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Social Accounting

Social accounting is the process of communicating the social and environmental effects of organizations' economic actions on particular interest groups within society and to society at large.[1]

From an economic standpoint, increasing profits is the main mandate of corporate firms. Hence it becomes all the more important to hold them accountable for their actions since they implicitly or overtly impact the society and the environment.

The Need for Social Accounting

The traditional accounting procedure involves taking into consideration only the economic events that a firm encounters.[2] This conventional financial accounting gives rise to a 'balance sheet' which serves the needs of the investors but fails to be accountable to a broader range of stakeholders such as employees of the firm and customers who consume their products or use their services. The modern social accounting takes into consideration the people, planet, and profits, in accordance with the Triple Bottom Line, and provides a full societal cost-benefit analysis.

The pursuit of building a loyal customer base for long-term profits motivates companies to treat stakeholders as important and indispensable parts of the their growth and prompts them to launch Corporate Social Responsibility (CSR) and Corporate Environmental Responsibility (CER) initiatives, maintain transparency, release periodic reports of their actions and avoid situations such as law suits or customer discontent or investor activism that may harm the public image of the company.

Social accounting therefore creates a bridge for companies to build better brands for the consumers, while being environment friendly. This helps them to leverage ESG (environmental, social and governance) performance.[3]

It is somewhat akin to the concept of externality used in economics, which refers to the cost incurred by a third party which did not voluntarily chose to be part of a transaction.

History of Social Accounting

The first use of the term 'social audit' is attributed to George Goyder in the late 1950s. Its roots lay in the need for making companies more accountable to the community after the industrial revolution.[4]

The first step towards social accounting was taken by the Social Audit Limited in the 1970s, which published investigative reports on the impact of corporations on local communities and the environment.[5].

During industrial restructuring in the United Kingdom (UK) and some other parts of the European Union (EU) in the 1970s and 80s, several local authorities in collaboration with trade unions brought out reports into the likely impact of plant closures on local communities. [6]

As consumer patterns changed to a more socially conscious consumption model, pressure mounted on companies to have transparent social accounting documentation. Many accounting tools began to be developed to quantify the companies' social and environmental actions into monetary terms and help set standards for CSR and CER initiatives.

Soon these accounting standards expanded beyond European borders and found their way to the rest of the world. From Multinational Corporations (MNCs) to Small and Medium Enterprises (SMEs), these standards have been adopted by many to save the environment, protect consumer interests, prevent liabilities, provide employee incentives and to have a 'license to operate'.

Some Major Social Accounting Initiatives: Their Benefits and Drawbacks

ISO 26000 and ISO 14000

The International Organisation for Standardisation (ISO) is an international standard setting body composed of representatives of various national standard setting bodies. It is headquartered in Geneva, Switzerland with operations in 163 countries.[7]

The ISO 26000 Guidance On Social Responsibility, released in November 2010, is a 84-page widely-used standard aimed at achieving global sustainable development by reducing negative impacts on workers, environment and local communities. It consists of seven key principles which comprise of accountability, transparency, respect for stakeholder interest, law, human rights and adherence to international norms.

Although the ISO 26000 is a very comprehensive and pragmatic document with a wide scope and can easily be adopted by small as well as large corporations, NGOs, etc., it is still a 'voluntary guidance standard' which means that it does not provide certification. This diminishes the incentive tied to adopting this standard for companies and, in rare cases, some companies may mislead consumers about their adherence to this standard.

Similarly, the ISO 14000 is a set of generic standards for designing and implementing effective Environmental Management Systems (EMS) based on the Plan-Do-Check-Act (PDCA) methodology.[8] This standard has assisted companies in developing their EMS framework. It has eliminated the need for multiple certifications, has enhanced public perception of many companies, reduced public liability insurance costs and in general has had a positive effect on the asset value of companies adhering to this standard. However, the drawback of this standard is that its voluntary nature leaves a back door for companies to lie about their conformation to this standard since there exists no certification policy in place.

UN Global Compact

The UN Global Compact is the world's largest principle based CSR initiative that encourages businesses and governments to move towards adopting socially responsible policies with the aim of catalyzing the actions to achieve the Sustainable Development Goals (SDG) of the UN. It consists of ten core principles in areas of human rights, labor standards, environment and anti-corruption. It acts as a platform for communication between governments, NGOs and companies and provides for a discussion forum. It has also made accessible resources relating to CSR and CER accounting such as SDG Compass[9] and Sustainable Stock Exchange.[10] Close to 9000 companies including 4000 non-business entities pledge adherence to the Global Compact, making it the largest and most innovative corporate sustainability program.[11] Nevertheless, Executive Director Lise Kingo's statement "we are the guide dogs, not the watch dogs" alludes to the fact that the UN Global Compact fails to hold parties accountable, as it has no system to recognize or certify that a member has fulfilled the Compact's principles.[12] This shortcoming allows companies to use this Compact as a tool for "bluewashing," which refers to the potential misuse of for-profit companies to assert influence on international organizations by becoming members of philanthropic and humanitarian movements. The Joint Inspection Unit (JIU), an external oversight agency of the UN, confirmed the existence of bluewash phenomenon in its 2010 evaluation report and called the Compact a 'reputational risk' for the UN as it pursues a quantity over quality approach in the absence of regulatory powers.[13] The UN Global Compact, however, remains the spine for many corporate CSR initiatives of companies such as Coca-Cola, Colgate, HP, Kellogg, Reuters, AMEX, and General Motors amongst many others. The Cities Program, which aims to involve municipal governments, has also been largely successful and is expanding at a fast pace. [14]

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is an international standards organization that helps parties understand their impact on climate change, human rights, and corruption. Developed by the non-profits Ceres and Tellus Institute in collaboration with UNEP in 1997, the GRI Secretariat is based in Amsterdam and works in close cooperation with the UN Global Compact. [15] It consists of a global network that uses and demands the use of GRI guidelines in creating and improving the reporting framework. Its feasibility lies in the fact that GRI approaches social

accounting from a 'Supply Chain Management' point of view. There is a GRI Indicator Protocol Set which contains Performance Indicators (PI) that companies need to use as parameters while auditing their social impact.[16] It also has a Sustainability Disclosure Database, which is constantly updated by its 'Data Partners' which include corporate entities and not-for-profits that collect and process GRI related reporting data.[17] Lately, there has been widespread criticism about GRI because it is aimed at increasing the number of firms that use their guidelines, leading to a quantity-over-quality issue with regard to its reporting framework. The system in place has been referred to as "outdated with sight but obscure vision," since many defects exist in their G4 Sustainability Reporting Guidelines rendering it irrelevant and not in sync with changing times.[18]

Conclusion

In retrospect, we can infer that social accounting tools and initiatives are a necessary method to keep companies in check and prevent them from indulging in activities that may expose the local communities and the planet to externalities and damage. Such accounting tools also hold the companies answerable to stakeholders and aid in building an eco-friendly consumer pattern with more conscious customers. However, many challenges remain, including the quantification of CSR and CER activities into monetary terms that can be understood by the general public and the enforcement of regulations that prevent companies from misusing their CSR programs to build public relations based on false claims and indulging in blue washing. There is a strong need to embed such initiatives with foolproof inspections and regulations into all companies irrespective of their sector and size and work towards building a world on the lines of sustainable development, keeping in minds the needs of future generations.

Endnotes

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