

# Sustainability accounting, accountability and reporting in the public sector

## An overview and suggestions for future research

### Research overview and background

The public sector is regarded as a steward for social and environmental issues. The primary objective of public sector organisations (PSOs) is to deliver public policy and promote social welfare (Ball and Grubnic, 2007). Their roles and responsibilities are more explicitly linked to the sustainability agenda than those of the corporate sector (Ball, 2002). The public sector has far greater responsibilities for promoting and supporting sustainable development in comparison to the private sector whose core goal is limited to maximizing shareholder value (Ball *et al.*, 2014).

The public sector is a significant employer and provider of services and consumer of resources; therefore, it has a significant impact on national and international progress towards sustainable development. Moreover, PSOs are facing increasing pressures to lead by example in managing and reporting sustainability issues (GRI, 2004, 2005; GRI FPA, 2012). Because of the critical impact PSOs have on the environment and society, it has become increasingly vital to explore their sustainability accounting, accountability and reporting practices as well as undertake research that engages with practitioners and policymakers in the public sector (Ball and Grubnic, 2007; Ball *et al.*, 2014).

Sustainability performance encompasses activities other than those financial measures used in the financial accounts such as natural resource conservation and emission levels, environmental activities and initiatives, aspects of employment, occupational health and safety, community relations, stakeholder involvement and the economic impact of the organisation (Hoque and Adams, 2008). Sustainability accounting enables the systematic identification and interlinking of the social, environmental and economic costs and benefits of organisational strategies and actions and embeds these considerations into organisational decision-making (Hopwood *et al.*, 2005).

Subsequently, sustainability reporting serves as “a vehicle to assess the economic, environmental and social impacts of the organisation’s operations, products, and services, and its overall contribution to sustainable development” (GRI, 2004, p. 20).

Existing literature indicates that the public sector has embraced sustainability accounting and reporting practices. The key research foci to date have addressed sustainability reporting practices (Gibson and Guthrie, 1995; Goswami and Lodhia, 2014; Guthrie and Farneti, 2008; Leeson *et al.*, 2005; Williams *et al.*, 2011; Williams, 2015), drivers of sustainability reporting (Farneti and Guthrie, 2009; Lodhia and Jacobs, 2013; Lodhia *et al.*, 2012; Marcuccio and Steccolini, 2005; Mussari and Monfardini, 2010), sustainability accounting (Ball, 2004, 2005, 2007), environmental management accounting (Qian *et al.*, 2011) and stakeholder engagement (Greco *et al.*, 2013; Kaur and Lodhia, 2014, 2016, 2017, 2018, 2019). However, there is much more that needs to be explored in relation to sustainability accounting, accountability and reporting in the public sector, and this special issue attempts to address some of these issues.



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### Aims and scope of the issue

This special issue of *Meditari Accountancy Research* seeks to foster research in the area of sustainability accounting, accountability and reporting in the public sector. It aims to extend the on-going research initiatives focused on the public sector and comprehend the role of PSOs in advancing the sustainability accounting, accountability and reporting agenda. The papers showcase diverse sustainability accounting and reporting practices of different forms of PSOs from a range of countries. In this special issue, papers range from environmental reporting, social reporting, sustainability reporting by hybrid PSOs, to integrated reporting (IR) and stakeholder engagement, incorporation of environmental performance in balanced scorecard (BSC) and performance management systems. The papers use a range of research approaches including case studies encompassing interview and longitudinal content analysis, web content analysis and quantitative methods such as surveys and linear regression. The context of studies include Spanish and Swedish hybrid PSOs, Italian provincial government, Australian health-care sector, New Zealand Post, Moroccan Public Institutions and Enterprises and Malaysian local governments.

Hybrid PSOs operate in a complex business environment because these organisations have both financial and non-financial objectives and this complexity shapes their sustainability reporting practices. [Argento et al. \(2019\)](#) examined the nature of and influences on sustainability disclosure practices of 45 Swedish State Owned Enterprises (SOEs) using institutional logics. The authors applied a quantitative content analysis to assess the influence of state ownership, activity, composition of the board of directors, corporate size and profitability on the content of SOEs' sustainability disclosures. The authors reveal that only two factors, i.e. "state ownership" and "corporate size", significantly affect SOEs' sustainability disclosures. They found that fully state-owned SOEs disclose relatively less sustainability information than partially state-owned SOEs, and large SOEs comparatively provide more sustainability disclosures than small SOEs. The paper argues that sustainability disclosures are driven by the market logic as profit-oriented large SOEs face higher stakeholder pressure and greater need to seek and maintain legitimacy.

Similar to [Argento et al. \(2019\)](#), [Andrades and Larrán-Jorge \(2019\)](#) examined disclosure practices of Spanish SOEs with a particular focus on mandatory non-financial disclosures. This study provides insights into the extent of mandatory non-financial disclosures by Spanish SOEs and factors affecting such disclosures. The authors report a low level of disclosures on mandatory nonfinancial information because of ambiguity in the Spanish regulations and lack of adoption of New Public Management, resulting in the lack of accountability and lack of proper enforcement of regulations. The authors apply the legitimacy theory to assert that the extent of disclosures is determined by institutional size as larger SOEs disclosed more information in comparison to smaller SOEs.

IR in the public sector is also a growing area of research interest. In this regard, [Farneti et al. \(2019a\)](#) explore the influence of IR and stakeholder information needs on social disclosures, in particular, on the three social capitals in the IR framework – intellectual, human and social and relationship capital. The authors undertake a case study to reveal changes in disclosures towards different stakeholder groups because of the uptake of IR using an internal organisational perspective. The authors found that the adoption of the IR framework promoted an extensive stakeholder engagement and materiality assessment approach, which enabled the case study organization to reduce the number of social disclosures and focus on those social issues that are more relevant to stakeholders.

[Farneti et al. \(2019b\)](#) use longitudinal analysis to explore non-financial disclosures in social reports by an Italian provincial government to determine their relevance, contribution

and evolution. They used a case study research to gain in-depth insights into the extent and use of voluntary social and environmental disclosures. The authors observed an increase in the level of disclosure over the ten-year period along with a shift from a descriptive and narrative form to more comprehensive disclosures. However, the organisation cherry selected the Global Reporting Initiative (GRI) indicators. The authors also note a decline in general interest in preparing stand-alone social reports and that such reports were mainly produced in the pursuit of public legitimacy.

Therefore, the authors raised a need for regulation in non-financial information disclosures because social and environmental disclosures made by the organisation were largely at its discretion.

The focus of prior studies has been primarily on developed nations and very little is known about how the public sector in developing nations manage and report their non-financial performance indicators. In line with this, [Ibrahimi and Naym \(2019\)](#) explored factors that influence the use of non-financial indicators in performance management systems of Moroccan Public Institutions and Enterprises (MPIE). The authors through the lens of contingency theory reveal that the use of nonfinancial indicators by the Moroccan MPIE is determined solely by the age of the organization. Other organisational factors such as the size and the competitive environment of the organization did not encourage the inclusion of non-financial indicators in the performance management systems.

Furthermore, [Che-Ku-Kassim et al. \(2019\)](#) conducted a survey to examine environmental reporting practices of Malaysian local governments and drivers of such practices using legitimacy theory. The authors reveal that the majority of Malaysian local governments report environmental information using more than one reporting media. The prominently used reporting media are annual reports and website disclosures. The authors found that the primary reason for environmental reporting is the necessity to maintain and improve the organisational image in relation to the relevant public.

The use of BSC to especially incorporate environmental performance in the public sector is also an important area of research. [Khalid et al. \(2019\)](#) in their study of a large healthcare provide in Australia explore the appropriateness of different BSC models to incorporate environmental performance. The authors use a case study approach and identify four approaches that can enable healthcare organisations to incorporate environmental performance in their BSC, including an expanded model with five perspectives and an integrated model coupled with a separate climate change perspective. Nevertheless, the authors argue that the adoption of a specific model depends upon an organisation's vision and environmental strategy.

### **Future research directions**

The above discussion has extended the literature on sustainability accounting, accountability and reporting in the public sector. The papers of this special issue are a useful start and there is much more that could be explored within this sector.

The United Nations has developed its 2030 Agenda for Sustainable Development, commonly referred to as the Sustainable Development Goals (SDG) [[United Nations \(UN\), 2015](#)]. This development will have an impact on all sections of society and the public sector is no exception. Government bodies will need to respond to the SDG and be active participants in promoting the effective functioning of the SDG. Academic research needs to respond to this relatively new development and seek to explore how PSOs are addressing

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the SDG. The accounting, accountability and reporting of SDG is a new research agenda that can be explored within the public sector.

IR has been explored in one of the papers in this special issue and there is a need to explore this body of work. The public sector provides a unique context for IR and thinking, and guidelines such as [CIFPA \(2016\)](#) are encouraging the uptake of this practice in the public sector. IR and thinking studies of the various tiers of the public sector are required to ascertain the differences in practices in the public sector from that in the corporate sector.

Specific environmental or social issues can also be explored within sustainability accounting, accountability and reporting practices of public sector entities. Climate change, waste management (for example, the impact of the refusal of China to process the recycling of plastic waste from a number of nations), biodiversity and water are specific environmental issues that can be explored. Social issues include gender and workplace diversity, occupational health and safety, employee and human rights and community and modern slavery.

Papers in this special issue have also addressed stakeholder information needs, which are essential for public sector entities that seek to benefit various groups in society. There is a need for further studies that explore stakeholder engagement in the public sector, as well as its role in sustainability accounting, accountability and reporting. The work of [Kaur and Lodhia \(2014, 2016, 2017, 2018, 2019\)](#) could be expanded in other contexts to provide insights into the processes through which stakeholders are engaged by public sector entities and the benefits and challenges of such approaches.

The partnerships between the public sector and other entities (such as business groups or even non-governmental organisations) in relation to sustainability issues and the resulting impact on sustainability accounting, reporting and accountability is another worthwhile research endeavour.

The experiences of these partnerships from all participants' perspectives will provide insights into the key success factors and challenges to these partnerships.

The auditing of sustainability information is another key issue that can be explored further in the public sector context. Of particular interest is the performance auditing conducted in these entities. There is already evidence to suggest that environmental performance audits are being conducted in the Australian public sector ([Rika and Jacobs, 2019](#)). Thus, there is a need for studies into sustainability performance audits (encompassing social and environmental issues) in various contexts.

It is pleasing to note the various contexts in this special issue. Both developed and developing nations have been studied, leading to the increasing need for context specific studies that would provide further insights into sustainability accounting, accountability and reporting in the public sector.

The role of social media, Big Data and the Internet of Things has the potential to transform sustainability accounting and reporting ([Lodhia, 2018](#)), and the use of these within a public sector context provides useful avenues for future research. Accountability for sustainability performance in this information and communication age has implications for public sector entities, which cannot be ignored and there is need for academics to explore these issues.

**Amanpreet Kaur and Sumit K. Lodhia**  
*University of South Australia (UniSA), Adelaide, Australia*

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**Corresponding author**

Amanpreet Kaur can be contacted at: [Amanpreet.Kaur@unisa.edu.au](mailto:Amanpreet.Kaur@unisa.edu.au)