

SOCIAL ACCOUNTING – FACTOR FOR DEVELOPING THE ENTERPRISE’S INTERNAL AND EXTERNAL ENVIRONMENT

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Abstract: *Social responsibility represents a strategic approach that allows an economic entity to anticipate and solve its problems with third parties, for long-term successful projects. Thus, reputation becomes an invaluable asset which, although intangible, should be used with caution. This paper aims to analyze the role of the traditional accounting system, reflecting the impact of economic activities on the social environment in which they operate. It also makes reference to the opportunity to implement the concept of social accounting into enterprise practice, mainly by analyzing social policies' costs and benefits.*

Key words: *social accounting, SA8000, social balance sheet, performance.*

1. Introduction

The economic environment is increasingly intertwined with the social one, so that the performance of a company no longer refers only to financial performance, as social performance is also targeted, and increasing organizational value can not ignore the interests of shareholders, employees, business partners etc.

Nowadays, in a socio-economic climate, strongly influenced by phenomena such as globalization, modernization business, opened financial and labour markets, a company no longer belongs only to its owners, but to the entire community in which it operates.

Given the economic and competitive changes caused by the acceleration of globalization, companies must remain competitive in the long term, so that the

quality of goods and services and the maximization of short term profits are not sufficient conditions any longer. A socially-responsible behaviour is increasingly becoming a key success factor because it differentiates companies on the market, the preferred ones being those that contribute to sustainable development.

The term “social” is ambiguous because it covers, in general, facts related to the human dimension in business, but also environmental relevant facts in a broad sense (business stakeholders and society as a whole).

Beyond this semantic difficulty, the content of social responsibility can be perceived in two ways. The former considers that the company accomplishes social responsibility when it carries out all legal and regulatory obligations; the other one, more extensive, considers those

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obligations as a minimum threshold and social responsibility goes beyond voluntary actions. This latter represents the sense accepted by social accounting.

In case of any economic contracts, corporate statutes and contractual relationships referred to explain and identify the direct obligations of a company; but this not the case for the obligations regarding the third parties with which there are not direct relationships (competitors, local and public authorities). Therefore, it is considered that one tacit social contract is concluded between the civil society and enterprises: the society provides the legal framework that enables firms to use natural resources and labour force, in terms of fraud prevention and compliance with human beings. Instead, society expects from companies products with a quality higher than costs. If this social contract is accepted, it results that everything connected to data review and information analysis, allowing the company to evaluate its overall performance, is not only legitimate but also desirable.

2. The role of social accounting in economy

The enterprise has represented and will represent, especially on free markets, a pace of conflict, to a lesser or higher degree. Conflicts can be regarded as normal and even desirable events and to a certain point as a factor of progress. Social responsibility is also a subject that arouses fierce controversy between a commercial company and the external environment, but also the internal one. Interpretation of the same economic results differs for the social policies implemented and for those involved.

For example, shareholders appreciate a dynamically social policy, with favorable implications for medium and long term on

economic and financial performances of the enterprise.

Globally, the social balance sheet is recognized as a tool to promote the amelioration of these conflicts.

Social Accounting presents a variety of interpretations, depending on authors and users. There is some confusion, because the same concept is used in different ways and, depending on the country, it does not include the same areas. The specialized literature generally presents this concept as an information system that aims to express the contribution, positive or negative, of the enterprise in its environment, but there are authors according to whom its role is to capture the effects of society on the company.

The social accounting system arose from the need to measure the flows that occur in a company that can not be expressed in monetary units, such as social flows.

Richard Stone is considered the “father” of this concept, whose emergence coincided with the period when it was trying to improve national accounting and also the System of National Accounts (CNS). Appeared in U.S. companies in the late 1960s, social accounting was originally directed only to employees and own products. A new idea has emerged in the ‘70s, in Germany, namely the business-society, which has led to what German economists have called “extended calculation of profitability”. Thus, the issue of evaluating the profitability of enterprises was set, by integrating the costs transferred to society as a result of bad human resources management. This thought was applied especially to evaluate measures to improve working conditions in government programs, to humanize work, but the distribution remained low. In the 1980s, environmental and human protection has become a major concern in industrialized countries, systems of

environmental management and social management being developed.

Social accounting models used during the '70s and '80s, into Anglo-Saxon countries, based on a strict monetary valuation, have shown a wrong tendency that finally led to an impasse. More recent proposals and experiences that do not systematically focus on valorisation and quantification have been used in response to these problems. However, over time, there have also been critics who said that these issues are not related to the accounting area and that management must deal with problems like objectivity and relevance of behavioural observation conversion into financial indicators.

Now, more serious attention has been given to human resource accounting and social accounting, especially in developed countries, to presenting changes related to the structure of synthesis accounting documents. Such changes refer to the inclusion of elements that are not quantifiable, such as employees' skills and knowledge, managers' leadership skills, the potential for creativity in research and development, the social climate, relations with state, quality of environmental work (in terms of social and natural environment). Social accounting remains correlated with SNA, both following calculation and analysis of macroeconomic indicators. At microeconomic level, it intends to assess socially responsible behaviour of organizations in relation to the physical environment in which they operate, the corporate governance system, social parts involved etc. It also aims to allow company management both managing responsibilities into social environment and liability against third parties.

The literature depicts some essential features of social accounting, such as:

- means that companies have wider responsibilities than simply earnings reporting to shareholders;
- highlights not only the business role of the producer or distribution agent of the income among different groups, but also the one of measuring benefits and social costs resulting from its activities ("savings" and "external diseconomies");
- is a process of identification, entering data and presentation of information within an organization able to perceive and consider the effects of its actions, evaluate alternatives and report decisions for possible improvements;
- involves communication to interest groups in particular and to society in general, not limited only to the traditional role of financial accounting to provide financial reports;
- extends disseminating information about employees, products, service to community, pollution prevention and control;
- involves evaluating and reporting social data using financial indicators;
- is an ongoing and dynamic process of interaction and negotiation between various interest groups.

Similar to national accounting, social accounting can be presented in a matrix form. The occurrence of this possibility came in response to the need for more detailed analysis of the relationships between the social and economic aspects of companies' activities. Such a matrix is a very flexible working tool, allowing details and summarizing data. At the same time, it integrates income and expenses flows and input-output boards beyond the enterprise, providing a real basis for estimating the national accounts. According to the needs of the company that develops it, the social accounting matrix can also track a reconciliation of detailed information concerning the manufacturing sector, with

raw data on the quality of labour or investments made in that sector. The correlation between employment and income distribution can also be analyzed at national level.

Starting such analysis from enterprise level, to get to the calculation of macroeconomic indicators, social accounting matrix indicates very well that the actions of each company directed to the social sector (own employees or community) influences a nation's wealth and welfare. Thus, it represents an authentic tool of analysis and decisions substantiation at micro and macroeconomic level.

3. SA8000 – a requirement for modern enterprise

The last decade has been characterized, worldwide, by increasing demands in "social quality", which means that companies respond to the satisfaction needs of consumers, users and the broader community, through improving the quality of life. In this respect, several integrated systems have emerged in companies for the management of environmental quality and safety.

These new terms of business environment, where economics meets more and more with the social dimension, have led to new standards and rules, governing businesses involvement in social and environmental activities. A representative standard of this field is SA 8000 (Social Accountability), which has represented a reference point in developing the concept of social responsibility.

Created in 1997, by Social Accountability International (SAI), an internationally recognized accreditation organism for monitoring and certifying organizations on meeting social requirements, SA 8000 primarily aims at an equitable environmental work by eliminating unfair and inhumane

conditions within entities. Its elaboration arose from the principles of the Human Rights Convention, adapted to company relationships with various stakeholders.

SA 8000 seeks eight essential issues such as health and safety, daily period of work, remuneration, child labour, forced labour, discipline, freedom of association and collective negotiation, discrimination. This standard should not be regarded simply as a list of obligations that entities need to tick, but as a working tool to motivate managers in achieving real changes in the organizations they lead, to make them sustainable.

The role of this standard is manifested within the organizations under various forms:

- performance evaluation on the eight issues listed above;
- investigating and solving problems of employees or other stakeholders, as well as assessing the possibilities for their correction;
- implementation of an occupational safety and health management system to reduce or eliminate risks associated with activities carried out;
- improving the social responsibility management system and ensuring compliance with the organization's policy in this regard;
- facilitation of the certification of this system also by an external organism.

Outside the organization, SA 8000 has an important role in the following directions:

- contributes to entities compliance with cultural, environmental, social, legal and economical development conditions;
- provides consultation and advice on the identification of social partners and the increase in the credibility of CSR reports;

- increases the confidence of consumers and users within organizations, implicitly improving their public image;
- contributes to promoting and obeying laws and existing ISO standards;
- supports the authority of states in corporate social responsibility;
- promotes a common terminology in the field.

SA 8000 has a voluntary nature from the legal point of view for entities that seek auditing and certification of the work practices applied, but it becomes obligatory from the perspective of business partners applying social responsibility policies and requiring the same from those they work with.

Getting a certification in social management system has important advantages, such as:

- a commitment to respect the principles of ethical business in relationships with entity partners;
- a guarantee on trademark protection;
- increasing reputation as an active participant in social responsibility policies;
- confidence factor in attracting investments and clientele;
- motivation of staff employed by improving working conditions, but also attracting skilled and healthy workforce;
- improving communication between managers and employees;
- commercial risk management, by avoiding incidents or disputes that would affect business relations or public perception;
- a transparent activity, in line with market requirements;
- a differentiating factor from competing entities and encouraging fair competition.

The validity of such certificate is attested by the release from an SAAS accredited agency. This area has not escaped from

fraud, either, several companies in Europe and Asia being detected in the last five years, which have prepared such fake certificates. Worldwide there are only 20 companies accredited to conduct such certifications in countries such as USA, Uruguay, United Kingdom, Portugal, France, Switzerland, Germany, Italy, Greece, Israel, India, China. The oldest organism dates back to 1998, in Italy. All these companies are audited quarterly by SAAS in order to maintain accreditation.

4. Social balance sheet in evaluating the business performance

Mutual cooperation in the social field, along with awareness and acceptance of the social responsibility concept, has as main interest evaluating the social responsibility of the enterprise, which has led to the experimentation of a new instrument: the social balance sheet. It appeared during the '70s, when social responsibility became manifest in industrialized countries, as the result of the Sudreau report regarding enterprise reform, registering an important development after the year 2000.

Since 2000, based on American works in the field, it started the execution of rating the large companies listed on stock exchanges globally significant from their social balance sheet data. Currently, the complexity of social problems involved in economic activities as the preparation of this balance is to involve a broader range of indicators and actors within the company.

The social balance sheet represents a self-assessment tool that aims to identify the elements of exchange between the company and its environment, to conduct an assessment of entity behaviours regarding its values, and encourage the dialogue between interested parties.

In the literature, it is defined as a report that presents the social costs and benefits

of an economic entity depending on its operating environment in order to inform the various groups involved.

Social costs are the main strategic target of social responsibility policies implemented by a company, having the role of compensation to the community when it caused some damage. In the same category are found also the cost of other stakeholders: investors, creditors, customers, suppliers, employees etc.

Such a balance sheet consists of two parts: enunciation of a social policy, objectives and measures for their implementation and a report on the adjusted value obtained by the entity and its distribution on the national economy.

The term “balance sheet” does not make of this report what the balance sheet is in accounting. The social balance sheet is a document drafted as a table that contains a number of quantitative information, only expressing the social status and working conditions in the enterprise. So, it must be understood in the sense of an inventory, a report similar to the Health Check.

By adding data from the social balance sheet, the effect of the efforts of the entity may be translated as reconciliation between results indicators and resource indicators (e.g. the impact of increased security spending to the rate of accidents or training expenses of raising qualification).

The use of the social balance sheet may differ according to the role and purpose. So, it may take the form of:

- information tool, when acting in environments in which the dissemination of its information is done. Benefits of large dissemination are limited by the abstract of numbers, the absence of comments so, an essential condition is represented by the ownership of financial and accounting knowledge to understand and interpret the content of indicators and method of

analysis. Without a prospective nature, the social balance sheet is an incomplete instrument of information – it does not present the draft amendments to staff levels etc. – and does not define the business strategy; instead, it provides elements of social policy evaluation, contributing to the social diagnosis of the entity;

- instrument of settling conflicts, by satisfying the need for accurate social information and facilitating agreements between different stakeholders;
- social management tool, providing a diagnostic of strengths and weaknesses of the social subsystem of the enterprise. Remedial measures are then integrated into an overall strategy of social planning and management.

The social balance sheet provides the basis for a social rating which may permit the assessment of risk by investors and which, by its discriminatory nature, is likely to operate businesses differentiation. The purpose of this approach is to make a diagnosis, not by reference to the social policies of the enterprise, but by comparison with the general and sectoral rules, in order to inform lenders and financial analysts about the risks involved by the social management of the company. By adding the social balance sheet data, the effect of the efforts made by the entity can be translated as reconciliation between result indicators and resource indicators (e.g., impact of increased security spending to the rate of accidents or the cost of training effect on raising qualification).

The analysis of the social balance sheet indicators allows an evaluation of the social policies of the company by an internal auditor or by an external consultant. Three stages can be distinguished in the process: an analysis of the social balance sheet data, underlining the company characteristics, evaluation of social policies and coherence between

these policies and previous characteristics, evaluation of the medium-term projection of this coherence. In this last case, the analysis should be based on internal sources of information larger than the social balance sheet.

5. Conclusions

Social accounting is a structure that organizes all the flows of an economic system, in terms of value, from a coherent accounting perspective. The starting point is represented by elementary flows that constitute elementary transactions between the business entities of an economic system. There are doubts regarding its role as an instrument of social management, from the perspective of organizations being considered valid, because there are many validated methods to assist the decision making process, including the human resources. In the view of the civil society, everything that involves evaluating enterprises and reports against it is still underdeveloped and experimental.

A strategy to internalize the externalities related to the social impact of a company leads to achieving economic benefits for the entity (direct interest), but also for the interested parties (indirect interest). The internalization of social costs directly affects the current result (economic, social or environmental) by determining present costs and future liabilities.

For society as a whole and its organizations, the question of assessment tools and devices for reporting the quality of exchanges between a company and its social environment remains a challenge. Among the sciences of administration, accounting in particular is proving unable to translate in terms of costs a social malfunction, such as the absence of a worker or reduce staff motivation. Absences, the failure regarding the technological specifications of equipment

or product quality inefficiently increase production cost.

The social balance sheet becomes an indispensable instrument in using some methods for social data exploitation in accounting. Presenting these data as a social report facilitates applying the cost-benefit analysis method that allows, for any action taken by the company, to determine the resulted social costs and benefits. In particular, the approach by costs and hidden performance is a socio-economic diagnosing method which aims at assessing the costs of social factors failures and, by opposition, at evaluating the financial benefits of job satisfaction.

These cost-benefit analyses of the human resources are not without difficulties because, firstly, social costs and benefits can not be estimated at market prices and, secondly, their spread over time can be very slow and uncertain.

Acknowledgements

This work was supported by the **European Social Fund in Romania**, under the responsibility of the Managing Authority for the Sectoral Operational Programme for **Human Resources Development** 2007-2013 [grant POSDRU/CPP 107/DMI 1.5/S/78342].

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