

Chapter 2

Social Accounting

2.1 Introduction

The central aim of this chapter is to discuss social accounting and associated research. In doing so, the chapter identifies a key research gap. So far within social accounting literature, social compliance has not been the focus area of research, despite its widespread implications within global supply chains. The chapter begins with the definition of social accounting which existing research has considered. It then discusses prior social accounting research in order to discern the key research gap. The chapter ends by identifying the main research area to be addressed in the following chapters.

2.2 What Is Social Accounting?

Social accounting can be defined as a set of organisational activities that deals with the measurement and analysis of the social performance of organisations and the reporting of results to concerned groups, both within and outside the organisation. According to Bebbington and Thomson (2007), social accounting is an inclusive field of accounting for social and environmental events which arise as a result of, and are intimately tied to, the economic actions of organisations. Gray et al. (1996) define social accounting as accounting for a range of social and environmental events, rather than merely accounting for economic events. Further, Gray (2000, p. 250) defines social accounting as:

the preparation and publication of an account about an organization's social, environmental, employee, community, customer and other stakeholder interactions and activities, and where possible, the consequence of those interactions and activities.

Table 2.1 Some definitions of social accounting

Source	Definitions
Ramanathan (1976, p. 519)	Social accounting is the process of selecting firm-level social variables, measures, and measurement procedures; systematically developing information useful for evaluating the firm's social performance; and communicating such information to concerned social groups, both within and outside the firm
Gray et al. (1987, p. 9)	Social accounting is the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly corporations) beyond the traditional role of providing a financial account of capital, in particular, to shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities beyond simply making money for their shareholders
Mathews and Perera (1995, p. 364)	At the very least, social accounting means an extension of disclosure into non-traditional areas such as providing information about employees, products, community services and the prevention and reduction of pollution. However, the term 'social accounting' is also used to describe a comprehensive form of accounting which takes into account externalities
Gauthier et al. (1997, p. 1)	Social accounting is that aspect of accountancy which, while indistinguishable from financial and management accounting, deals more specifically with environmental concerns; that is, it is an aspect of the information system that enables data collection and analysis, performance follow-up, decision-making and accountability for the management of environmental costs and risks

Social accounts are often presented in non-financial terms, and are likely to be a combination of quantified non-financial information and descriptive, non-quantified information (Bebbington and Thomson 2007; Gray 2000). These accounts are presented for both internal and external use (Yakhou and Dorweiler 2004; Deegan 2003; Schaltegger and Burritt 2000; Gray 2000; Gray et al. 1987, 1996; Mathews 1993, 1995; Ramanathan 1976).

Social accounting is not a wholly coherent area (O'Dwyer 2005); definitions applicable to this area are many and varied. Some other frequently used definitions of social accounting are provided in Table 2.1.

Despite a number of differences, most definitions emphasise key themes such as a link between financial and non-financial performance, qualitative and quantitative measurement, and a consideration of wider stakeholder groups. Most definitions indicate that social accounting stems from the assumption that organisations owe something to stakeholders beyond their shareholders. In particular, most definitions include the clear provision of an organisation's social and environmental information to the wider stakeholder groups or community. Furthermore, as shown in

Table 2.1, most definitions consider reporting as a part of the social accounting process. The next section will define and discuss social reporting as a subset of social accounting.

2.3 Social Reporting

While definitions applicable to social accounting vary, most consider reporting to be a subset of social accounting. In this regard, social reporting deals with the disclosure of information by an organisation about product and consumer interests, employee interests, community activities and environmental impacts—this disclosure of information is deemed to be a part of an organisation’s responsibility to its stakeholders or a response to stakeholder expectations (Deegan 2002, 2007; Gray et al. 1995, 1996; Mathews 1995, 1997). Deegan (2007) offers a more comprehensive definition of social reporting¹ where he addresses broader areas of corporate responsibility. He defines social reporting as the provision of information about the performance of an organisation in relation to its interaction with its physical and social environment and includes, but is not limited to (Deegan 2007, p. 1265):

interaction with the local community;
 level of support for community projects;
 level of support for developing countries;
 health and safety record;
 training, employment and education programs; and
 environmental performance.

While the various definitions of social accounting and reporting discussed above do not consider whether the reporting is voluntary or mandatory, in reality it is predominantly a voluntary corporate practice (Deegan 2002; Mathews 1995). Hence, social reporting is deemed to represent a term that relates to the voluntary provision of information about the performance of an organisation in relation to the broader areas and contexts of corporate social responsibility practices.

2.4 A Brief Overview of Prior Social Accounting Research

While social accounting has commanded growing attention and acceptance, its development can be seen as a result of stakeholder pressures as well as academic advocacy. Arguably, few early (during the 1970s and 1980s) advocates of social accounting research (see for example Tinker et al. 1982) were seen as radical in

¹ Social and environmental accounting researchers use the term ‘social reporting’ and ‘social and environmental reporting’ interchangeably.

terms of having the potential to create real change in existing accounting structures and practices (Deegan 2002). Mathews (1997, p. 488) notes that these early advocates were explicitly or implicitly critical of the current structure of the discipline: historical financial accounting reports for shareholders and creditors. Early research (see for example Guthrie 1982; Ernst and Ernst 1978) focussed on documenting social disclosure practices via content analysis (Owen 2008).

Throughout the 1990s, social accounting research has increasingly gained prominence and developed substantially (Mathews 1997). However, a growing number of recent studies appear to have made significant contributions to the social accounting literature with suggestions for well-designed further research (see for example Aerts and Cormier 2009; Belal and Owen 2007; Cooper and Owen 2007; Deegan and Blomquist 2006; Herbohn 2005; O'Dwyer and Owen 2005; Islam and Deegan 2008; Islam and McPhail 2011).

Alongside this social accounting research, a growing number of national and international institutional groups, including governments, industry bodies, the accounting profession, and international bodies (such as the Global Reporting Initiative, the Institute for Social and Ethical Accountability, the World Business Council for Sustainable Development, and the Council on Economic Priorities) have been involved in developing social accounting standards and related disclosures for organisations.

Further, there has been a heightened level of broader stakeholder involvement in different social accountability issues which appear to have attracted many researchers to investigate whether and why particular stakeholder groups influence corporate accountability and related disclosure practices (see for example, Islam and Deegan 2008; Tilt 1994; Deegan and Blomquist 2006). Parker (2005, p. 843) notes that in the past accounting and management researchers have been lured into involvement with social accountability issues following the recognition of their importance and the concerns expressed by communities, lobby groups, governments and even sectors of the business community. Owen (2004) observes that in the late 1990s some researchers began to produce a steady stream of deeply perceptive and well-designed studies (see for example Deegan and Rankin 1997, 1999) which investigated stakeholder needs, recognitions and perceptions in relation to social disclosures.² Some of the recent work has directly investigated the influence of particular stakeholder groups such as NGOs on corporate social disclosure practices (see for example Deegan and Blomquist 2006). A growing body of empirical research has examined media attention (as a proxy for community concerns) that focuses on corporate social impacts in order to directly link the media attention to corporate social disclosure practices (see for example Islam and

²Gaining an understanding of what various stakeholder groups expect from organisations is crucial, particularly for managerial decision-making. Some researchers emphasise this understanding. For example, Zadek (2004) argues that organisations need to successfully predict and credibly respond to changing and sometimes volatile stakeholder views and expectations of corporate responsibility.

Deegan 2010; Aerts and Cormier 2009; Deegan et al. 2002; Brown and Deegan 1998; O'Donovan 1999).

The increasing engagement of both academic researchers and stakeholder groups as discussed above indicates that social accounting and disclosure practices have not waned in recent years; rather they continue to be investigated in attempts to determine the rationales underlying such practices. The following section discusses the different areas of social accounting research.

2.5 Different Areas of Social Accounting Research

There are various areas of research that focus on social accounting: for example, one area looks at the motivations for disclosures, another looks at ethical/accountability issues, another looks at how to cost externalities, while another looks at market reactions. A brief discussion of some areas within this body of research that have preceded this study will be provided next. This will be followed by a summary of the area of research on which this particular study will focus.

One significant area of research in social accounting is the investigation of management motivations for social reporting practices. Those researchers who have investigated the motivations behind disclosure have sought to explore 'why' organisations report social information via corporate media such as annual reports. In explaining 'why', reference is often made to the positivist approach to research—an approach of 'explaining what is'. Thus, it is this positivist approach that has generally been applied in investigations of the motivation for social disclosure. What this area of research has particularly shown is that an organisation reports social information to manage its stakeholders (see for example Islam and Deegan 2008; Belal and Owen 2007; Belal 2008; Deegan and Blomquist 2006; Arnold and Hammond 1994; Arnold 1990; Ullmann 1985) to secure or maintain legitimacy or to meet community expectations³ (see for example a series of voluminous studies as documented in Deegan 2002), to influence market or share prices (Freedman and Jaggi 1988) or to avoid regulation (see for example Freedman and Stagliano 1998; Stanny 1998; Barth et al. 1997; Mitchell 1997; Ness and Mirza 1991).

Another major area of research in social accounting is the investigation of what organisations should do to be ethical and accountable to wider stakeholder groups. This area of research can be classified as a normative approach to research, that is, 'describing what should be'. Owen (2008) notes that early research largely featured descriptive work, together with the normative attempts at model building designed to improve corporate disclosure practices. Indeed, some early normative research

³ According to Owen (2008), the aim of this type of empirical research so far within legitimacy theory has been 'to seek to identify and possibly go on to predict, the driving factors behind managerial disclosure decisions, which are understood to be motivated by a desire to demonstrate corporate conformity with social expectations' (p. 247).

provides useful suggestions about how to measure and classify social disclosures⁴ (see for example; Hackston and Milne 1996; Gray et al. 1995; Ernst and Ernst 1978). One of the important characteristics of the normative research approach is that 'disclosure decisions should not be responsive to perceived legitimacy threats but should be based on the beliefs about what managers are considered to be accountable for, and what people need to know about' (Deegan 2002, p. 298). In other words, this area of research views the decision to disclose social information as an ethical decision. Gray et al. (1997) championed the accountability or normative perspective on social accounting through the 1980s and 1990s (Parker 2005). This type of research has sought to examine how social disclosure can be seen as reflecting and discharging the responsibilities and subsequent accountabilities of organisations. In so doing, it has been motivated by democratic concerns about the rights to information and the means by which organisations might be controlled by society. Examples of other studies within this area of research include that of Cooper and Owen (2007), Cooper et al. (2003), Adams (2002), Lehman (1995, 1999, 2001), Gray et al. (1996), and Medawar (1976).

Another area of research that has attracted growing attention focuses on how to cost externalities. Owen (2008, p. 243) notes that research addressing the internalisation of external costs is increasingly gaining importance. A brief review of the literature also indicates that an increasing amount of academic and applied research has been conducted and a number of contributions have been made to this area of research (such as how to cost externalities) (see for example Deegan 2008; Burritt 2004; Schaltegger and Burritt 2000; Burritt et al. 2002; Bartolomeo et al. 1999; Bailey and Soyka 1996; Bennett et al. 1996; Epstein 1996; Schaltegger et al. 1996; Tuppen 1996; Ditz et al. 1995). Within this area some research specifically focuses on the use of activity-based costing (ABC) to incorporate accounting for environmental costs (see for example Deegan 2003; Bartolomeo et al. 2000; Haveman and Foecke 2000), some looks at accounting for energy (see Loew 2003; Bennett and James 1997, 2000; Birkin 1996), some examines full cost accounting (see Deegan 2003; Bebbington et al. 2001; Schaltegger and Burritt 2000), and some focuses on life cycle costing (see Parker 2000; Bennett and James 2000; Kreuze and Newell 1994).

Different areas of research appear to contribute to the social accounting literature in different ways. Therefore, the contributions of divergent areas of research can be seen to add significantly to the literature and these are vital to boosting further research and contributions. This book greatly appreciates these various contributions and acknowledges the valuable insights of researchers who have facilitated developments in their respective areas.

⁴ Some of the influential reporting guidelines such as GRI and AA100 have been offered by NGOs and, according to Owen (2008), the lack of academic input in this respect might be considered somewhat unfortunate to say the least.

2.6 Gaps in the Literature: Social Compliance Accounting as a New Area of Research

Over the past two decades there has been a great deal of research into the social accounting and reporting practices of organisations. A growing body of research has focused on specific social and environmental issues such as climate change (see for example, Haque and Deegan 2010); human rights (see Islam 2011) and corporate bribery (Islam et al 2013). While prior research has focused on different areas and issues of social accounting, the area of social compliance remains under researched. Social compliance accounting and reporting can be considered as a subset of the social accounting discussed in this chapter. There is extensive discourse on social compliance in particular in regards to the supply chains of MNCs. The issue of social compliance is now a core consideration for MNCs that source products from developing nations. Despite the widespread implications of social compliance, the issue has been overlooked by social and business researchers. Relevant discussion of social compliance will be provided throughout the chapters of this book.

2.7 Summary

Chapter 2 describes and summarises social accounting research in general. Key terms arising from the discussion are defined. The emergence of social accounting and of the major areas within social accounting research are briefly introduced. In doing so the area of social compliance is identified as a new topic of research. Social compliance accounting, reporting and auditing is seen as a subset of the social accounting discussed in this chapter. While this chapter identifies social compliance under the umbrella of social accounting, details of social compliance will be provided throughout the chapters of this book, to help the readers to understand the managerial strategies used in social compliance within the supply chains of MNCs.



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