SOCIAL ACCOUNTING:
A TECHNIQUE TO MEASURE CSR PRACTICES

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ABSTRACT

The core concept of corporate social responsibility (CSR) is dependent upon the voluntary responsibility of companies for their activities in different business aspects such as economic, social, environment and also the organization's different ethical practices. It is replicated as social accounting which deals with introductory and primary information on the organization's achievements with respect to the CSR concept implementation. During the current economic crisis, companies own relations with employees have become the most important of all the issues related to CSR. For Generation Y workers the socially responsible employers are as important as the high earnings providers.

In financial reporting, all the facets of financial statements are covered along with the other financial information such as financial notes, supplementary schedules and explanatory material intended to be interpreting with the financial statements for communicating financial information about the reporting entity to different internal and external users. The above documents indicate the significance of financial reporting and give explanation for that more information than disclosed through financial statements provided according to financial reports.

The main objective of this paper is to study the concept of social accounting as the reporting and disclosure of social and environmental policies and communication of overall corporate "performance" in form of CSR (corporate social responsibility). The financial reporting is supposed as a communicative system in accounting information disclosure by which the corporate activities are used to be reported in the public and external environment of business.

Keywords: social accounting, social impact, corporate social responsibility, financial reporting, accounting standards, stakeholder engagement.

CORPORATE SOCIAL RESPONSIBILITY (CSR) - CONCEPT AND MEANING

The concept of CSR has already been defined by various global organizations. European Commission has been defined it as the responsibility of enterprises and organisations for their impacts on society. The organisations must have develop a process to integrate into the operations of business various social, environmental, ethical human rights and consumer concerns and core strategy in close collaboration with the stakeholders to absolutely fulfil their social responsibility.(ec.europa.eu, Retrieved, 2018)

WBCSD (2013) defined CSR as the systematic commitment by a business to contribute to the economic development with improving the quality of life of the workforce and their families and at the same time, of the community and society as whole.

According to UNIDO, corporate social responsibility is a concept of management in which companies integrate both the social and the environmental concerns in operations of their business in addition to interactions with their stakeholders. It is generally conceptualized as the approach through which a company achieves an economic, environmental and social imperatives balanced (Triple-Bottom-Line Approach), and at the same time dealing with the potential of shareholders and stakeholders.

Thus, it is necessary to clearly mark the distinction between CSR, a strategic business management concept, with charity, sponsorships or philanthropic business activities.

The CSR approach is universal and incorporated with the core business strategy for concentrating on social and environmental business impacts. These CSR activities must be able to maintain the welfare of all stakeholders. Sustainability (corporate sustainability) is result of concept of sustainable development. According to the Brundtland Commission (1987) sustainable development is that development that meets the requirements of the existing generations without negotiating the ability of future generations for their own needs. Corporate sustainability primarily denotes to the role that companies can take part in meeting the objectives of sustainable development and involves a balanced aroach to economic, social and environmental growth.

In the Companies Act, 2013 the idea of CSR has introduced to the forefront and through its disclosure or explanation authorization, and is a tool for promotion of greater transparency and disclosure. In the schedule VII of the Act the CSR activities are listed which suggests communities to be the central point of these activities. The additional reporting requirement including CSR is stated by the SEBI (2012) instructed by the government of India, instructing the top 100 listed companies to report their ESG (environmental, social and governance) initiatives, reported in their annual report in the form of a business responsibility reporting (BRR) for which an outline is provided by SEBI. The provisions to integrate the compliance of BRR by the applicable companies have also been made in the listing agreement. The BRR requires companies to report their performance on the nine national voluntary guidelines (NVG) principles. Also, the other listed companies have been motivated to disclose

information voluntarily on their environmental, social and governance performance by SEBI in the prescribed business responsibility reporting format.

SOCIAL ACCOUNTING

Accountability in simple words can be defined as giving an account of an ethical, social or environmental account along with financial account to the stakeholders. Various companies produce sustainability reports with focus on sustainability of the business rather than the environmental sustainability.

Dierkes & Antal (1986) stated that social reporting is a useful tool when integrating social considerations in the process of decision making, and concluded that there is plenty of knowledge to develop an agenda for working with social accounting.

According to Hahn & Kuhnen (2013), the foundation of any considerations of sustainability inherits in the normative perception of sustainability and CSR. On the basis of this, the summarized corporate performance of sustainability and CSR of a company can be measured through sustainability accounting. The accounting, thus provide support to decision making concerning corporate sustainability initiatives. Thus, social accounting refers to internal data collection, or measurement of social impact as it can serve as a basis for sustainability reporting (Hahn & Kuhnen, 2013).

This measurement and reporting concept on social performance was evolved in the 1960s and 70s when social accounting became an established concept. This occurred in order to increasing attention to corporate impacts on society and the responsibility attached to it (Dierkes & Antal, 1986).

Koli & Rawat (2012) defined social accounting as to consider all stakeholders instead of only the shareholders, and companies have to document social impacts along with the financial reporting. The impacts regarded in social accounting represent the effects companies encompass on society and the environment. They stated that social accounting considers internal as well as external impacts and can be measured both in a monetary and non-monetary way (Koli & Rawat, 2012).

However, many other researchers Emerson (2003), Lingane & Olsen (2004)) suggested monetising impacts is an aropriate way of working with social accounting. This fact was also stated by the experts that measurement is an important condition to sustainability management.

This concept is based on the postulation that measuring impacts develops a new understanding and meaning to business leaders. Lingane & Olsen (2004) stated that it will move sustainability issues from the edge to being fully incorporated in the business strategy. They promoted the monetisation of social performance and believed that when utilized in decision making, social accounting can serve to enlarge both social and financial value creation.

Gibbon and Dey (2011) explains social accounting as a framework allowing an organization to expand on available documentation and reporting and to develop a process for accounting of its social performance, to report on that performance and to

draw up a plan of action for improving that performance, and through which it can recognize its impact on the community and can be held responsible to its key stakeholders.

Social accounting and audit is rational and flexible structure which enables the enterprises to report on social, environmental and economical performance of organisation and its impact, and to provide the information essential for planning future actions and improving performance, and also to be accountable to all the employees for the work of the organization.

SOCIAL ACCOUNTING REPORTING AS FINANCIAL STATEMENT AND ITS IMPACT ON CORPORATE PERFORMANCE

Hariadi (1991) mentioned that the purpose of financial reporting is mainly to communicate the results of transactions of goods and services between economic entities and ignores the transaction between the firm and its environment. Hariadi (1991) explored the difficulty with conventional accounting in measuring the social impact due to lack of credibility, quantifiability, and objectivity. He also acknowledged the requirement of development of a social report along with the conventional financial statements. He advocated the call for of business to integrate more social aspects for consideration into its decision making process and to disclose their social responsibility considering the impact of business activities on quality of human life as well as environment. (Hariadi,1991).

In their study, Gray et al. (1987) defined social reporting as a process of providing information to imparting social accountability. The social accountability is responsibility of a firm to be accountable for actions with implications of a non financial nature under an established implicit or explicit agreement.

As observed by Idowu & Towler (2004) that a few reasons for CSR include accelerated customer loyalty, greater supportive groups, the recruitment and retention of high talented employees, enhanced quality and productiveness and the avoidance of possible reputation dangers which may additionally rise up from environmental incidents. It was also found out that CSR is key motivation for transparency in corporations.

O'Dwyer (2002) in a study on CSR in Ireland found that the approach appeared to be stimulated by legal functions but rarely attained. Due to societal disbelief the Irish companies averted CSR. He also found that the managers in Irish firms had been concerned with responsibility to society at large.

Brammer & Ravelin, (2006) studied the impact of corporate ownership and board composition along with some other variables on environmental disclosure. They pointed out the difference between the decisions making a voluntary environmental disclosure and decisions that are concerned with the quality of such disclosure.

In their research on the relationship among social and environmental disclosure and several other attributes of corporate in Bangladesh, Hossain, et al, (2006) found that industry and net profit margins were significant variables in determination of level of

disclosure in such reports. The variables used to provide an explanation for such relationship includes profitability.

Singh (2013) examines the practices of corporate social reporting and explored social reporting activities relating to human resource, environment and social relations. He studied theoretical framework of social accounting in India and the CSR practices of Maruti company and found the facts that support that firms employ CSR to validate their activities in majority.

Where assurance statements are provided, credibility would be enhanced by the availability of generally applicable assurance principles and guidelines, such as those being developed by Accountability (ISEA, 2002).

The two significant organisations involved in the development of voluntary reporting, the Institute of Social and Ethical Accountability (ISEA) and the Global Reporting Initiative (GRI) are international, multi-stakeholder organisations with peak influence coming from developed nations of West.

Stakeholder theory must include all aspects to define the priorities amongst the stakeholders and the information that should be disclosed to each one, as it is concerned with management of stakeholders by an organisation. It defines the influencing/influenced groups along with the extent of accountability the organisation itself is willing to recognise and disclose to its stakeholders to face market forces of competitiveness.

AA1000 STANDARD

The AA1000 standard, published by Accountability in 1999 (ISEA) focuses on the processes by which companies report on their impacts. It is based on the proof that until, for an instance, company values are implanted, and unless governance structures, information collection structures, reporting mechanisms and audit tactics are sound, reporting cannot be representative of overall performance or replicate stakeholder statistics needs. The core principles as basis of the AA1000 Series of Standards are (i) inclusivity - people should have an opportunity in the decisions that have impact on them, (ii) materiality – the decision makers should identify the issues that matter most and have clarity about them, and (iii) responsiveness – that organisations should act transparently on material issues.

The principles in AA1000 standard are influenced by the financial accounting principles with an addition of the principle of inclusiveness that refer to the consideration of the objectives and needs of all groups of stakeholders at all phases of the process of accounting, auditing and reporting. Stakeholders are an individual or group of individuals who affect and/or are affected by an organisation and its activities (ISEA, 1999). Customers, suppliers, employees, local communities, the government, and shareholders are recognised as stakeholders by most companies. In practice, many firms lack this robustness and thus inclusivity is not achieved (Adams, 1999) because of various issues of lack of stakeholder attention of, or

even difficulty for, company impacts.. It might be specific to industry or region and also some companies find it difficult to engage stakeholders with them.

AA1000 STAKEHOLDER ENGAGEMENT STANDARD (SES) 2015

The AA1000SES (2015) was developed using a broad-based, consultative, multi-stakeholder process. It is a generally applicable, open-source framework for assessing, designing, implementing and communicating an integrated approach to quality stakeholder engagement. Its purpose is to establish the benchmark for good-quality engagement. The inclusivity, materiality and responsiveness AA1000 principles construct the basis for the AA1000SES (2015) and the Series of AA1000 Standards. These principles emphasize the practice of engaging with stakeholders to understand their expectations about governance, policies, strategies, practices and performance, transparently accounting to stakeholders on performance and on the issues that matter to them, developing innovative and sustainable responses to issues that matter, presently and in the future.

As a freely available standard recognized by leaders in the field, organisations regardless of size can benefit from using this standard. It can be a source of competitive advantage for those organisations that can effectively create value and improve overall performance—collaboratively. (Accountability, 2015).

Therefore a social account based upon the stakeholder perspective only has social value if it is considered that for the development of the organisation the needs and objectives of stakeholders can be ethically included within those of the organisation.

CONCLUSION

Thus, it could be concluded that the systematic development of social accounting requires that the organisation be the reporting body. As such, it is the business of the reporting organisation to construct the social account and such a social account, to be complete, must be considerable with the opinions and objectives of the stakeholders. Under a continuing assumption that the organisation constructs the account then the organisation needs to report that the stakeholders have (or have not) been given an opportunity had their opinions in terms of the organisation's accountability as direct relationship has been found in profitability and social accounting as studied by various researchers.

The social accounting reports provide value added statement, the statutorily required employee-related data within financial statements and other such developments typically within the statutory annual report. Such developments attract the attention of social accounting from time to time and lead towards the most prevalent area of social accounting – the monitoring, exploration and interpretation of more extensive, emerging accounting methods and standards such as the increasing social disclosures for fulfilling the current rise in environmental reporting for social accounting.

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