

Social Accounting - A Concept Note

Introduction

The concept of Social Accounting is growing in recognition in the recent times. Social accounting as an approach began developing in the United Kingdom in the early 1970s when the Public Interest Research Group established Social Audit Ltd. This organisation carried out investigations into the operations of the large public companies and publicized them even before obtaining their permission or co-operation. This had led to an increasing awareness of 'Corporate Social Responsibility' (CSR) whereby the success of an organisation is measured not only in its financial performance but also by its social and environmental impact as well.

As the concept of Social Accounting has been recognized as one of the key elements of 'good practice' in Corporate Social Responsibility, interest in this concept has grown not only within large corporations but also among voluntary organisations.

What is Social Accounting ?

The primary objective of development organisations is to achieve its social, economical and community benefit. Although financial sustainability is essential to achieve that benefit, but is only secondary to it.

The organisation and all of its stakeholders need to know if its objectives are being met; if it is living up to its values and to ensure that those objectives and values remain relevant and appropriate.

Social Accounting facilitates this process.

Social Accounting can be defined as a way of demonstrating the extent to which an organisation is meeting its stated social or ethical goals. It is a process that an organisation should follow to account for its performance and does not indicate the levels of performance the organisation should achieve. For this, the willingness of the organisation to improve is more critical rather than mere compliance.

Social accounting is concerned with learning about the effect an organisation has on the society and about its relationships with an entire range of stakeholders ñ who affect and / or affected by the organisation and its activities.

It enables the organisation to be accountable to their stakeholders and is also a management tool to improve the performance of the organisation.

Further, social accounting is a framework that allows an organisation to :

- build on existing documentation and reporting
- develop a process whereby it can account for its social performance

- report on that performance
- draw up an action plan to improve performance
- understand its impact on the community
- be accountable to stakeholders

Need for Social Accounting

Each organisation may have its own reasons for adopting social accounting. Some of the commonly agreed reasons are :

- it helps in improving financial performance
- it brings out clearly the link between improved social performance and improved financial performance
- it helps in enhancing relationships with stakeholders
- it helps in managing risk
- it helps in establishing clear alignment in strategy and operations with aims and values
- it helps in specifying the organisation's boundaries of responsibility

Few other reasons for the growing interest among the voluntary organisations are :

- the process brings into focus the critical aspects of accountability in a positive and an innovative manner and increases transparency
- this results in enhancing the organisation's reputation for practicing its values.
- it provides a comprehensive feed-back from the stakeholders thereby focusing the management's attention on the outcomes and on how to respond to the same.
- it also brings into focus the stakeholders view of the organisation
- it is a voluntary and a participatory process

Process

The process of Social Accounting should primarily involve the following three steps:

- internal data collection and analysis procedures (accounting)
- an independent audit of the results (auditing)
- a mechanism for disseminating the outcome more widely (reporting)

A process that stops short of auditing and dissemination is termed as 'Social Review'.

How Social Accounting is different from Social Audit ?

While Social Accounting is a systematic means of accounting for the social impact of an organisation, Social Audit is the most appropriate tool that will bring out clearly the demands and the need for information flow and transparency by the public. (as per New Economics Foundation)

Social Audit can be defined as a Democratic Process that ensures Public Accountability through a systematic demand/supply of information. (as per Traidcraft UK)

Thus, Social Audit is a component in the Social Accounting system and helps in assessing the social impact made by the organisation.

Social Accounting and Impact Assessment

As more and more organisations are increasingly involved in the experiment with social and ethical accounting, auditing and reporting, there is an increasing concern about the concept being understood in relation to impact assessment.

Social Accounting is not impact assessment

Social accounting provides a comprehensive and systematic framework for proper accounting, auditing and reporting against an organisation's social objectives. The concept of social accounting encourages an organisation to take impact assessment more seriously. It provides opportunity for the management information systems to be developed and embedded in the organisation to provide ongoing monitoring and learning from programme activities. It encourages the integration of social objectives into strategic planning. The reporting of the social accounts, especially if done annually, focuses the mind on what level of impact assessment has been carried out during the period. However, 'doing social accounting' alone is not adequate for achieving good impact assessment of an organisation's activities.

It can be said that Social Accounting is the framework into which impact assessment information can be placed. Just as financial accounts are the indicators for what should be happening regularly and systematically in the organisation (i.e. management accounting, risk management, internal control, basic cash handling systems, etc.), so social accounts are the place where impact studies, stakeholder dialogue, etc. can be reported.

Challenges in implementing Social Accounting

The challenges that an organisation may face in implementing Social Accounting could be attributed to :

- managerial aspects
- financial aspects
- duration of the process (time to be spent)

- defining stakeholders groups
- establishing social performance indicators
- confusion with impact assessment

Evolving Practices

Some of the practices evolved by the organisations undertaking regular social accounting are :

- improved data collection and analysis
- develop close working relationship with the community
- enhanced understanding with the stakeholders
- improved documentation
- enhanced reporting and information dissemination

Conclusion

Social Accounting has been one of the first major stepping stones in improvement in corporate social responsibility. For many organisations that undertake this process, it is the first time that attempts have been made to go beyond financial measurements and understand the social impact that the organisation has on its stakeholders.

Thus the process is viewed as a good step towards social impact assessment. However, for many organisations involved in community development, social objectives have often been a driving force rather than a secondary issue. Many of them have struggled since their inception to collect information amounting to a social impact assessment in order to legitimise their existence - primarily to donors, if not themselves.

Therefore, the discipline of a methodology for stakeholder engagement and regular reporting will induce the organisation to improve and adopt methods of monitoring and evaluation. However, the social accounting process will not by itself provide beneficiary level impact assessment information, as some expect. Instead, the efforts put in developing good quality monitoring and evaluation systems remains crucial and the need for periodic impact assessment will continue to remain.

Some of the "end products" that are aimed at by this processes are:

- Structure of the Annual Report of an organisation to include :
 - Activities Report
 - Financial Report
 - Social Accounting Report

- Accounting for intangibles (eg. The goodwill and credibility of the organisation)
 - Develop ingredients of Social Accounting & Reporting
- Enhanced transparency in the Progress Report to enable the Finance Personnel relate the same with the financial statements.

(Reference : www.accountability.org.uk)

S. P. Selvi, FMSF