SOCIAL ACCOUNTING AND ITS CONTRIBUTION TO SOCIETY

Inese Vigante

Master of Economics
Accountant at Society "Family Center Our Future"
E-mail: Inese_Vigante@inbox.lv

Ruta Sneidere

Associate Professor, Doctor
University of Latvia Faculty of Economics and Management
Accounting and Auditing Department
E-mail: Ruta.Sneidere@lu.lv

With the development of the society and its economic system, a need has emerged to develop accounting as well. The increasing role of social accounting, which keeps records of for-profit, non-profit, and governmental organisations, is associated with the complexity of the environment in which businesses and organisations are operating and presenting reports about their social, ethical, and environmental aspects. Organisations are subject to greater transparency, and many stakeholders are interested in and concerned about the performance of organisations within the context that is not reflected, to a satisfactory extent, in traditional accounting. Traditional accounting ensures reporting to the shareholders or the state, whereas social accounting provides information to all stakeholders, including the public. Social accounting includes all kinds of accounts that go beyond the economic and for all the different labels under which it appears. This paper deals with the main issues and tools of corporate social responsibility, which is a very important prerequisite for organisations in order to introduce the principles of social accounting.

Key words: *social accounting, transparency, corporate social responsibility.*

Introduction

Social accounting is an emerging trend in accountancy, which takes into consideration such non-financial aspects as social, environmental and governance information. This approach is important for a structured and systematic dialogue with the stakeholders, particularly considering the diversity of interests and objectives. The literature research shows, that many authors take stock of the past forty years' experience of the "social audit and accounting project" and its contribution.

Traditional financial accounting systems cannot cope with the complexity of modern governance requirements. To tackle these problems, it is helpful to

disclose the non-financial indicators, which is generally defined as environmental, social and governance information. These indicators characterize how the organization takes into consideration the social, environmental, ethical and human rights-related issues in its daily operations. Organizations make a large influence on environment and social matters, therefore they have to be socially responsible.

Corporations, especially the larger ones, offer a lot of information on their environmental and social matters. It turns out that the major reason for a mainstream corporation's interest in social accounting and auditing is their wish to cope with the increasing complexity of their situation and the associated management processes.

The European Parliament Report on the Corporate Social Responsibility (CSR) of 29.01.2013. expresses the opinion that multi-stakeholder approach should form the basis of all initiatives supported by the EU, as well as of CSR. CSR is an enterprise's responsibility for its effect on the society. Active awareness of social responsibility brings enterprises greater trust and social acceptance. The Commission communications directly call for a larger number of enterprises engaging in CSR practices. Enterprises have always become involved in the processes of the society in which they operate, and CSR can be implemented in enterprises of any size (Report, 2013).

Business accounting sets out in an orderly way the transactions of the individual business, provides a quantitative basis on which the managers of a business can work, and through budgeting for the future, indicates potential problems that the business will have to overcome in order to flourish. Social accounts are designed to meet much the same objectives, not for an individual business, but for the whole economic system (Stone, Croft-Murray, 1988). Social accounting tends to be concerned with issues of accountability in business and non-business organisations, institutions, society, and state.

The **goal** of the article is to examine the increasing role of social accounting and its contribution to the society, as well as the role of corporate social responsibility (CSR). The authors explain the concept of CSR, identifies the roles of stakeholders and reporting, and examines the functions of social accounting.

The **research methods** are following: the monographic method, analysis and synthesis, induction and deduction method.

1. Corporate Social Responsibility

CSR is a sustainable development approach that includes economic development, as well as the social and environmental aspects. Its implementation is characterized in a sustainability or social report. In general, due to intensive exchange of information between the stakeholders, the CSR, preparation of social non-financial reports and effective corporate communication leads to an open and transparent environment in the society, industry and the whole country, as well as promotes a more intensive development of the national economy (Kočanova, 2011).

In the current complicated economic and political situation, the promotion of CSR on a national level is an opportunity to create a positive business

environment, as far as CSR is understood as the effort of enterprises to increase their positive impact and eliminate or minimize their negative impact on the society and the environment by performing activities that are above the framework of the enterprise's legal obligations. The European Parliament Report on the Corporate Social Responsibility states that CSR includes also the compliance with the legislative requirements in the field of physical work conditions, hiring and laying off procedure development and policy, protection of employee data and privacy, as well as timely payment of salaries and other remuneration. The Report draws attention to these aspects stressing that CSR can be implemented only after the existing legislative enactments have been complied with (Report, 2013).

For example, Clarkson suggests that organizations might consider social issues without making them the subject of legislation, however, it is an unstable situation and legislation will need to be implemented in a long-term (Friedman, Miles, 2006).

Nowadays consumers are paying more and more attention to an enterprise's activities in the field of CSR, thus motivating organizations to select a transparent approach, especially in activities related to ethical, social and environmental issues. Such transparency promotes trust between employees and the organization.

Many critics of business ethics usually consider that business is disassociated from social responsibility. According to M. Friedman, it is not business managers'primary duty to be socially responsible. He argues that it is irrational for managers to be socially responsible, as they just act according to the logic of the market. Business managers should pursue only the goal of increasing profit for their shareholders. His criticism is based on the assumption that business is a separate field of society that is disassociated from the morally concerned public (Ulrich, Sarasin, 1995).On the other side, A. Smith's "invisible hand" supposedly guarantees that business managers' actions will inevitably contribute to the social wellbeing in the best possible way.

Nowadays, responding to increasing concerns about its ethical performance, business community recognizes the value of ethics. For instance, in the study *Tomorrow's Company* conducted by the Royal Society for Arts, it was examined what kind of enterprises are likely to be successful in tomorrow's business climate. This study concluded that enterprises of tomorrow will form deeper relationships with key stakeholders as a means of achieving financial success.

Professor Henk van Luijk and others from the European Institute of Business Ethics (EIBE) supports this view by pointing out that high ethics companies know that their reputation – a reputation for fair dealing, which gains them the trust of their customers, suppliers and the community at large – is crucial to their financial success. Values-in-action that result in trust, integrity and commitment are integral to making long-term relationships work and hence are also profitable (Starkey, Welford, 2005).

In practice, CSR is implemented by only a small percentage of the large enterprises. Small and medium enterprises (SMEs) are a major component across the EU in the drive for jobs, growth and competitiveness, therefore they should be involved in the debate about CSR, to ensure that the implementation of such

approach does not create excessive administrative burden and that reporting of their non-financial indicators does not incur disproportionate cost.

The inherent connections between business and the community must include social dialogue and transparency. The different tasks associated with CSR are numerous:

- from the organisational aspect – coordinating internal structures to fulfil obligations regarding employees' wellbeing and development;
- from the external stakeholder aspect – working in the interests of business with shareholders, customers and other partners, including public authorities and communities.
- from the local impact aspect – assessing and working to improve the impacts of business practices on the surrounding local communities and the environment.

Enterprises should recognise these connections and actively adopt their CSR as a core business objective, to achieve the maximum financial and social value for all community stakeholders.

EESC Employment, Social Affairs and Citizenship sections' opinion about The renewed EU Strategy for Corporate Social Responsibility for 2011-2014 states that all statutory bodies — national, regional, local and EU institutions — within the Union must set out and follow a CSR strategy to provide an example for other sectors. Therefore it is necessary to develop clearly defined internal CSR policies (EESK, 2012). When implementing CSR, it is important to concentrate not only on the environmental issues, but also on social standards, since these are essential to re-creating a social climate that promotes economic growth and social convergence.

2. Stakeholder Engagement

As stated by McGrath, traditional financial reporting is failing to satisfy the needs of business organisations and stakeholders, and as a result, stakeholder expectations for transparency make organisations – private and public, as well as non-profit entities – adopt beyond-compliance reporting of non-financial performance.

Making an organization open to external stakeholder engagement can provide an effective solution to problems related to its representativeness, transparency, and accountability. CSR affects all the stakeholders involved in the enterprise's operation and its internal and external activities – all parties that participate in it and all that are affected by this operation. They may be the enterprise's shareholders or owners, employees and their families, customers, business partners, trade unions, government institutions, nongovernmental institutions, the media, the local public. The enterprise bears responsibility before them all.

Deegan, Rankin, Voight, Nash, and O'Donovan show that motivations for social reporting include: reducing adverse effects of certain events, increasing competitive advantage, managing pressures to administer social and environmental responsibilities, public image, and legitimacy. In order to achieve this, social and

environmental impacts must be recognised as elements of organisational performance management and control systems.

Opening up the organisation to stakeholder contribution and scrutiny can be an effective answer to the issues of representativeness and transparency/accountability. Engaging internal and external stakeholders in the formulation of organisational strategies, policies, and actions that affect them brings the concept of representativeness to a more concrete level. While maintaining the integrity of their specific mission and identity, organisations that engage stakeholders in their decision process are presented with needs and expectations that might affect the outcome of the organization's activities, as well as the way these activities are co-ordinated and organised. On the one hand, Preston and Post stress that "internal and external participativeness raise serious issues about the traditional legitimacy and autonomy of managerial organisations", however such issues can be dealt with on the basis of shared definition of the boundaries of participation and the rules that guide it. In addition, participation of stakeholders increases transparency. The adoption of adequate accountability and assurance tools can produce reliable, complete, and essential information for evaluating the performance of any organisation.

Transparency requirements can benefit expert outsiders by enabling them to access information about the performance of organisations and their office-holders. Transparency of such information helps experts provide the wider public with objective reasons to place trust in the trustworthy, and to refuse it to untrustworthy organizations.

Transparency also benefits the organizations by allowing them to avoid or transfer liability, thus reducing their risks. In many commercial transactions, disclosure is considered sufficient to transfer liability, and thereby certain risk, from those which produce goods and services to those which purchase or use them, in other cases disclosure is seen as enough to transfer certain risks or liabilities to the general public (Hood, Heald, 2007).

It is clear that enterprises' responsibility is a matter of ethics, since it is not derived from any legal definition of what is good and what is bad. Although the content and extent of responsibility might differ from one sector to another, values, organisational culture, as well as stakeholder engagement are the key elements of this approach to organisational responsibility whether applied to private enterprises, public agencies, or organisations.

Among the most significant driving factors that make enterprises adopt social responsibility tools are attraction of economic resources, continuous improvement of reputation, and development of management systems and quality. Social and sustainability reporting and stakeholder engagement can give accurate evidence of the actions taken and of the relative figures. Thus, social accounting becomes a fundamental tool to reduce information gaps between the organization and its stakeholders (Citroni, Nicolella, 2008).

Stakeholders may be classified into groups based on Clarkson's primary/secondary typology. This typology defines shareholders, employees, customers, and suppliers as primary stakeholder groups, as they will reduce the

organisation's viability if they withdraw from it. Secondary stakeholder groups are, for instance, media and special interests groups who are not engaged in business with the organisation and are not significant for its operation.

Accountability in the public sector is much broader in scope than accountability in the private sector. According to Brignall, Modell, Klott, Martin and Mayston, while the private sector focuses mainly on financial results and wealth for shareholders, the public sector comprises a diverse group of stakeholders, which usually includes most citizens and taxpayers, along with accountability expectations. As Mulgan points out, the concept of accountability has expanded beyond its core definition, which includes internal responsibility of public servants to professional standards, external responsiveness to the needs of customers, and public dialogue. For analyses of accountability in the public sector, it is useful to identify and classify the stakeholders to whom the organisation is accountable.

Stewart defines accountability as a Ladder of Accountability, i.e. several steps (probity and legality, process, performance, program, and policy). He believes that for an account to be beneficial, it has to be given in a manner that is easy to understand and in other languages other than financial, i.e. a legal account and a policy account. At the lower levels of Stewart's ladder, accountability involves one-way communication in the form of audited financial statements. Yet, at higher levels, financial statements are supplemented with non-financial information, therefore, the organisation's communication with stakeholders has to be carried out in the form of involvement and collaboration.

According to Friedman and Miles, such stakeholder engagement can be classified in 12 steps – the so-called Ladder of Stakeholder Management and Engagement. As the ladder rises, stakeholder engagement moves from non-participation to stakeholder control, at the lowest step, stakeholders are only informed about decisions made, while at the highest step they participate in the decision making process (Ball, Osborne, 2011). The highest level of stakeholder management techniques are consultation, involvement, negotiation, collaboration, and partnership.

3. The Tools of Social Accounting

Social accounting refers to organisational information disclosures (financial and non-financial) which significantly extend the scope of traditional financial accounting (via the profit and loss account and balance sheet). An often-cited explanation is that social accounting covers all forms of accounts which go beyond the economic (Ball, Osborne,2011).

Traditional accounting is only one particular form of the broader, richer social accounting. The social accounting literature points out that social accounting reports are usually prepared about certain areas of activities – typically those that affect the natural environment, employees, and wider ethical issues which typically concentrate on consumers and products, local and international communities.

R. Grey (2013) suggests that nowadays accounting has to include also the functions of social, environmental, and sustainability accounting. Many authors

regard social accounting as a generic term because it was introduced long ago and it is simple, thereby it is easy to work with.

Social accounting is not only a private sector concern, but equally a public and third sector (the voluntary or non-profit sector) phenomenon, although it has developed differently in these sectors. In the private sector, it has nearly always been a voluntary undertaking.

In the private sector, financial accounting was and is still seen as a tool for seeing how the organisation is doing, for being accountable to one particular stakeholder group – the shareholders. Auditing was similarly seen as a means of ensuring that the financial accounts reported to shareholders (and subsequently to government for regulatory and tax purposes) were accurate.

In the public and third sectors social accounting, based on a research conducted by Gray, Dillard, and Spence, also known as social economy (value-based organisations, non-governmental organisations, and community business), has developed slightly differently.

Evans, Gray, Bebbington, and Collison believe that in the private sector social accounting is response by principally economic organisations to demonstrate that they are not purely economic, whereas not-for-profit organisations might be thought to have developed social accounting to justify their pursuit of social and environmental goals in economic terms.

Social accounting, in the for-profit and not-for-profit sectors, is concerned with the control of the entity and its responsibility and accountability to ranges of stakeholders.

In developed countries, several standards are used to provide information on achievements in the fields of sustainable development and corporate social responsibility, stressing cooperation with stakeholders. Some commonly adopted mechanisms/standards evident in the reporting practises of organisations are the Global Reporting Initiative (GRI), Social Accountability 8000 (SA 8000; CEPPA 2001), and the Institute of Social and Ethical Accountability's AA1000 (AccountAbility 1999), etc. However, unlike in regards to financial information, there are currently no universally accepted standards regulating the disclosure of non-financial indicators (Proposal, 2013).

Although there is an evidence of a positive trend, the majority of large enterprises in the EU do not fully meet the growing demand of the stakeholders (including investors, shareholders, employees and the society) for transparency of non-financial indicators. The problems are related to both the quantity and the quality of the available information. In European Union legislation, the issue of official disclosure of environmental, social and governance information is currently addressed in accountancy directives, however, the member states employ different approaches to disclosing this information.

Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC states that the information presented in management

reports and consolidated management reports should not be restricted to the financial aspects of the enterprise, but there should be also an analysis of environmental and social aspects of the business necessary for an understanding of the enterprise's development, performance or position. However, having regard to the potential burden placed on SMEs, it is appropriate to provide that member states may choose to waive the obligation to provide non-financial information in the management report of such enterprises (Directive 2013/34/EU, 2013).

The practice of more transparent reporting might be a tool that motivates the organizations to increase and improve their CSR results or to develop their first CSR policy, which would have a positive effect on the public opinion about these organizations. Disclosure of non-financial indicators would also help with more efficient distribution of assets. The most important expected benefits from disclosing non-financial indicators would be that increased transparency would promote the society's trust in enterprises and markets. It would also motivate the managers to increase their focus on social and human rights issues when developing the corporate strategies, as well as enhance the labour relationships and help in diminishing the risk and costs of conflicts associated with labour relationships. Disclosure of non-financial indicators will ensure easier and more extensive access of investors to the most essential and useful information, thus enhancing the understanding of sustainability considerations and long-term activities. It will ensure enforcement of state power, the operation of public institutions and the diminishing of corruption risks.

Considering the positive effect of social accounting to organizations and their stakeholders, it would be important to introduce a legislative basis for the disclosure of non-financial indicators and inclusion of this information in annual reports.

Conclusions, Recommendations

1. With the role of corporative social responsibility increasing in the modern society, nonfinancial reporting becomes a recognised business practice. The demands of society are require integrating social, ethical, and environmental aspects into organization reports. The solutions must be flexible and they should not create disproportionate administrative obligations and costs, especially for SMEs.
2. Financial accounting in the private sector is seen as a tool for seeing how the organisation is doing, for being accountable to one particular stakeholder group – the shareholders. Auditing is similarly seen as a means of ensuring that the financial accounts reported to shareholders are accurate. Social accounting, however, includes also reporting to stakeholders – the other internal and external parties interested in the operation of the organisation.
3. On the whole, social accounting tends to be concerned with issues of representativeness, transparency, accountability. It relates to the fields of society and government – the public, private and third (non-profit) sectors.

4. Social accountancy principles must be implemented in all sectors of economy, to ensure the disclosure of non-financial information, which is useful for decision-making, as well as for investors and other stakeholders.
5. In order to make the disclosure of environmental, social and governance information mandatory, non-financial indicators should be included in annual reports. The scope of non-financial information disclosure requirements should be established based on the average number of employees, the total assets and turn-over.
6. It is necessary to improve the legislation that regulates the disclosure of non-financial indicators, because, unlike in regards to financial information, there are currently no universally accepted standards in this aspect.
7. To determine the actual impact of an organization's activities to the social, environmental and human rights areas, it is recommended to apply the UN business and human rights principles, the principles of the UN initiative "Global Compact", etc.
8. The most important benefits that organizations would gain from the disclosure of their non-financial indicators is increased transparency of their operations, improved content and quality of the disclosed information, enhanced evaluation and management of non-financial risks, more effective management of resources (including human resources), strengthening of customer loyalty and growth of capital market efficiency.

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