, in other words humans (DesJardins 1993:35). As long as one does not affect other human beings, one is allowed to do as one pleases. The theory therefore has no relevance for something like ecosystems, as long as the proposed actions will not have a spill-over effect on humans. It is therefore not possible to make value judgements with this theory as a basis if humans will not be affected. Even with human involvement, simply doing nothing will be acceptable under this theory (DesJardins 1993:35).

Environmental reporting can be regarded as being in accordance with the "categorical imperative" as there could be no objection as far as the universal law is concerned and it will not entail treating individuals as means to an end. However, as long as non-reporting does not harm any human being, there would be no obligation on anyone to do so.

2.3.5 Natural Law

The history of natural law dates back to classical times and much has been written about it by various philosophers. Plato and Aristotle began to explore the role of government in society (Lubbe & Schutte 1993:71). Johannes Althusius (1557-1638) made an important contribution as did John Locke (1632-1704) and Jean-Jacques Rousseau (1712-1778) (Lubbe & Schutte 1993:71-72). Most people accept that Rousseau's ideas sparked off the French Revolution. The best known of modern philosophers to have developed the theory of natural law is John Rawls (1921-) (Lubbe & Schutte 1993:73).

Natural law is about the rights of people (Chryssides & Kaler 1993:101). Natural law is considered to be above any laws made by man. Man-made laws can and in fact should be tested against natural law to ensure their legitimacy (Chryssides & Kaler 1993:101). Natural law can therefore be seen as a limitation on government. There is a point past which the government is not allowed to go. If it does so, then the citizens are entitled to be disobedient (Chryssides & Kaler 1993:101). The idea of a contract between government and the governed later became part of natural law (Chryssides & Kaler 1993:101). In the 17th century the emphasis seem to have changed slightly to a contract between people to establish a government (Kymlicka 1991:187). The term "social contract" was born to describe this new relationship. Thinking on this subject also changed in that citizens now acquired certain rights and not only the alternative that they may disobey under given circumstances (Chryssides & Kaler 1993:101). These rights, according to Jean-Jacques Rousseau, are the right to life, freedom and equality (Lubbe & Schutte 1993:72-3). John Locke also believed in the right to private property (DesJardins 1993:36). These rights are regarded as human rights as they cannot be given or taken away by government.

Currently a host of other human rights are also taken for granted (Chryssides & Kaler 1993:102). They include the freedom of expression, belief and association, as well as the right to education, welfare, fair trial and fair wages (Chryssides & Kaler 1993:102).

These and other rights were acknowledged by the United Nations when it voted 48 to none in favour of the Universal Declaration of Human Rights on 10 December 1948 (Brownlie 1992:21-27). South Africa was amongst the 8 nations to abstain from the vote (Brownlie 1992:21-27).

The work of John Rawls will be the subject of more specific scrutiny in Section 2.4.3.

The social contract is applied by some (amongst others, Halal and Donaldson) to economics as well (Lubbe & Schutte 1993:83-4). In this context, a contract is said to exist between members of society and business enterprises. According to Halal, the business enterprise will regard the welfare of various stakeholders as its responsibility in exchange for, amongst other things, continued patronage and a committed workforce (Lubbe & Schutte 1993:83).

According to social contract theory, as applied to the economy, society will need information to enable it to assess whether the business enterprise is still committed to the welfare of all its stakeholders. Environmental disclosure could provide some of the information needed.

2.3.6 The Application of Ethical Theories

It is acceptable in the application of ethical theory to borrow from different theories in order to arrive at an appropriate course of action (Chryssides & Kaler 1993:103). The example previously used of having to take one life in order to save two could illustrate the point. An individual may be reluctant to take that one life. This would indicate a deontological approach. Yet if the equation was one life taken to save millions of others, the same individual may not hesitate. This would indicate a utilitarian approach.

2.3.7 Section Summary

This section on ethical theory was necessary in order to lay the foundation for the arguments to follow. The very first obstacle in the way of a deductive argument based on ethics is that of ethical relativism. If it were true, as the relativist believes, that ethical issues cannot be argued on an objective basis, then no argument based on ethics will be objective. It was noted that most authors on ethics believe that objectivity is possible.

Ethical theories are often divided between consequentialist and non-consequentialist. Consequentialist theories concentrate on the outcome of deeds. If the outcome is good, then so is the deed. Non-consequentialist theories are based on rules or knowledge of what is right and wrong. Whether the outcome of a deed is good or bad is of no concern, as long as the deed itself complies with the rules.

Three important ethical theories, namely utilitarianism, deontology and natural law, were discussed. Utilitarianism can be classified as consequentialist and the other two as non-consequentialist theories.

Utilitarianism has human welfare at heart. It strives for the greatest good (in this case happiness) for the greatest number. Government policy and laws are normally governed by this theory.

In contrast, deontology is about duties. Its principle is that you should never use people as a means to an end; they should be regarded as ends in themselves. Also, the principle on which an act is based should be acceptable to everyone. The followers of this theory tend to be more rigid in their adherence to non-consequentialism than utilitarians tend to adhere to consequentialism (Chryssides & Kaler 1993:100).

Natural law theorises about the rights of individuals. Modern ideas regarding human rights were born out of this theory. Human rights are believed to include the right to life, freedom, property, education, welfare, fair trial, fair wages, freedom of speech, religion and association, etc.

The three theories should not be seen as mutually exclusive and they could be used in conjunction with one another when confronted by a choice between various options.

2.4 Business Ethics

2.4.1 Introduction

Ethics in business could be discussed at various levels. The systemic (macro) level, the corporate level and the individual (micro) level could be identified (Mintz 1992:15). At the macro level, the system within which one operates, is examined. The corporate level concerns decisions within corporations that may affect parties outside the corporation, whereas the decision of an individual in business is at the core of the micro level.

The economic system within which business operates is, normally, capitalism. The rights and wrongs of capitalism are therefore considered. The major criticism of capitalism focuses on the justice of the distribution of wealth and power in society. A specific theory of distributive justice, that of John Rawls, is thereafter discussed.

At the corporate level, corporate governance is discussed. The social responsibility of corporations is discussed in the next section. The social responsibility of corporations is important to this research, as it could form the basis of an argument for or against environment-friendly conduct by corporations and for or against environmental disclosure.

The involvement of business in the environment is examined from an ethical point of view. Furthermore, the issues around the moral obligations of corporations and externalities are discussed. Finally, the efficient market hypothesis and its implications for environmental reporting is explored.

2.4.2 Capitalism and Justice

With the fall of the former USSR and with the acceptance of free-market principles by China, the capitalist economic system has gained global dominance. The capitalist system has an influence on most individuals that permeates throughout everything they do. The system dictates the working lives of people, their home environment and their motivation. But the issue that seems to be most controversial (Chryssides & Kaler 1993:168) is that of the distribution of wealth and income.

The differences between the wealth and income of different individuals in a capitalist society can be extremely wide (Chryssides & Kaler 1993:168). Power goes with wealth (Chryssides & Kaler 1993:169). The wealthy have more options, they can act as they please, they have access to the mass media and they are able to effectively lobby for political gain.

Utilitarian arguments are sometimes forwarded by proponents of laissez-faire ideas to prove that inequality is desirable (Chryssides & Kaler 1993:172). They claim that it provides the incentive for some to do better and thereby oils the wheels of commerce. The better efficiency achieved in this way leads to a greater good for all. The argument, however, only proves that some degree of inequality is necessary. It does not prove that the extremes that exist is justified.

In summary it seems that the inequality in wealth that results from capitalism is not wrong in itself, but that it may have to be moderated to some degree to be totally just.

The only role that environmental reporting can play in this context is to ensure that information is available, also to the masses. The environment can be regarded as an asset belonging to everyone. Environmental reporting could limit the power of the wealthy to do as they please regarding their and their businesses' conduct towards the environment. In other words, the masses will be empowered to look after their communal assets.

2.4.3 John Rawls - A Theory of Justice

One of the egalitarian thinkers is the American John Rawls (Chryssides & Kaler 1993:180). His book "A Theory of Justice" outlines a theory that is egalitarian, but allows departures under certain circumstances in the interest of promoting efficiency. Rawls's theory was mentioned before (Section 2.3.5) under natural law. His living environment was that of a highly industrialised society where political rights were well established and almost taken for granted. It is under these circumstances clear why his theory made provision for the economy, whereas some earlier writers like Jean-Jacques Rousseau were only interested in political issues. Rawls (1971:302) does, however, give political freedoms priority over economic equality.

The theory assumes that people are self-interested as understood by economists (Rawls 1971:142). If that is the case, the way to arrive at a set of principles whereby society should be organised in such a way that it is acceptable to all is explored. With people being self-interested and given current inequalities, it would seem impossible to reach such an agreement. Rawls (1971:137) gets around this problem by assuming an original position where everyone is equal and where everyone is unaware of his own position and social status, as well as his own strengths and weakness. His intelligence and physical

abilities are not known. Rawls calls this the veil of ignorance (1971:136). Under the veil of ignorance, participants cannot make choices that would later be to their advantage, as they do not know their strengths and weaknesses. Under these circumstances of, firstly, having to agree on rules that will apply to everyone and, secondly, being ignorant of your own potential, choices will be made that are just. The idea of rules that will become universal has strong links with the categorical imperative in deontology.

According to Rawls (1971:302), the following principles will be chosen:

"First Principle:

Each person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all.

Second Principle:

Social and economic inequalities are to be arranged so that they are both:

(a) to the greatest benefit of the least advantaged,....and

(b) attached to offices and positions open to all under conditions of fair equality of opportunity"

Should conflict arise between the various rules, the first principle has priority over the second and the second part of the second principle has priority over the first part (Rawls 1971:302-303).

The first principle is very much the same as the ideas of Jean-Jacques Rousseau and others mentioned in the earlier discussion (Section 2.3.5) of natural law. It states that an individual freedom cannot be allowed to infringe on the freedom of another person.

The second principle, however, is the one that allows inequalities under certain conditions. It is this second principle that makes specific mention of economic issues.

Environmental reporting can fit into the Rawls theory. According to the first part of the second principle, social and economic inequalities are to be arranged in such a way that they are of the greatest benefit to the least advantaged. Given the power of the owners of capital, the disclosure of the environmental conduct of the vehicles of their power, business enterprises, can play a role in empowering the least advantaged in society.

2.4.4 Corporate Governance

Corporations usually have many members or shareholders and the shareholders cannot all be involved in running them. The shareholders therefore appoint directors by vote to act on their behalf (Brown et al. 1994:8). The directors appoint senior managers to take up a full-time position in the company and to make the daily decisions (Brown et al. 1994:8). The control of shareholders over directors and directors over managers is, however, flawed in practice. There are moves to improve this situation in the form of the Cadbury report in the United Kingdom and the King Report in South Africa (De Villiers 1994:5).

Unfortunately, without effective corporate governance the power and wealth of corporations are in the hands of their senior management. According to agency theory (Brown et al. 1994:18-21), management will act in their own best interests. This could be to the detriment of other stakeholders.

Environmental reporting could ensure the availability of information regarding the environmental conduct of business enterprises. In this way, it can have the effect of limiting the power of managers and ensuring that other stakeholders are not adversely affected.

2.4.5 Social Responsibility

It is contended by some authors (DesJardins 1990:98) that corporations have a social responsibility, for example that it is their duty to accept the welfare of members of the community within which they operate as part of their responsibility in addition to the traditional responsibility of profit maximisation. Stakeholder theory comes to the same conclusion: that corporations have a responsibility to various groups including the general public (Evan & Freeman 1993:254; Mintz 1992:19).

The most prominent proponent of the traditional view, that the only social responsibility of business is to increase its profits, was economist Milton Friedman (1962:133). Friedman sees it completely from a shareholder's point of view. However, returning to the stakeholder argument: stakeholders could be creditors, customers, government and the community (SAICA 1990a:9). The role of managers would in this theory be to strike an equitable balance between stakeholders in their decisions (Mintz 1992:19). Profits can, therefore, not be the only concern if it is to be made at the expense of other stakeholders.

Should corporations have intentions of their own, then there can be no dispute over the fact that they have moral responsibilities. However, should corporations not have intentions (one of Friedman's (1970:33) contentions), it does not mean that management (those who determine corporate direction) does not have moral responsibility. The owners (shareholders) also have moral responsibility for the actions of the corporation. The fact that shareholders have moral responsibility is important if it is seen along with agency argument. This would mean that managers, acting as agents for the owners, will have to act in a morally responsible way.

Social responsibility does not necessarily have to be associated with reduced profits as is implied by Friedman (1962:135). Some studies even found that social responsibility disclosures could be associated with increased profits (Mathews 1993:20).

Lubbe (1991:32-33) has the view that employers are in a better position than anyone else to know the needs and to determine priorities for socially responsible spending amongst their employees. This could be another reason for employers to take the lead in socially responsible actions.

The idea of social responsibility also seems to have substantial support in the business community. Harry Oppenheimer (in Gantsho 1985:12) and Henry Ford II (in Mathews 1993:26) have, amongst others, been quoted as being in favour of corporate social responsibility.

One of the reasons for acceptance of social responsibility by leaders in business could be the legitimacy argument (refer to Section 2.6.12). According to this theory, companies will voluntarily accept social responsibility to legitimise themselves in the community (Deegan & Rankin 1995:2). Belkaoui (1984:81) echoes this view when he states that organisations have to wield the power given to them by society responsibly or risk losing it. The emergence of ethical investment funds (Gray 1993:193) is increasing the pressure on publicly held corporations to act in a socially responsible way if they are to take advantage of this source of capital.

It is assumed for the purposes of this study that corporations have a social responsibility, including a responsibility towards the environment. In this context, environmental reporting can be the vehicle for corporations to show their commitment to sound environmental management principles. Society will also be able to monitor to what extent corporations fulfil their social responsibility commitments.

2.4.6 Environmental Responsibility in Business

Business enterprises usually have a negative impact on the environment (Gray 1993:43; DesJardins & McCall 1990:350). Most types of business have an environmental impact as they all use energy, produce waste, own or lease buildings, etc. A supermarket, for instance, may choose different methods of transport for its distribution network and decide only to stock items that are considered to be environmentally friendly.

Once it is established that corporations do have an influence over the environment, the next step would be to decide who should take responsibility to ensure reasonable conduct towards the environment (Chryssides & Kaler 1993:458). It could be government, consumers or companies (Chryssides & Kaler 1993:458).

A large number of laws are already in place to protect the environment in South Africa (Rabie 1992:93-95). These may increase in time, but there are certain problems associated with additional legislation. Differences of opinion as to the desirability of certain actions do exist (Chryssides & Kaler 1993:459). Under such circumstances (with even scientists in disagreement), it is difficult and possibly ill-advised to promulgate laws.

Consumers themselves can take the lead by making their shopping preferences count. If they buy only environment-friendly products, the others will have to be taken off the market. Consumers, however, do not always have enough information to enable them to make informed decisions.

Apart from the government and consumers, the company could take the lead in environmental matters. If the company pollutes, then the company should take responsibility and clear up the pollution or change the process so that pollution is eliminated. This is referred to as the polluter-pays principle (Chryssides & Kaler 1993:460). However, it could be very difficult to calculate the amounts involved (Chua 1990:10-13). Several authors do, however, feel that this is not beyond the scope of

accountants (Estes 1976:142-146; Gous 1994:6; Chryssides & Kaler 1993:460). These costs are referred to as external costs (Chua 1990:2). Companies may feel that if they internalise these external costs, they will be at a competitive disadvantage. They would therefore welcome legislation to ensure that all the competitors are also forced to comply. Friedman's view (see section 2.4.5) that company funds should not be spent on anything that is not aimed at increasing profits can also be used here.

There would seem to be problems and objections with entrusting any one of the three groups mentioned with exclusive responsibility for ensuring that corporations act responsibly towards the environment. Government, consumers and companies will all have to play a part in the process (Chryssides & Kaler 1993:462).

If government puts its legislative efforts into promoting environmental disclosure, this will to some extent solve the problem of not knowing what is good and what is not good for the environment. In this way, the final decision is left to consumers. With the provision of additional environmental information, they may be in a better position to make decisions regarding their consumption patterns.

2.4.7 Externalities

One of the moral arguments regarding disclosure is that of externalities. Corporations use natural resources such as rivers and fresh air without properly accounting for the costs involved (Estes 1976:103). These costs are external to the corporation and are paid for by others and are therefore called externalities (Chua 1990:2). If a corporation pollutes the air, this may lead to respiratory ailments in the population of a nearby township. The resultant medical bills are paid by the community and not the corporation. If the polluter-pays principle were to apply, the corporation would be forced to pay and the increase in costs will be passed on to customers. The corporation could be made to pay by, amongst other things, introducing legislation that forces it to treat

noxious gases and to emit only harmless gases. In this way the consumers would pay the full price for products and would not be subsidised by the nearby community. According to free-market economic theory, the incorrect pricing of products (because of externalities) will lead to a misallocation of resources in the economy (Mathews 1993:10). According to these theories, if resources are misallocated, the result will be inefficiencies. Inefficiencies are to the detriment of society as a whole. The logical conclusion of this line of argument would be to agree with Rubenstein (1992:31) that the goal should be to produce financial statements which measure the ability of a corporation to produce goods and services after accounting for environmental costs.

In general, Mathews asserts (1993:10), that the free market will be more efficient if more information is available.

The disclosure of externalities could lead to more efficient allocation of resources in the economy. Externalities often involve the environment. Certain forms of environmental reporting can, therefore, be justified by way of the externalities argument above.

2.4.8 Efficient Market Hypothesis

The efficient market hypothesis states that all the information regarding a company is already discounted in the price of its shares (Brown et al. 1994:42). If an investor, therefore, becomes aware of an extremely profitable venture company A is about to exploit, it would be futile to buy shares in company A, because the market has already discounted the information into the current share price.

The efficient market hypothesis is believed to exist in one of three forms, namely the weak form, the semi-strong form and the strong form (Brown et al. 1994:43). In the weak form, all information about the past is believed to be incorporated in the share-

price. In the semi-strong form, all publicly available information is incorporated. In the strong form, all information is already discounted in the share price of a company.

The semi-strong form of the efficient market hypothesis is usually accepted (Brown et al. 1994:45). In this theory, the only way to outperform the market would be to have insider information which is not yet publicly available.

The implication for the purposes of this study is that all environmental information should be disclosed to ensure that it is discounted in the share-price. This would preclude anyone from making an unfair profit (at the expense of some-one else) because they had insider information.

2.4.9 Section Summary

In this section, the milieu within which corporations operate was examined from an ethical point of view. Capitalism is the predominant economic system on a worldwide basis and was, therefore, the only system considered here. It was found that the way in which wealth and income is distributed was the main area of contention. There seems to be general acceptance of the view that some degree of inequality in distribution is justified, but not everyone agrees with the extent of these inequalities found in practice. A particular theory of distributive justice, that of John Rawls, was considered. Environmental reporting, by making available information, may have a role in ensuring that the wealthy cannot abuse their power.

Corporations control vast amounts of wealth and power in society. These powers could have a major influence over the lives of individuals. Without effective corporate governance, corporations are to a large extent controlled by their senior management. This has major implications for the behaviour that could be expected from corporations

towards, amongst other things, the environment. Again, environmental reporting may curtail the power of management to abuse the environment.

The social responsibility of corporations is an area of continued discussion. It would seem to have the support of many business leaders. If social responsibility is accepted as one of the goals of corporations, then the needs of all the stakeholders (including the general public) in a corporation are taken into account when a decision is made. Environmental reporting will assist some of the stakeholders in monitoring the corporation's environmental conduct.

Business activities have an impact on the environment. This impact is largely negative (Gray 1993:43; DesJardins & McCall 1990:350). The responsibility for ensuring that this negative impact is kept down to an acceptable limit cannot be shouldered by any one group. Government (through legislation), consumers (through environmentally sound choices in the marketplace), pressure groups and the business community all have a role to play. Legislation on specific environmental issues is problematic, but if environmental reporting is made compulsory, then consumers will have more information on which to base their choices.

Externalities are not reflected in the pricing structure of a business. This may lead to inefficiencies in the economy, which is to the detriment of society. Environmental reporting may have a role to play in internalising externalities or at least in making available the relevant information.

The efficient market hypothesis in its semi-strong form, as generally accepted, would dictate that as much information as possible, including environmental information, should be published to ensure that its implications are reflected in the share price of a corporation. This will ensure that unfair profits cannot be made by anyone trading in the corporation's shares.

2.5 Environmental Ethics

2.5.1 Introduction

Environmental ethics need particular attention as the extension of ethics in general is unsatisfactory in the following respects (DesJardins 1993:141):

1. Ethics are normally anthropocentric (human centred).
2. The interconnectedness of nature is ignored.
3. Extensions do not always cover the whole of nature.

Since environmental issues are often analysed from an economic perspective, the validity of this method is discussed in this section. Different theories of environmental ethics are then discussed. According to DesJardins (1993:146), biocentric and ecocentric ethics can be identified as different theories of environmental ethics. These theories are discussed in general, as well as a specific version of ecocentric ethics, that of Holmes Rolston.

2.5.2 Economics and the Environment

Environmental problems are often dealt with in a way that presupposes economic theory (Sagoff 1990:26). Analysis of the environmental problem is carried out in an economic way which of necessity has certain underlying assumptions. Any problem will then be explored in the light of what people will be prepared to pay for something (Sagoff 1990:26). The Kruger National Park would, for example, only be allowed to continue its existence as a game reserve if people were prepared to pay for it.

The underlying assumptions of this approach, according to Sagoff (1990:26-9), are:

1. An anthropocentric view with no rights ascribed to animals or plants.
2. Wants and preferences are equated with beliefs and values.
3. Individuals are viewed as customers, ignoring any higher ideals that may exist.

The second assumption is false, as wants and beliefs are expressed in an economy as a willingness to pay, but beliefs and values are not (Sagoff 1990:26-9). An individual may prefer a certain type of food and this preference can be measured by the willingness of the individual to pay for it. On the other hand, an individual may believe that freedom of the press is important. This belief cannot be measured by a willingness to pay. That is what is attempted when economic analysis is applied to beliefs and values (DesJardins 1993:61).

The economic solution will lead to maximum satisfaction of individual preferences. Some of these preferences are vulgar, immoral and criminal (DesJardins 1993:64).

In utilitarian theory, good can be intrinsic or instrumental. To satisfy individual preferences cannot be intrinsically good, as there are sadists, child molesters and rapists (DesJardins 1993:64). It cannot be regarded as instrumental either, because the satisfaction of some preferences leads to disappointment or is harmful to the individual.

For the purpose of this study, it is accepted that it is not always appropriate to analyse environmental issues from the point of view of one's willingness to pay for it. Furthermore, it is accepted that individuals do not only need information to allow them to make economic decisions.

2.5.3 Biocentric Ethics

According to this theory, all life has to be respected as it is said to possess inherent worth (Taylor 1986:99). Inherent worth is not the same as intrinsic value or the "good" of a creature (Taylor 1986:71-2). A human life is said to have inherent worth. In this theory all life has inherent worth. Albert Schweitzer's "reverence for life" is regarded as a forerunner of biocentricism (DesJardins 1993:148).

If all life has inherent worth, then one should respect it and not harm any living thing. According to Taylor (1986:157), humans have no superiority over other forms of life. Moral agents (humans) have the responsibility to move in the direction of a long-term goal which is perceived to be more ideal for all forms of life (Taylor 1986:311).

For the purposes of this study, the disclosure of the environmental conduct of an organisation would ensure that individuals or groups outside the organisation have access to the information they would need to ensure that no harm is done to any life form and to continue to move in the direction of a more ideal future for all forms of life.

2.5.4 Ecocentric Ethics

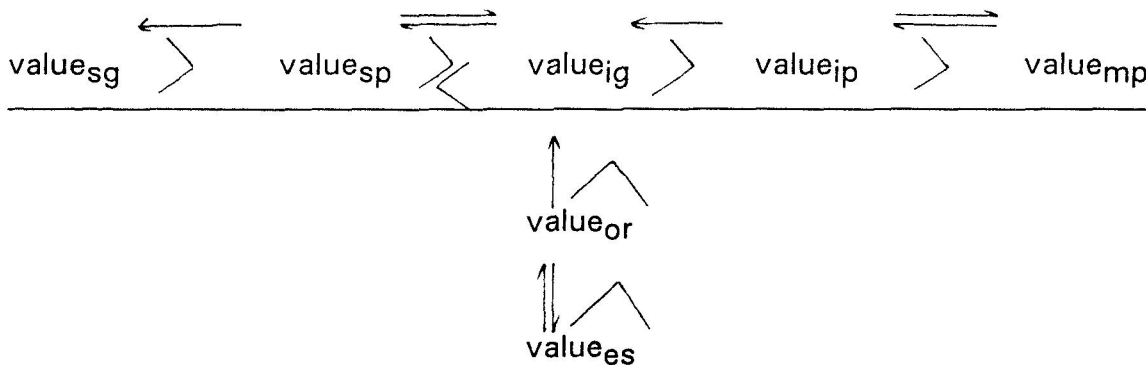
Ecocentric ethics is a more holistic approach and includes all living and non-living things in an ecosystem (DesJardins 1993:189). The good of the whole ecosystem is regarded as more important than the good of any individual or part of the system. "The land ethic", an essay by Aldo Leopold (1887-1948), is regarded as a landmark in the development of ecocentric ethics (DesJardins 1993:189). The main thrust of the essay is that land is not dead, and that the owner of the land has certain duties to the land.

Deep ecology, social ecology and ecofeminism can all be regarded as being ecocentric (DesJardins 1993:189). These theories will not be discussed here, as they do not have

direct relevance as far as the current study is concerned. The work of a particular ecocentric ethicist, Holmes Rolston, is of interest for this study and will be discussed in the next section.

2.5.5 Rolston's Value System

Holmes Rolston, an internationally known environmental ethicist proposes an axiological model for environmental policy (Rolston 1988:259). The model is given below:



- KEY:
- $value_{sg}$ = social good value
 - $value_{sp}$ = social preference value
 - $value_{ig}$ = individual good value
 - $value_{ip}$ = individual preference value
 - $value_{mp}$ = market price value
 - $value_{or}$ = organismic value
 - $value_{es}$ = ecosystemic value
 - ← = produce
 - ↔ = produce reciprocally
 - > = override or is more important than

SOURCE: Rolston 1988:258

The model addresses anthropocentric issues along the horizontal axis, with non-anthropocentric issues along the vertical axis (Rolston 1988:258). The strength of the model lies in the fact that individuals with an exclusively anthropocentric view can still relate to it, by simply ignoring the vertical axis.

One of the aspects of the model that warrants discussion is the fact that social preference is not equated to social good, as individual preference is not equated to individual good (Rolston 1988:258). In economic theory, for instance, no distinction is

made between the two (refer to Section 2.5.2). It is, however, conceivable that there may be a difference. An individual may prefer to use drugs, but it may not be good for him or her. This also applies to society; for example, society may want to wage war against a neighbouring country, but it may not be good for them.

The "override" signs in both directions between individual good value and social preference value indicate that, although social preference value normally overrides individual good value, there are a few important vetos, for example the fact that murder may not be acceptable even if society prefers someone to be murdered (Rolston 1988:258).

One may ask what implications Rolston's model have for environmental reporting. Assuming that an anthropocentric audience is addressed (the business community would normally be predominantly so), the horizontal axis will have to be considered. Along the horizontal axis, the most important aspect, the one which overrides all others (with some minor exceptions pertaining to individual rights) is social good value.

Environmental reporting should, therefore, according to Rolston, be done if it delivers social good value. One could argue that more environmental reporting will give society the information it requires to make informed decisions about the environmental conduct of companies. For example, companies with unacceptable emission levels will be obliged (by way of legislation or other means of pressure) to improve. This will deliver social good value. The fact that certain individuals (such as managers or auditors) may not be in favour of more environmental reporting is immaterial, according to Rolston's model, as social good value is more important than individual preference value. Even if society as a whole prefers to go without more comprehensive environmental reporting, and it can be shown that such reporting will deliver social good value, because social good value overrides social preference value, more environmental reporting should, according to Rolston, be done.

It is assumed, for the purposes of this study, that social good value will be derived from additional environmental reporting. Environmental reporting should therefore be done, according to Rolston's model.

2.5.6 Section Summary

The point that economic analysis is not always appropriate to environmental issues was made. Individuals do also not only need information that will allow them to make economic decisions. Environmental information can, therefore, be of interest to various stakeholders in a corporation, even if it does not assist in the making of economic decisions.

Different ethical viewpoints regarding the environment were discussed. Most environmental ethicists are likely to welcome environmental disclosure, as it will put them and others in a position to evaluate the environmental conduct of business enterprises.

The value system of Holmes Rolston was discussed. Based on his value system, a case can be made for environmental disclosure assuming that disclosure delivers social good value.

2.6 Pragmatic Reasons for Environmental Reporting

2.6.1 Introduction

Up to this point, environmental reporting was evaluated from an accounting point of view as well as an ethical point of view. These arguments may be regarded as too

theoretical for some, particularly leaders in business. There are, however, pragmatic reasons for environmental disclosure. Some of these reasons were mentioned in Section 2.1.2 and will be discussed in more detail in this section.

2.6.2 Profitability and Environmental Disclosure

Some of the environmental actions of companies can lead to increased profitability. A reduction in energy use by a company and a reduction in waste production are examples of such actions.

The disclosure of environmental information can have a positive effect on the share price of a company as so-called green chips are increasingly sought after (Filsner & Cooper 1992:124). The positive effect will, therefore, be indirect. However, the collection, collation and reporting of environmental information can be expensive in itself.

Mathews (1993:10) refers to empirical evidence that demonstrates a correlation between social responsibility by management and a higher corporate income. There is also evidence that share prices may be influenced by social responsibility disclosures by corporations (Mathews 1993:10).

2.6.3 Corporate Image

The voluntary disclosure of environmental information, if done well, can enhance the public's image of an organisation (Blaza 1992:33). A positive corporate image can be to the advantage of a company in various ways. The different stakeholders would, given a choice, rather be associated with a company with a positive image. A positive image is, therefore, desirable.

Companies will disclose more environmental information if they perceive a potential benefit to their corporate image in doing so.

2.6.4 Employee considerations

The Trade Union movement in the United Kingdom has developed a Trade Union Charter for the Environment (Hackett 1992:49). Pressure is, therefore, mounting for employers to act responsibly towards the environment. In fact, emphasis is placed on the free access to information in the charter (Hackett 1992:49). Mention is made of the "right to know" (Hackett 1992:49), which echoes the information rights of users found in accountability. The assumption can be made that more worker organisations world-wide, also in South Africa, will address the issue of the environment.

In addition, Buck (1992:38) asserts that "an employer with a good record ... as a protector of the environment is likely to find it easier to recruit staff".

Pressure for the disclosure of environmental information will increase from worker organisations. Corporations may also elect to do this voluntarily in order, amongst other reasons, to ensure a continued supply of high-quality staff.

2.6.5 Competitive Advantage or Peer Pressure

Some companies have used the environment to gain a competitive advantage, for example, the Body Shop in the United Kingdom (Gray 1993:194,239). By emphasising their environmental awareness, they have gained market share, because consumers believe it to be better for the environment to shop at the Body Shop than with their competitors. Under these circumstances, one can expect the competitors to try to counteract this by putting more emphasis on their own environmental performance.

Buck (1992:39) believes that whilst concern for the environment may currently be regarded as something that could give a competitor a marketing edge, it will in future become the price of entry into the market.

Corporations will disclose more environmental information, if they believe that they will thereby gain a competitive advantage. At the same time the competitors will feel the effects and will do more of their own environmental reporting in response to peer pressure.

2.6.6 Banks and Creditors

As environmental issues gain in importance, and environmental legislation becomes more and more stringent, the economic impact on corporations becomes more and more apparent. Penalties for environmental misconduct become higher and higher. The experience of the Exxon oil company, which faced an enormous clean-up bill after the Alaskan oil spill, is an example (Rubenstein 1990:40-5), as is the "superfund" legislation in the United States (Sharp 1992:55).

Against this background, it will become more and more important for banks and creditors that corporations have a sound environmental management record (Gray 1993:184). The environmental management system of a company needs to be assessed to predict their chances of running up large environmental liabilities to such an extent that it could influence their credit-worthiness (Cowe 1992:127).

Environmental disclosure can be a way for corporations to show that they have an environmental management system in place and that they do not hold substantial environmental risks.

Environmental disclosures could be made by corporations in an effort to show the suppliers of foreign capital that they do not run substantial environmental risks.

2.6.7 Insurance

The insurance industry is based on the premise that disaster will not strike everyone at the same time. It therefore makes sense for individuals and organisations to pool their resources to assist the individuals who do experience problems. However, should an insurable loss occur regularly, the insurance premiums will have to increase in order to cover the losses plus an administration fee.

Environmental calamities are insurable, but if they occur regularly, it will not make sense to insure against them anymore (Gray 1993:188). Shell discovered that its insurer would not pay for pollution which did not result from an accident (Filsner & Cooper 1992:124). Insurance companies are not a bottomless pit which will be able to absorb more and more risks (Gray 1993:188). Companies can no longer expect insurance companies to reimburse them for avoidable environmental damage (Lester 1992:43). An environmental management system could ensure the avoidance of environmental damage.

Environmental reporting by organisations may convince insurance companies of their good intentions and supply information regarding their environmental management systems. This may forestall increases in premiums and further exclusions.

2.6.8 Ethical Investment

Ethical investment funds had their origins in the United States during the early seventies and also gained considerable support in the United Kingdom during the eighties (Gray 1993:192). Ethical investment funds operate in the same way as normal investment

funds, accept that they will not invest in any "unethical" company or activity (Miller 1992:242-3). Environmental issues are normally high on the agenda of ethical investment funds (Miller 1992:253). The implication is that companies that do not conduct business in an environmentally sensitive way will not have access to the funds under the management of ethical investment funds.

One of the spin-offs of the emergence of ethical investment funds was the fact that other investment managers (such as government funds and pension funds) were also influenced to take ethical issues into account when making investment decisions (Gray 1993:193).

The annual report of a company is a useful starting point in the search for information regarding their ethical behaviour (Griffith 1992:260).

Some companies will report environmental information to ensure that they maintain a positive image amongst the ethical investment community in order to qualify for future investments by them in the company.

2.6.9 Third Party Disclosure

Environmental groups sometimes take it upon themselves to conduct a study of the environmental conduct of an organisation. The information is then made public to bring pressure to bear on the organisation to change their operations (Gray 1993:262). These studies are known as social audits, and may include issues other than environmental concerns (Geddes 1992:216). Social audits are not necessarily performed by third parties; it may be a part of an organisation's own activities (Geddes 1992:216).

The disclosures made by third parties in this way could put the organisation in a bad light. An organisation may, apart from changing its methods, prefer to report on its

environmental conduct on its own terms. This may put it in a more favourable light than to allow third party information to be made available. If enough information is made available by the organisation itself, third parties may not find it necessary to intervene.

Companies may decide to report on environmental issues to reduce the chances of a third party social audit being performed on them.

2.6.10 Build Expertise in Advance of Legislation

If it is accepted that environmental legislation is on the increase (refer to Chapter 3) and that some form of environmental reporting may become compulsory, some companies may prefer to phase in their reporting over an extended period of time starting before legislation is enacted. Responsibility should be taken by companies to self-regulate (Buck 1992:36). In this way, they will have the expertise to deal with legislation when it arrives. This strategy may save costs and effort in the long run.

Companies will report environmental information if they perceive a long-term saving from building expertise in advance of legislation.

2.6.11 Obviate the need for legislation

If companies provide environmental information voluntarily, there is less reason to pass legislation to force the issue (Buck 1992:36).

Corporations will disclose environmental information if they believe that this will reduce the chances of laws being introduced to enforce disclosure.

2.6.12 Legitimacy

According to legitimacy theory, companies will voluntarily report information in an endeavour to legitimise their operations and ensure their continued existence (Deegan & Rankin 1995:2). In the South African context the increase in the information flow from companies regarding their social responsibility is consistent with legitimacy theory. Companies legitimise their actions by showing their commitment to social upliftment, an end which recently became more important from a political point of view.

Legitimacy theory, like decision usefulness and accountability, was originally considered only from an economic point of view (Patten 1992:471). This implies that as long as a company was successful or profitable, it legitimised itself. This perception changed during the sixties and seventies to include social issues as well. The acknowledgement that there are more stakeholders than just the shareholders formed part of this process. According to legitimacy theory, whenever members of society are dissatisfied with the conduct of a company, the issue is raised and possibly enacted in legislation if deemed necessary (Preston & Post 1975 in Patten 1992:472). Companies have to comply with laws, but will also be aware of pressure, even before laws are passed and will engage in social disclosure in an effort to legitimise their position.

Whenever the public raises an environmental issue where a company is involved, the company will feel obliged to engage in reporting on that issue to counteract the pressure and to legitimise its position in society.

2.6.13 Section Summary

Businessmen tend to be pragmatists. They will, within certain parameters, do whatever is needed in order to accomplish their goals. The fact that free-market economists believe that the social good will be maximised if individuals in an economy follow their

own selfish goals may have something to do with this. Also, the harsh realities of business failures, job losses and the like may play a role. It has been said that nothing concentrates the mind like the proximity of death. Pragmatic reasons will, therefore, tend to be favoured by the business community. They may refer to it as making "business sense".

A variety of pragmatic reasons for environmental disclosure were discussed in this section. Their impact on a business enterprise could vary from indirect and remote to more direct. In some cases business leaders may feel they are forced into environmental disclosure by some of the reasons, whereas they may initiate environmental disclosure in other instances because of a proactive approach with perceived benefits to themselves.

2.7 Arguments Against Environmental Disclosure

2.7.1 Cost

Some environmental information can be disclosed with little or no extra cost to the organisation. For example, disclosure of the environmental policy, objectives and risk areas could be achieved relatively inexpensively. However, depending on the extent and the type of information reported, the system for the collection and collation of the information can be expensive.

According to the accounting framework (SAICA 1990a:44), the benefit of information provided in financial statements, should outweigh the cost of providing the information. It is, however, acknowledged in the framework that information could be beneficial to someone other than the ones that pay for the information (Ibid).

The cost of providing environmental information could outweigh its benefit and should under such circumstances not be disclosed in financial statements. However, when the benefit derived from the information is considered, care should be taken not to overlook the benefit to any particular group of users. Costs, or economic considerations, may also not be an appropriate measure where the environment is concerned (refer to Section 2.5.2).

2.7.2 Relevance of Information

Irrelevant information should not be disclosed (SAICA 1990a:26). It would be impossible to disclose every single aspect of an organisation's conduct. Only information relevant to the needs of users should be disclosed.

According to Filsner & Cooper (1992:121), companies are beginning to accept the relevance of environmental data in annual reports.

2.7.3 Secrecy

Companies may decide not to report environmental information on the grounds that the information is secret (Gray 1993:211). They may believe that competitors will use the information to their advantage if it is disclosed. However, according to Mathews (1993:11), if the market place is operating efficiently, this information should be known to competitors already.

2.7.4 Information overload

Companies may refrain from environmental reporting on the grounds that given too much information, the user will be confused by the large amount of data. Too much information in an unsummarised format can often be confusing. One way to address this problem is to divide the information into separate sections and to start each section with summarised information, followed by more detailed information in several "layers". Users will then be able to ignore the sections not of interest to them and be able to decide to what level of information they want to read before carrying on to the next section. Nevertheless, information overload can under certain circumstances be a valid reason for not reporting some information.

2.7.5 Section summary

There may be certain circumstances where environmental reporting would not be justified. These revolve around costs, relevance, secrecy and information overload.

2.8 Voluntary vs Mandatory Environmental Disclosure

Several empirical studies of voluntary environmental reporting in South Africa have found that the information reported is incomplete, inconsistent, not comparable and concentrates mainly on positive aspects (Clulow 1991; Bogiages & Vorster 1993; Savage 1994; Steyn & Vorster 1994).

An Australian study by Deegan & Rankin (1995) indicated that there is a positive correlation between the fact that a company has bad environmental news to report and the amount of good news reported. In other words, companies report even more positive environmental information when they have negative environmental information

to report. Deegan & Rankin (1995:14) came to the conclusion that as long as environmental disclosures are voluntary, they will always tend to be mostly positive and "nothing short of misleading."

It would seem as if environmental disclosure is done by companies in an effort to legitimise their actions. It is, therefore, doubtful whether voluntary environmental disclosure could ever be sufficiently objective to be useful to the users of the information.

Holmes Rolston (1988:248) makes the following comment regarding the need for legislation:

"Though an ethic needs to be largely voluntary, a societal ethic cannot be stable if it is entirely voluntary. Even if 99 percent of citizens are glad to behave in a certain way provided that others do, the 1 percent who freeload will trigger bad faith. ... What policy and regulation can do is enable citizens to act in concert."

In other words, to regulate or legislate environmental reporting would be the only way to ensure that the playing field is level and that there are no "freeloaders".

For the purposes of this study, it is assumed that environmental reporting will have to be legislated to ensure unbiased, relevant, verifiable, complete and comparable environmental reporting.

2.9 Chapter Summary and Conclusions

2.9.1 Summary

The question at stake in this chapter was whether information regarding the environmental conduct of business enterprises should or should not be reported.

Accounting theory was examined to gain an understanding of its implications for environmental reporting. There are many approaches to accounting theory, but none of them has gained universal acceptance. In the field of accounting, accountability is regarded as the most important reason for disclosure for the purposes of this study. Accountability constitutes an ethical basis for the justification of environmental reporting, as it emphasises the information rights of the different stakeholders (or principals) in an organisation.

The normative nature of the question whether environmental information should or should not be disclosed, dictated an investigation into the subject of ethics. Ethical theory and its application in the areas of business and the environment were explored. This exercise provided many sound reasons why environmental disclosures should be made.

Apart from any ethical and theoretical reasons for environmental reporting, some sound business reasons exist. These were discussed. There may even be such pragmatic reasons for government to favour environmental disclosure by business enterprises as this may reduce the burden of the compliance monitoring of environmental legislation on the part of government agencies.

Some valid reasons not to disclose environmental information were examined and, finally, the issue of whether environmental disclosure should remain voluntary or whether

it should become mandatory was discussed. The conclusion was that environmental disclosure should become mandatory, otherwise it will remain partial and misleading.

2.9.2 Conclusions

Environmental reporting can be justified in many ways, but accountability is favoured for the purposes of this study. There are also a few objections against environmental reporting which may, under certain circumstances, be justified. Whether environmental reporting is justified or not, the practice exists. However, as long as environmental reporting remains voluntary, it is likely to remain misleading (Deegan & Rankin 1995:14).

It is, therefore, accepted that:

- environmental reporting is justified, and
- environmental reporting should be regulated to ensure that it is not applied in a selective and thereby a misleading way.