ACCOUNTING STANDARDS FOR CORPORATE SOCIAL PERFORMANCE

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Introduction

Systems of Standards are formulated for[1] (a) the guidance of conduct and performance, and (b) the promotion of minimum levels of compliance[2]. As applied to corporate social performance, such standards may relate to either (i) the firm's performance within the political and economic system it operates or (ii) the firm's performance within the distribution network of a nation's social wealth.

A third type of standards relates to the measurement and reporting of corporate social performance with the purpose to provide better visibility to corporate goals, policies, programmes and performance *as well as* their social impact. Social audit reports aim toward single or multiple users, all of whom have a legitimate interest in knowing the nature of potential consequences of a firm' s activities.

The role of standards in this context is to assure that reporting on the social performance of corporations is meaningful and fair and provides an adequate data base for social plannng and coordination.

Thus E.I. Burton in his Ph.D. research study concluded that the current voluntary corporate socioeconomic acounting disclosures are potentially useful to federal legislators. However, in order to achieve their full potential new disclosure formats which are brief, evaluative, and politically aware are needed.[3]

The proposed hierarchical scheme for social measurement and reporting standards is shown in Table 2 (The secondary standards are also obligatory for both measuring and reporting purposes). In the interest of brevity the following are not

1. The word «standard» denotes a pragmatic rule rather than an essential premise which has qualities or attributes required by law or established by custom. Paton and Littleton understood this dstinction many years ago: «The term «standards» is used advisedly. «Principles» would generally suggest a universality and degree of permanence which connot exist in a human-service institution such as accounting. In this monograph, accordingly, the term «principles» is used sparingly and the idea of useful standards is emphassized» W.H. Paton and A.C. Littleton, *An Introduction to Corporate Accounting Standards*, (American Accounting Association, 1940) p. 4.

2. In the contex of social measurement alone standards ***are*** the minimum levels of compliance, i.e. they are purely performance relevant standards.

3. Burton, Eric James, Ph.D., *An inquiry intro the sociopeconomic accounting information needs of federal legislators*. University of Illinois at Urbana Champaign, 1976.

analysed particularly since they apply to almost any type of corporate business measurement and reporting: (a) The Quantifiability standard which states that quantification is required and is possible, (this is as true in social as in economic measurement although several quantifications may be required in the former case), (b). The Periodicity standard which recognizes that business activities, be they social or economic, require measurement and reporting in shorter intervals, despite the long time span of many actions and their results; and (c) although Objectivity is as desirable in social as in economic measurement, it may have to be relaxed in favour of relevance because of the impreciseness of social measurement techniques. Social accounting measurements are bound to be indirect since not only the full range of dimensions-some of which are subjective by nature-is ordinarily not covered, but often even those that are covered are only fractionally measured because of data unavailability. Social accounting measurements are therefore imprecise and, hence, additional care has to be taken in interpreting them. Thus, I propose the objectivity standard to be replaced by the principle of fairness which is a basic principle of any ethical code of the accounting profession.

Another two principles of professional ethics are taken as given in this study: justice and truth. According to Scott[4] justice, truth and fairness are the major principles of accounting.

TABLE 1

Dominant Objective	Socio-Economic Accountability		
Primary (major) Standards	No 1 ENTITY	No 2 CONTINUITY	No 3 QUANTIFIABILITTY
Secondary (Subordinate) Standards	1.1. RELEVANCY 1.2. FREEDOM FROM BIAS 1.3. TIMELINESS LOCALIZATION	2.1. PERIODICITY 2.2. CONSERVATISM 2.3. REALIZATION MATCHING	3.1. MATERIALITTY 3.2. COMPARABILITY 3.3. CONSISTENCY

Accounting Standards — a Restatement[5]

1. Entity

The standard of entity is central to accounting theory. According to this corporation is a separate entity apart from its owners and accounting statements and records represent activities of the business rather than the people involved with it. In social accounting, however, whereas the costs accrue to the entity, the benefits (revenues),

4. D.R. Scott, «The Basis for accounting Principles», *The Accounting Review,* December, 1941.

5. This analysis draws partly upon the ideas of Neil Churchill as they are expressed in his article «Toward a Theory for Social Accounting» in *Sloan Management Review,* Spring 1974, pp. 1-17.

accrue primarily outside to the entity's constituencies: stockholders, employees, customers, suppliers, the community in which it is located, and/or society in general. If corporation is considered to be the accounting entity, only then the definition of social costs as those that are above and beyond economic and legal expenses makes sense. They are costs to the stockholder constituency who receives from them no economic and little if any social benefit. If, however, one takes as the social accounting entity the recipients of the social actions (one or more of the corporate constituencies) *and* the corporation itself, then all the resources consumed in producing the benefits are social costs whether or not they are normal business expenses of the economic entity.

In other words management should broaden the decision making group in socially relevant actions to include the *most affected constituencies,* thus changing the concept of entity from the firm alone to the firm *and* its affected constituencies.

The accounting framework, though of static structure, attempts to describe an open dynamic system as the business entity is. The content and meaning of accounting messages, as well as the nature and dimensions of accounting values system are therefore bound to give a partial transcription of this expanded concept of entity. It would be an impossible task to ask from social accounting a detailed discription of relationships between ecological (i.e. life-centéred) systems and homocentric systems (i.e. those in which man or mankind is one of the principal elements-e.g. business system)[6].

For the determination of the boundaries of a business entity within the social accounting framework, the following three conditions have to be fulfilled:

(i) Socially responsible behaviour must be defined in such a way that it will reflect the expectations of those who require it.

(ii)Measures which will adequately reflect this behaviour must be developed,

(iii) The social goals of the entity must be established in accordance with its economic strength and potential.

2. Continuity

Continuity is the second primary standard which is also known as the «going-concern» standard since it implies that the entity is continuing its existence (operation) into the foreseeable future.

While continuity of the enterprise can be assumed in social measurement, continuity of what is considered social (as opposed economic), cannot be assumed to because of

6. Mobley examining the entity concept in the light of the social dimensions of accounting states: «For financial accounting, the entity has been the firm; for social or national income accounting, the entity has been the economy or the industry. Neither of these entities may be completely applicable for the broader concern of socio-economic accounting which may find it necessary to develop a variable entity concept. That is, inputs required for a particular activity may relate to one specific entity, while the collection of output data may require consideration of a different entity... «Mobley C. Sybil, The Challenges of Socio-Economic Accounting, *The Accounting Review,* October 1970, p. 766.

the «moving target» nature of social concerns. No one today would wish to calculate the cost of employing child labour although it was once concern. Similarly, for many industries, determining the cost of all employee safety equipment and practices has no social meaning since these are woven into the normal operations of the enterprise. One reason for this moving target characteristic of socially relevant activities is that social benefits become expected once they are attained, and their continued presence is no longer viewed as a social benefit but a social right. The loss of these attained benefits is considered a social cost.

1.1. Relevancy

Inextricably linked with the determination of costs and revenues is the use to which the figures are to be put. The secondary standard of relevance to intended use, governs both social and economic decision making, the costs that vary with the alternatives of the decision are those that are relevant. For stewardship the costs are those that are matched against the results produced. Thus one set of social costs may be relevant for one purpose, making informed decisions, and another set for a second purpose, reporting on the activities of the corporation. For decision making, the enterprise's social and economic costs are one and the same, i.e., what is being considered, be it for social or economic purposes, is a commitment of the enterprise's resources.

The actions of a corporation, through the mechanism of the market, produce benefits (revenues) to the corporation and incur costs.

Social actions however produce benefits not primarily to the economic entity but to its constituencies, the segments of society affected by the enterprise. Economic revenues accrue to the *economic* entity; social benefits do not.

Anyone who stresses relevance as a criterion should be prepared to answer two important questions-relevant to whom? and for what purpose? In focusing on utilitarianism, the rules by which this standard could be tested are provided indirectly in the articles where social audit and its various approaches are examined. Generally speaking, whenever management makes corporate decisions on socially relevant actions, data about the affected constituencies should be taken intro account independently of whether these constituencies are directly involved in a firm' s economic operations or not.

1.2. Freedon from bias

The standard of freedom from bias suggests presentation of the «truth» and an absence of systematic distortion through either the selection of what is measured or the measurement process.[7]

7. Acording to the AAA Committee to prepare *a Statement of Basic Accounting Theory* «verifiability» is defined as «similar conclusions reached if two or more qualified persons examining the same data» which implies another one of its standards-«freedom from bias». I think that these two standards overlap each other and cannot be independent of each other the latter being a broader concept.

This secondary standard is similar to the secondary criterion of completeness proposed by Ralph W. Estes, according to which no critical information should be omitted. Estes accepts that what is critical information is conditional upon the user needs as perceived by the report generator, (this implies the standard of relevancy). Estes' hierarchy of standards, however, refers only to social *reporting* whereas the standard of freedom from bias is broader including also the measurement of social performance.

An example of a systematic downward bias in the measured costs of socially relevant actions is the definition of social costs as those (and only those) that are above and beyond the law. Such a treatment of corporate social costs could be justified by the convention of conservatism.

1.3. Timeliness and Localization.

These two secondary standards emphasize the need (i) to make all the relevant social measurements and their reporting timely, and (ii) to indentify in the measurement process and in reports the social impact of the firm' s actions upon each particular constituency.

These two standards exist also in the «Hierarchy of social reporting standards» proposed by Ralph Estes.

Revenue Realization, Matching, and Conservatism

Socially relevant activities rarely provide the enterprise with an income stream to be recognized as revenue. Rather, they produce benefits which accrue to some extent to the firm but primarily to other constituencies or social groups involved in some way with the enterprise.

The standard of revenue recognition then becomes for social measurement purposes a standard of *benefit* recognition.

Eonomic accounting theory suggests that when products are the source of revenue, recognition usually takes place at the point of transfer of the product to the customers; when services are the source, the revenue usually is recognized when the service is rendered.

Applying these rules to social actions suggests that benefits should be recognized, to the extent possible, when they occur or, failing their clear determination, when the socially relevant action takes place. This is true even though the benefits which accrue may be of long duration or may only materialize in some tangible way later on.

The matching standard emphasizes that when quantitative presentation is possible on the basis of a common unit then associated positive and negative aspects should be measured and reported in the same period that are incurred. Furthermore, these two aspects should not only be brought together in a meaningful way but they should be compared against objectives, plans or standards. Estes calls the matching standard, the evaluative mode.

It has been seen, however, that what is considered to be social is a moving target and, if material, it becomes economic. Further, benefits once attained become expected, and the maintenance of a les unpleasant social condition becomes part of the accepted structure of society. Such benefits are not considered to be a new social gain. Here the standard of *conservatism* dictates that benefit recognition should be only in the periods when actions are taken to *improve* a social condition, not when they just maintain it. This is the sharp difference between economic and social measurement.

Economic benefits, aside from the time value of money, are regognized year after year while social benefits are not. Perhaps a more elegant way of stating it, is that discount factor on the benefit side of social measurement is high and discontinous, approaching infinity in the periods after which the social gain is achieved.

Social benefits should be recognized in the periods in which the changes in social condition take place; these are usually the periods in which the social actions occur. Social costs are matched to the period in which the benefits are recognized. These social costs are measured at the enterprise level by the resources expended in producing the social benefit. In this sense social costs approach a cash rather than an accrual basis of cost allocation. This treatmen stems from the difference between economic and social benefits.

Economic benefits can continue from period to period; social benefits are a moving target and therefore cannot.

3.1. Materiality

One factor that was suggested to explain the lack of social measurement was that socially relevant expenditures were either small and within economic reason or if large, would soon be incorporated into the economic-based operations of the business organization. The concept of materiality then suggests that since any material socially relevant expenditure that persists will become an economic cost of doing business, it would be consistent to treat social actions with economic measuring tools. If they are immaterial and accounted for as economic, no harm is done.

Materiality and consistency push social accounting toward economic accounting.

The concept of materiality, however, applies also to social measurements within the conventional accounting framework. When the social costs are small, the value of having detailed information on socially related activities is not worth the costs of collecting the data. Thus, social accounting, accounts for actions that are significant for a company to a large extent -as far as their social impact is concerned. In the same way the concept of materiality relates to social benefits.

3.2. Comparability

One of the major problems in measuring the effectiveness of social programmes as well as in measuring the societal effects of corporate actions is in achieving compara-

bility among measurements (over time between different programmes, over different constituecies, etc.).
The accountant is not likely to be the one looked upon to achieve such a miraculous comparability. Furthermore, comparability is essential for the establishment of generality of the effectiveness of a programme. The comparative study of programmes and the comparison of differing factors at various settings can show that the better method in one setting is the worse method in another setting.

The standard of comparability helps a firm in giving a fair picture of its social effects comparatively with other firms in the industry.
An example concerning the complexities of a pollution index will illustrare the necessity of this standard for any social accounting framework.
In the same way that financial records are subject to differing interpretations, pollution indices can be manipulated to reflect a variety of conditions. The identification of relevant pollutants, the determination of maxium and permissible dosages, and the frequency and location of measurements, all can profoundly affect the index and how it is reported. These are of course, interdisciplinary problems, but accountants should be part of the team. Thus comparability can be lost when two corporations apply different bases for calculating their pollution indices-one using a measure of particular matter (dust, dirt and light materials) and the other using a sulplur-dioxide index. The pollution index for one corporation' s area might thus appear to be more favourable by virtue of its composition ;but neither index would be wholly inaccurate, since each would measure significant pollution. A remedy for such a problem would be the provision of «pollution maps by urban authorities which would identify major sources of pollution in a particular area.

Another reason for comparable statements is that some companies within an industry seem to control pollution by making current outlays while other are seemingly ignoring the pollution problem. The reason lies in the different age of fixed assets, i.e. factories with more recent technology within which pollution abatement is taker into consideration do not have to spend the same amount as older factories. The operations of some industries are more destructive to the environment than the operations of others. Thus, for real comparability to be achieved, state inteference seems a necessity for setting standards of social performance. Air pollution control, for instance, costs $ 1.94 per $ 100 of sales for the average iron and steel mils, $ 2.89 for iron foundries, $ 3.92 for nonferrous metal plants, $ 0,21 for grain mills and $ 0.95 for cement plants.

8. «Pollution Price Tag: 71 Billion Dollars», *U.S. News ad World Report,* August 17, 1970, p. 41.